



From Kirana to Malls: The Growth of Organised Retail in India

Dr. Mukta Jain

Assistant Professor, Department of Commerce
Dyal Singh College, Karnal

Abstract

Retailing in India has undergone a significant transformation over the past decade. While traditional kirana stores continue to dominate the sector, modern retail formats have emerged, bringing new challenges and opportunities. The growth of organized retail has been driven by factors such as rising disposable incomes, urbanization, technological advancements, and government policy changes. However, regulatory restrictions, supply chain inefficiencies, and high operational costs have impeded its expansion. This paper explores the evolution of the Indian retail sector analyzing the impact of FDI, taxation, infrastructure development, and consumer behaviour. The study also examines the challenges faced by modern retail, including competition from kirana stores and regulatory barriers.

Introduction

Retailing is one of the most dynamic and vital sectors in the Indian economy. In India's retailing is the largest industry accounting for 10% of the country's GDP and around 80% of the employment. Retail industry in India is at the cross roads. It has emerged as one of the most dynamic and fast paced industries with several players entering the market. Indian retail sector is highly fragmented as compared to the developed countries. Traditionally dominated by small, family-run kirana stores, the industry has seen the advent of organized retail chains, supermarkets, and hypermarkets in urban centers. In spite of contributing significantly to India's GDP, employing millions and great potential to prosper, several barriers, such as regulatory restrictions, infrastructure bottlenecks, and taxation policies, impede growth.

The evolution of the Indian retail sector has been influenced by globalization, digitalization, and shifts in consumer preferences. The rise of organized retail has been fueled by factors such as an expanding middle class, changing lifestyle patterns, and the availability of a broader range of products. Additionally, international brands and corporate retail chains have increasingly sought entry into the Indian market, leading to policy debates on the extent of foreign investment in the sector.

Technological advancements, particularly in e-commerce and digital payments, have further altered the retail landscape. The emergence of online shopping platforms, digital payments, and digital marketing strategies has provided retailers with new opportunities to engage consumers beyond traditional brick-and-mortar establishments. However, the rapid expansion of modern organised retail comes with challenges, including competition with unorganized players, adapting to consumer expectations, and navigating a complex regulatory environment.

Literature Review

Several studies have examined the development of the Indian retail sector and its transition from traditional to organized formats. According to IBEF (2011), the Indian retail market was valued at approximately \$450 billion in 2011, with organized retail growing at a rate of 15-20% annually. According to Investment Commission of India (ICI) data, organised segment in 2006 accounted for US\$12.1bn of sales, or 4.6% of the total retail segment. BMI forecasts that organised retail sales will reach US\$76.2bn by 2013, representing 10.7% of the total. BMI predicts that mass grocery retail (MGR) sales in India through modern retail outlets will increase by 777.4% to reach US\$27.2bn in 2013.

Studies by KPMG (2010) highlighted that kirana stores continued to dominate the retail sector, accounting for over 90% of sales in 2010, despite the rise of supermarkets and hypermarkets. PwC (2012) emphasized the importance of supply chain efficiencies and real estate development in shaping



modern retail growth. Reports from ASSOCHAM (2012) discussed how e-commerce was emerging as a major disruptor, altering consumer shopping behaviors and increasing digital transactions.

Further, research by DIPP (2012) explored the impact of FDI policy liberalization, noting that the 51% FDI cap in multi-brand retail was a significant step in opening up the sector, although met with political opposition. The Economic Times (2012) highlighted concerns over small retailers losing business due to the entry of large multinational retail chains. While some studies emphasized the benefits of foreign investment in improving infrastructure and supply chains, others pointed out the regulatory and logistical challenges that continued to hinder large-scale expansion.

Objectives of the Study

To analyze the evolution of the Indian retail sector and the factors driving the growth of organized retail.

1. To examine the role of kirana stores and their impact on the expansion of modern retail formats.
2. To study the regulatory challenges affecting the growth of organized retail, with a focus on FDI policies and taxation.
3. To evaluate the future prospects of organized retail in India and the potential coexistence of traditional and modern retail formats.

Research Methodology

This study is based on a qualitative analysis of secondary data from government reports, industry publications, newspapers and research papers. Data has been sourced from reports published by the Department of Industrial Policy and Promotion (DIPP), India Brand Equity Foundation (IBEF), ASSOCHAM, and leading financial and business news sources. The study employs a descriptive research approach to examine trends in the Indian retail sector.

Reasons for the Growth of Organised Retail in India

India's retail sector was valued at approximately \$450 billion in 2011, with an annual growth rate of 15–20% (IBEF, 2011). Several factors have contributed to the expansion of organized retail in India:

1. Rise in the Number of Middle-Class Consumers

The rapid growth of middle-class consumers has significantly influenced the retail sector. Increased disposable incomes have led to higher purchasing power, fueling demand for branded and quality products. Additionally, consumers seek convenience, variety, and better shopping experiences, all of which organized retail provides. The aspirational nature of the middle class, coupled with exposure to global trends through media and digital platforms, has accelerated their preference for modern retail.

2. Increase in the Number of Working Women

The modern Indian women are literate, knowledgeable and qualified. With more women joining the workforce, there has been a growing preference for modern retail outlets that provide a one-stop shopping experience. Supermarkets and hypermarkets cater to time-constrained customers by offering a wide range of products under one roof. The rise of nuclear families and dual-income households has also contributed to a shift in spending habits, making organized retail more attractive for household essentials, fashion, and electronics. Additionally, modern retail stores provide amenities such as childcare areas, food courts, and easy return policies, enhancing convenience for working women. This changing dynamic has led retailers to focus on curated product assortments, loyalty programs, and personalized shopping experiences to cater to this influential consumer segment.

3. Urbanization

The expansion of cities has facilitated the development of shopping malls, supermarkets, and hypermarkets, making organized retail more accessible to urban consumers. Improved infrastructure, better connectivity, and higher population density in urban areas have increased footfall in modern retail



establishments. Additionally, new urban centers emerging in Tier 2 and Tier 3 cities are driving further growth in organized retail.

4. Changing Consumer Preferences

Indian consumers are shifting toward convenience shopping, preferring organized retail formats that offer variety and a superior shopping experience. Modern retailers provide air-conditioned environments, quality assurance, loyalty programs, and seamless return policies, attracting consumers who prioritize comfort and efficiency.

5. Technological Advancements

The rise of e-commerce platforms, digital payments, and online shopping has accelerated the growth of organized retail. Mobile wallets, AI-driven recommendations, and omnichannel retail strategies have enhanced customer engagement and convenience.

6. Government Reforms

The role of government policies in shaping the retail sector cannot be overlooked. Regulations on foreign investments, taxation policies, and urban planning play a significant role in determining the pace of growth of organized retail. One of the most significant barriers to the growth of modern retail in India has been restrictions on FDI. Until 2012, FDI was largely prohibited in multi-brand retailing, limiting foreign investments in the sector. In November 2011, the Indian government announced a policy to allow 51% FDI in multi-brand retail but had to put it on hold due to political opposition (Business Standard, 2011). However, in September 2012, the government finally approved FDI in multi-brand retail with a 51% cap, while also allowing 100% FDI in single-brand retail under specific conditions (DIPP, 2012). Relaxation of FDI norms and other initiatives such as investment in infrastructure, and the push for digital transactions have facilitated modernization in retail.

7. Improved Supply Chain Management

Large retailers have been able to streamline logistics, reducing inefficiencies in the supply chain. Better warehousing, cold storage, and technology-driven inventory management have improved product availability and reduced wastage.

The expansion of cities has facilitated the development of shopping malls, supermarkets, and hypermarkets, making organized retail more accessible to urban consumers. Improved infrastructure, better connectivity, and higher population density in urban areas have increased footfall in modern retail establishments. Additionally, new urban centers emerging in Tier 2 and Tier 3 cities are driving further growth in organized retail.

Challenges to the Growth of Organised Retail in India

Despite its rapid expansion, the Indian retail industry faces several structural and policy-related challenges. While the liberalization of FDI policies in 2012 was a step toward modernizing the sector, issues such as high operational costs, supply chain inefficiencies, and taxation complexities remained roadblocks. :

1. High Operational Costs

The cost of running an organized retail business in India is significantly high due to several factors:

- a) **Real Estate Expenses:** The price of commercial real estate, especially in urban areas, is exorbitant. Organized retailers need large spaces for stores, warehouses, and logistics centers, increasing their financial burden.
- b) **Employee Salaries and Training:** Unlike kirana stores, which are often family-run with minimal staff, organized retailers need trained professionals for customer service, inventory management, and operations, leading to higher wage expenses.
- c) **Electricity and Maintenance Costs:** Organized retail stores, especially those in malls, require constant air-conditioning, lighting, and security, adding to their operational costs.



- d) **Supply Chain and Logistics:** Organized retailers must invest in sophisticated logistics systems, warehouses, and transportation networks, further increasing expenses.

2. Regulatory Restrictions

Government policies and regulations have created obstacles for the expansion of organized retail:

- a) **Foreign Direct Investment (FDI) Limits:** Although the government has liberalized FDI policies to some extent, restrictions remain, especially in multi-brand retail, where FDI is capped at 51%. Many global retail giants hesitate to enter India due to these constraints.
- b) **Stringent Licensing and Compliance Rules:** Retail businesses must obtain multiple licenses for operations, such as trade licenses, food safety certifications, and environmental clearances, creating bureaucratic delays.
- c) **Labour Laws:** Rigid labour laws make it difficult for large retailers to hire and lay off employees flexibly. They must comply with minimum wage regulations, working hours, and employee benefits, which increases operational complexity.

3. Competition from Kirana Stores

Despite the rise of modern retail formats, traditional kirana stores continue to dominate the Indian retail sector due to several advantages:

- a) **Convenience and Proximity:** Kirana stores are located within residential areas, offering easy access to customers, unlike malls or supermarkets that require travel.
- b) **Personalized Customer Service:** Many kirana store owners have strong relationships with local customers, offering customized recommendations and services that organized retailers cannot match.
- c) **Credit Facilities:** Kirana stores often provide informal credit to regular customers, allowing them to buy goods on credit and pay later. Organized retailers, on the other hand, rely on cash or digital payments.
- d) **Lower Operating Costs:** Since kirana stores are often family-run with minimal staff and overhead expenses, they can sell products at competitive prices.

4. Supply Chain Inefficiencies

Organized retail in India faces major logistical and supply chain challenges:

- a) **Fragmented Supplier Network:** Unlike developed markets where organized retail has well-integrated supply chains, Indian retailers rely on multiple small suppliers, leading to inconsistencies in product availability and pricing.
- b) **Lack of Cold Storage Facilities:** Perishable goods, especially fruits, vegetables, and dairy products, require refrigerated transport and storage. However, India lacks sufficient cold storage infrastructure, resulting in wastage and higher costs.
- c) **Transport and Infrastructure Issues:** Poor road conditions, traffic congestion, and outdated logistics systems delay product deliveries and increase transportation costs.
- d) **Inventory Management Challenges:** Many organized retailers struggle with efficient inventory control, leading to overstocking or stockouts, affecting sales and profitability.

5. Consumer Trust Issues

Indian consumers have traditionally relied on small, local stores and often hesitate to shift to organized retail due to:

- a) **Price Sensitivity:** Many consumers perceive supermarkets and malls as expensive compared to local markets, even if organized retailers offer discounts.
- b) **Lack of Bargaining:** Unlike kirana stores where bargaining is common, organized retail operates on fixed pricing, which some consumers find unappealing.



- c) **Preference for Local and Fresh Produce:** Many Indian consumers believe that local vendors provide fresher fruits, vegetables, and groceries compared to packaged goods in supermarkets.

6. Technological Adaptation Barriers

While digital payments and e-commerce have gained traction, following challenges remain:

- a) **Low Digital Literacy:** Many small retailers and customers, especially in rural areas, are not comfortable using digital payment methods.
- b) **Cybersecurity Concerns:** Consumers are wary of online fraud and data breaches, making them hesitant to adopt digital transactions.
- c) **Resistance to Change:** Traditional retailers are often reluctant to embrace technology-driven solutions like POS (Point of Sale) systems, automated inventory management, and online platforms.

Conclusion

The organized retail sector has made significant strides in urban areas, benefiting from increased consumer spending and technological advancements. However, kirana stores continue to dominate the market due to their strong customer relationships, accessibility, and adaptability. Despite its enormous potential, the Indian retail industry faces several structural and policy-related challenges. While the liberalization of FDI policies in 2012 was a step toward modernizing the sector, issues such as supply chain inefficiencies, high operational costs, and taxation complexities remained roadblocks. Addressing these issues through government reforms, infrastructure development, and digital adoption will be crucial for the future success of the sector.

Going forward, a hybrid retail model integrating both traditional kirana stores and modern retail formats could be the key to sustainable growth. Encouraging digitization among small retailers, improving supply chain logistics, and implementing a uniform regulatory framework will be essential in shaping the future of Indian retail. The coexistence of kirana stores and organized retail is likely to persist, with both evolving to meet changing consumer demands in a rapidly transforming retail landscape.

References

- **ASSOCHAM.** (2012). *The Impact of E-commerce on Indian Retail. The Associated Chambers of Commerce and Industry of India.*
- **DIPP.** (2012). *Foreign Direct Investment in Multi-Brand Retail: Policy and Impact. Department of Industrial Policy and Promotion, Government of India.*
- **IBEF.** (2011). *India Retail Industry Report. India Brand Equity Foundation.*
- **KPMG.** (2010). *Indian Retail: Time to Change Gear. KPMG India.*
- **PwC.** (2012). *Winning in India's Retail Sector: Challenges and Opportunities. PricewaterhouseCoopers.*
- **The Economic Times.** (2012). *Retail Industry Growth and Challenges in India. Retrieved from www.economictimes.com*