

BUSINESS MODEL PRACTICES IN INDIAN RETAIL SECTOR: A CONCEPTUAL STUDY

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ABSTRACT

Retail sector in India has changed drastically and retail business models also. Retail business model is the design of the business operations to reach the customer, value creation by meeting the customer's expectations by staying at the top in the competition. Business model innovation is required to adapt the changing customer's needs. Change in the technology is enabling the firms to design new models. Ecommerce emergence has created many new ways of exchanging the information which created some wide entry opportunities for firms with new business models based on electronic platform to interact with the customers. The purpose of this study is to understand the significance of business model in retail sector through examining the current practices which highlights the arguments in this study.

Keywords: Business model, retail, customer, value, cost.

Introduction:

Retail sector is passing through a change where traditional balance between buyer and seller is changing day to day. Technology and the modes of communication which made it simple for the competitors to enter in to open market globally, given customers wide opportunities to select from choices available. The supply has become more transparent than earlier and the computing technology helping a lot. These developments have made the retailers to re think and reevaluate their business models to improve the proposition of value they give to the customer. These developments had opened for the design of business models by enabling them to change the way they organize and engage in economic exchange within the firm and industry boundaries (Mendelson 2000) Business model is "the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities" (Amit and Zott 2001). Business models have been integral to trading and economic behavior since pre-classical times, it is a source of competitive advantage, which meets particular customer needs, most is non-imitable (Teece, 2010), the business model concept became prevalent with the

advent of the Internet in the mid-1990s, and it has been gathering momentum since then.

Business model is a new area of analysis, which deals with how the firms design to do their business and focused on the activities of the firms they operate their business. It is more of value creation among the customers. Literature review summarizes that the concept of business model and extensive usage of it started in mid 1990s with the advent of internet (Amit, R., C. Zott, 2001), rapid growth in emerging markets and interest in bottom of the pyramid issues (Prahalad & Hart 2002) expanding of organizations and industries dependent on postindustrial technologies (Perkman & Spicer, 2010)

Literature Review:

Business models themselves have become a subject of innovation. Firms realized that changes in the environment, the firm has to respond to changes, even a successful business firm business model is not permanent (Chesbrough, 2007) rather firms are considered to check their established business model (Chesbrough, 2010). Firms which are running successfully has the need to innovate are redesign their business model according to the changing needs

and values of the customer. There is no commonly accepted definition for business model by the scholars and researchers, but an attempt was made in describing it. (Zott and Amit 2010) explicitly make this point when they define a business model as “A system of interdependent activities that transcends the focal firm and spans its boundaries” (p.216). Based on this it can be said that how a firm depends upon its internal activities to create and deliver values along with expanding its boundaries by gaining competitive advantage in the competition. A firm can create value through changing production technique, price, and inventory management which changes the governance structure that reduces opportunity cost, increases customers switching cost and lowering the risk of various individuals involved in.

Objectives of the study:

- To study the current practices of organized retail outlets
- To study the future opportunities in retail sector
- To study the growth pattern in organized retailing

Research Methodology:

To carry out this research data has been collected from published reports and observational study has been carried out in selected retail outlets located in Hyderabad. Observation was focused on the practices adopted by retail outlets to attract the customers towards purchasing the products.

Indian retail industry:

Indian retail industry emerged as one of the most dynamic and fast paced industry with over 10% of the country's gross domestic product (GDP) and around 8% of employment in India. Indian economy which is growing fast has a booming growth in retail industry. Penetration of organized retail sector is 85% in US where as it is just about more than 8% in India. India with high market potential has occupied fifth rank in global retailing after US, China, Brazil and with low economic risk and moderate political risk. Retail market in Indian retail sector is likely to grow at a compound annual growth rate (CAGR) of 10% to reach US\$ 1.6 trillion from US\$ 641 billion in 2016. Organized retail which constituted seven percent of total retail in 2011-12 is estimated to grow at a CAGR OF 24% and is likely to attain 10.2% share of retail industry by 2016-17.

Retail market in India where 92% of the market is controlled by unorganized retailers in 2013, Driven by the combination of demand, supply and regulatory factors Indian retail sector is set up to grow rapidly towards organized retailing format. Organized retail penetration is expected to increase from 7.5% in 2013 to 10.2% in 2018 to grow at a CAGR of 24%. Retail sector can be divided into two segments value

retailing and lifestyle retailing. Value retailing is a low margin-high volume business such as food and groceries which has accounted for 69% of total revenue in the retail sector followed by apparel 8% in 2013. Life style retailing is a high margin-low volume business with apparels, footwear, etc. there is a low contribution of other categories indicates opportunity for organized retail growth in these segments. Rapid emergence of malls and hypermarkets are augmenting the growth of organized retail especially with India being one of the world's youngest markets.

Drivers of organized retail in India:

India's strong fundamentals growth with increased urbanization and consumerism offers immense scope for retail expansion. Favorable demographics with increasing urbanization, nuclearisation of families, rising affluence for branded products and higher aspirations are the other driving factors which will drive the retail consumption in India. Transition from traditional retail to organized retail is taking place due to changing consumer's expectations, growing middle class, higher disposable income, preference for luxury goods, convinces of shopping under one roof and increase of mall culture are the factors appreciated by the new generation. Emergence of organized retail outlets such as mega malls and hypermarkets are augmenting the growth of organized retail in the country. Tier-II and Tier-III cities such as Jaipur, Nagpur, Kochi, Vishakhapatnam, Ludhiana, Vijayawada, Vadodara, Aurangabad, etc., are being viewed as the new hot spots of consumption which is encouraging existing players to setup stores in these smaller cities focusing on profits and expansion in the sector.

Investments into retail sector:

Government of India has approved 51% foreign direct investment (FDI) in multi-brand retail and increased FDI limit to 100% in single-brand retail and cash and carry trading and exports. FDI in B2C model is likely to have a positive impact on overall economic development. FDI by multinational food processing companies has shot up to \$2.14 billion in the country between April and October 2013. Food processing sector is growing annually at 7.2% compared with 3.9% in agriculture for the last five years, ending 2013, growing at a faster rate than the agriculture sector; more and more agriculture produce is getting processed. Investment in the food processing sector is been increasing annually at 21.66%. Several corporate have planned to exploit the opportunities in Indian retail space, reliance industries Ltd (RIL) which has lined up a capital expenditure of Rs 1.8 trillion for the next three years to its petrochemicals, telecom and retail ventures.

Few of the other noticeable investments and developments in to retail sector in recent past are

- Liberty shoes has doubled the revenue to US\$165.38 million in upcoming three years to improve its retail presence
- Wal-Mart stores invested US\$101.82 million into Indian cash and carry operations in June 2014 to expand its network. Its total investment in the country has reached to US\$ 326.91 million.
- Argentina based luxury brand La Martina- a polo lifestyle company well known for its apparel, technical equipments and accessories has started its store in New Delhi and it added general fashion products for ladies, men and kids by diversifying the brand.
- Japan based Uniqlo plans to open up to 1000 stores in India in the coming years with the strategy to source garments from the country.
- UK based Tesco in partnership with Tata group's Trent plans to open Tesco-Trent stores in Maharashtra and Karnataka in this year.
- Flipkart and Myntra plans to launch a fashion incubator, a first of its kind move by an Indian startup to gain dominance in fast growing online apparel category.
- IKEA entered in to a memorandum of understanding (MoU) with the Telangana government to set up its first store in India at Hyderabad.

Government initiatives:

- Changes in the norms of FDI with the relaxation of certain regulations by the government can see as a positive move to attract more foreign investments. The government has allowed 100% FDI in single brand retail trading and 51% in multi brand retail trading.
- In the budget 2014-15 the government of India announced a reduction of in the excise duty from 12% to 6% on foot wear with retail price exceeding US\$ 8.17 per pair but not exceeding US\$ 16.34.
- The Government of India has proposed the Goods and Service Tax (GST) which can simplify the supply chain in bringing down prices. This will boost the Indian retail sector.
- Government of India has formulated specific regulations for foreign investors: for instance , global chains planning to set up cold storages and ware houses in India will now need to invest only 50%of the initial compulsory investment of US\$ 100 million

India's online retailing:

E commerce which is expected the next major area of retail growth in India. India has nearly one million online retailers small and large which sell their products through various e-commerce portals. Online

retailers have started to use online mobile apps to increase their reach to the customers. It is projected that the industry is going to touch US\$ 200 billion by 2020. According to the TCS Gen-y 2013-14 surveys, a total of 68%of teenager's shops online, while 91% own mobiles in smaller metros. Mobile phones and tablets were the most popular gadgets among teenagers.

E-retailing in India constitutes a miniscule 0.2% of the total retail market and 2.3% of organized retail in India. Flipkart with Myntra plans to launch a fashion incubator. Flipkart also plans to acquire companies developing mobile apps with funds raised. The increasing penetration of mobile internet, high purchases of smart phones, need for ease of shopping, time convenience and higher mobility have been the major reasons for growth of e-retailing. At present electronic gadgets tops the share followed by apparel and books. As per the internetworldstats.com – The top 20 countries in the internet by number of users as on June 30, 2012, India ranks 3rd after China and US. The ecommerce industry is mainly dominated by the travel segment which accounts for more than 70% of the transactions of industry and e-retail's share in e-commerce stands at approximately 12.5%.

Internet is penetrating in India with high speed rate and net users are also increasing. Smart phones and tablets are encouraging rural people also to use internet which is a positive factor for online retailers.

Challenges in front of Indian retailing sector:

- **Inefficient supply chain:** lack of effective supply chain management like ware houses and cold storages is a challenge for Indian retail sector.
- **Logistics:** The firms are forced to build their own in-house logistics as the logistics players are very few.
- **High cost real estate:** real estate and rents are amongst the highest in the world and it is one of the major areas of investments. High lease rents will minimize the profitability of the outlet.
- **Infra-structure:** poor road connectivity between Tier II and Tier III cities is becoming a challenge when it comes to expansion of outlets.
- **Human resource problem:** availability of skilled man power is a challenge faced by organized retailing in India.

Business models in Indian retail sectors:

Indian economic fundamentals have been quite stable and multiple economies coexist within the country (Bijapurkar, 2009). There is a disparity between rural India and tier I and tier II, tier III cities, the same retail strategy and business model would not be successful in all parts of the country. Vast socio and cultural diversity is making it difficult for the companies in targeting the customers accurately and satisfying them adequately. Business model is a series of

interdependent activities that integrate into a whole system. (Afuah and Tucci, 2000) conceptualize the business model as the system that is made up of components and linkages between the components and dynamics. (Sorescu et al,2011) as per him business model is a well specified system of interdependent structures, activities and processes that serve as a firm organizing logic for value creation (for its customers) and value appropriation (for itself and its partners). Researchers has suggested that all the activities related to value creation, profit orientation and sustaining the competition with achieving success is a frame work which is a business model. Here are some Indian retailing firms which operate business with almost same models but try to differentiate among themselves from others.

Big bazaar is a renowned name in Indian retail and is the subsidiary of future group, pantaloons retail India ltd future group is having various brands like pantaloons, f123, copper chimney, etam, staples, one mobile, Urbana, brand factory, loot mart, home town and central. Big bazaar in India has first mover advantage it has brought about many changes in the buying behavior of people as big bazaar provides all items in one roof at low prices. Big bazaar has launched new marketing strategy which is based on guerilla marketing using principles of surprise and hit and run tactics. Attack, retreat, hide then does it again and again until the competitor's moves on to another market. This model focuses on consumers by giving the best possible deals and creating value to their money (discount hypermarkets). Through discounts it wants to create value to the money of consumer.

Trent entered the retail industry back in 1998 with westsides, its apparel and fashion brand. Westside has enabled Trent to establish itself in a rapidly transforming retail landscape that has seen a Indian and foreign brands jostling for customers and their loyalty. Westside's model accomplishments can be attributed to its strategy of establishing stores in what can be described as catchment areas, adopting a private label format and fashioning, so to speak, a selling proposition that connects quality and affordability. During economic slowdown Westside has managed by concentrating on optimizing costs, tightening inventory control and taking a disciplined approach with aging merchandise and central ware housing system that controls products sourced from over 300 vendors. Products are refreshed every week which enthruses customers and make them to visit regularly to stores. It has introduced kids wear with a slogan "if you out wear them before you out grow them, we will take it back".

Reliance retail limited (RRL) is a subsidiary of RIL has grown into an organization that caters to millions of customers, thousands of farmers and vendors. Based on its core growth strategy of back ward integration, RRL has made rapid progress towards

building an entire value chain starting from the farmers to the end consumers. Reliance continued to expand through value and specialty formats through in store initiatives, wider product choice and value merchandising. Across India reliance retail serves over 2.5 million customers every week. Its loyalty program "Reliance One" has the patronage of more than 6.75 million customers. Reliance also entered brand optical products and reliance digital by I store is a one stop for all apple products and services.

Spencer's retail limited, part of the 1,4000 crore RP Sanjiv Goneka group, is a multi-format retailer providing a wide range of products such as food, personal care, fashion, home essentials, electrical and electronics to its consumers. Specialty sections such as Spencer's gourmet (run by food scientist the food innovation wing to develop its own range of products), patisserie (live bakery situated in the hyper markets), wine and spirits (wines expertly selected from 181 countries) and recently launched epicuisine (which serves ready to eat dishes and ready to drink juices) are some of the key differentiators.

Flipkart e-commerce online retail giant in India which operates its business through inventory led model. Flipkart has started as a price comparison online portal with an initial investment of 4 lakhs and later turned into an e-retailing giant which recently touched US\$ 1 billion gross merchandise volume. It started with a consignment model where goods were procured on demand and turned into inventory e-retailer supported by registered suppliers by better control on the logistics chain. Facing difficulties from the 3PLs in the form of higher delivery cost, late deliveries and faulty products delivered resulting in return and customer's dissatisfaction to overcome this it has started its own logistics named "e-kart". E-kart provided back end support to Flipkart by ensuring timely deliveries. To achieve economies of scale recently e-kart started to render the services to other e-retailers. Flipkart established warehouses in Delhi, Mumbai and Kolkata to manage balance between inventory and cost of delivering cost.

Amazon India started practicing the market place model by launching its site in early 2013 in India. It started registering electronics goods seller. Amazon India has two fulfillment centers in Mumbai and Bangalore and plans to start five new fulfillment centers across the country. Amazon India has set up a logistics arm named Amazon logistics and started offering same day delivery.

Case study 1: organized retail outlets (Reliance super and Spencer's) at Warangal have been observed for a month during rush hours. It was observed that few of the customers were spending good enough time in choosing the required products. It was also observed that they were spending time at the products which was not in their intended purchase list and at the products which they had intention to purchase in the

future. The problem was observed at the billing section where they have to wait for a little time to get billed for the products they have selected. Here the customers are in a perception of losing their valuable time. It was also observed that few customers importantly Younger's are leaving the store without making the purchase when asked a customer he replied "I am here for an experience in the outlet, and I am confused which product to buy".

The same study was done at few unorganized retail wholesalers by observing at the customers it was observed that the customers are waiting till they hand over the required product list to the wholesaler, once it has been done the procurement of the items and billing which are getting done parallel. Here we have observed that people were patient enough to fulfill their orders, when asked a customer over he replied, "Here we procure our products in the quantity we desire and we have better pricing choices and different qualities in similar products, we procure them based on the utility"

In both the above cases it was observed that the customers are having different view in spending time in two situations

(I) in organized retail stores- Time taken at billing was pain point for the customer

(ii) In unorganized retails- Time taken by the merchant in taking the order and fulfilling was perceived differently.

Conclusion:

New retail environment in India has made retail firms to think and address customer needs more astutely and capture the value of the consumer by providing new products and services. Without a proper business plan the firms fails to deliver what they intend. Indian retail is ranked fifth among the global retailing and the organized retail share is only 10% there is a high growth potential in this sector and firms which can develop a business model which capture the value of customer is going to have the advantage.

Indian retail sector is facing the challenges in supply chain management, logistics, suppliers, human resources and changing customer's needs. Firms which can integrate suppliers, logistics players, technology and customers vertically will capture the opportunities. Customer value proposition identification and customer experience is significant models which enhance customer experience are going to be successful. Business models which will improve firm's operational efficiency as Indian organized retail has scope of high penetration, firms should have efficiency to expand and satisfy the increasing customer base. Operational effectiveness which can be

through controlling the vendors and inventory which appropriates the value.

"The future lies with those companies who see the poor as their customers" –C. K Prahalad addressing Indian CEOs, January 2000. India with two third of the population living in the rural areas, business models which are cost effective and suits different life styles are going to do well in the coming future.

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