EVALUATION OF INDIAN RETAIL SECTOR WITH PORTER'S FIVE COMPETITIVE FORCES: AN ANALYSIS

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ABSTRACT

Retail sector is a significant but largely unorganized portion in developing countries like India. However, in recent years, there has been a marked increase in efforts to organize retail sector, including pursuit of innovative structures and strategies. By employing Porter’s five force model as the theoretical framework, this study conducted an extensive review of published documents. This study is a contribution to the debate and controversy around the entry of big multinational retail giants into the Indian retail market, which is mainly unorganized. India’s retail sector employs around 8% of the total work force, (approx. 40 million persons). India has the highest in retail density in the world, with 15 million retail outlets. Most of these units are small owner based. Only 8% of Indian retail outlets are larger than 500 sq feet. This study fills the gap in the literature by discussing strategic orientations for foreign retailers to maximize favorable forces and minimize disadvantageous forces in India.

KEYWORDS: Indian Retail, Porter’s Five Forces, Entry, Expansion

INTRODUCTION

India is a significant Commercial center for retailers out of India because of the extreme change in social and financial environment in recent times. India positions inside of the main five nations in the retail record when considering business size, development prospects and riches of different nations (Kearney, 2012). The present business sector size of Indian retail industry speaks the truth US$ 520 bn (Source: IBEF) and is required to be the world's third biggest economy after the United States and China by 2050 (Dadush and Stancil, 2009). In 2006, casual variants of Foreign Direct Center (FDI) strategies were presented in the area of retailing. But in 2012, it is providing 100% participation of FDI in case of single brand companies. However, India restricts multi-brand companies and allows only 51% FDI (Goyal, 2013). Although there is still some barriers in the growth of multi-brand retail because of current restrictions of FDI, but still India retail market is growing only because of strong backup of consumer purchasing power (Srivastava, 2008). Furthermore, significant differences exist in the strength between the organized sectors and unorganized sectors in the Indian retail industry, demanding a suspicious exploration of each sector to provide a more accurate and general understanding of the business organization.

Objective of the Study

The aim of this study is two fold
• To analyze the structure of Indian retail industry
• To identify emerging issues and opportunities to help strategic positioning of foreign retail market
• To achieve the objectives of study, we had gone through a broad assessment of secondary data, including newspapers, books, academic journals, trade publication, and government and industry websites.

Theoretical Framework

In 1980, Porter had proposed the model of five forces on which the structure of an Industry is depended. These are:

• Entry of Competitors
• Threat of Substitute
• Bargaining Power of Buyers
• Bargaining power of sellers
• Intensity of Rivalry

The total quality of these powers decides the productivity of administrators and emerging firms in the business. The main variables influencing every power are examined below in perspective of the Indian retail industry.

Porter’s (1980) Five Forces Model: Theoretical Framework Of Study

![Figure 1]

Entry of Competitors

Entry of competitors is threat of every business. It is barrier for business growth. According to the government rules in India, 2012 FDI allowed 100% in single brand and 51% in multi-brand retail in India. The rules for entry in the India market are:

Single Brand Retail

• 100% FDI with 30% local sourcing (average over five years at cost)
• 51% FDI with no sourcing requirements
Multi Brand Retail

- 51% FDI permitted, in cities with more than 1 million population
- 30% sourcing from MSME mandatory, along with capital and supply chain investment requirements
- Dependent on approval by individual state; 18-20 cities with more than one million population
- Cash & Carry
- 100% FDI allowed

Now, entry in Indian Retail sector is not so complex. Other Barriers to entry may be inability to build economies of scale, big amount of investment in stores, high cost of supply chain management, product differentiation or lack of product segregation etc.

Assessment of Entry of Competitors

- Demand side scale benefits by large domestic retailers due to established customer base and extensive geographical spread of big retailers
- Supply side economies of scale for large domestic retailers due to large size operations of big retailers
- Few switching cost in changing to local suppliers due to strengths of domestic

Threat of Substitute

In India people are poor. They can’t afford costly products. Every time they want substitute of the product which are cheaper than other products. So Indian Retail, substitute of product is big threat for business because it is done lower profit of the business. In unorganized sector substitute of product is available in high quality and price is cheaper. So middle and lower class prefer these cheap substitutes.

Assessment of Threat of Substitute

- Availability of substitutes in various forms
- Low costs incurred by the buyer when switching to substitute due to preference for small local stores and traditional stores
- High propensity of buyers to substitute due to low price, good performance and cultural proximity

Bargaining Power of Buyers

Consumer is a king of market. The profit of the retail business is depending upon consumer. If suppliers bargaining power is low then they are not potential suppliers in the market. But if the bargaining power of suppliers is high like brand manufacturer threatening to set up their own retail shops then the influence the bargaining power of other suppliers. Bargaining power is depend upon the supply of product. If supplied product is generating good sale then the product supplier is having maximum bargaining. If it is not so, then prices become competitive. In retailing local brands in apparel and food has played a big role in underhanded the bargaining power of the suppliers. However the Indian retail sectors are characterized by high buyer to seller’s ratio with highest density of retail outlet in the world, making India a supplier’s market.
Assessment of Bargaining Power of Buyers

- Low Buyer to Suppliers
- Large Purchase volume
- The threat of backward integration likely to increase due to the attractiveness of local sourcing and production

Bargaining Power of Sellers

Bargaining power of sellers increased when there are many sellers and some successful buyers. Now days, people’s taste and preference changes day by day because they demanding new every day. They demand quality products in low price. Bargaining power is increasing of buyers because they can judge the performance of the product. However, at overall level the bargaining power of sellers in India is because there is larger number of potential sellers in the market. But still, small retail market has more dominant position, because, it is contributing 92% of the total retail market.

Assessment of Bargaining Power of Sellers

- High density of small suppliers, presence of a few large suppliers
- Small production volume due to high fragmentation
- Large domestic suppliers posing a threat of forward integration into retail sector

Intensity of Rivalry

If in a market competition is very high then efforts of rivals are very high. India is a developing country so competition in India is very low. Some persons are players in the markets. Multinational companies are increasing competition in Indian market.

Assessment of Intensity of Rivalry

- Increase opportunities with rapid industry growth rate
- Increased but limited diversity in the form of competition by current regulation
- Increased but limited product difference per segment

CONCLUSIONS

In 2012 India have opened a large number of opportunities for foreign retailers in terms of enter in the market, but still within the greater controlled entry modes. The overall assessment of the five competitive forces indicates that the Indian retail sectors pose a relatively low level of threats of entry with a fast industry growth rate and a growing income. Moreover, as Porter (2008) points out, a high growth rate may not drive up profitability if substitutes are attractive to customers. Foreign retailers entering the Indian market should carefully design their strategies to position themselves against the forces that favor domestic retailers in both organized and unorganized sectors.

REFERENCES


