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ROLE OF NEW MIDDLE CLASS ON RETAIL INDUSTRY
WITH SPECIAL REFERENCE TO INDIA



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Short Profile

Sushma Bareja is working as an Associate Professor at University Of Delhi , Delhi. She Has Completed M.phil. and Ph.D. She Has Professional Experience 25 years.



ABSTRACT:

The most striking feature of contemporary India is the rise of a confident new middle class. The middle class has been in existence since ages and it has always contributed to the social, political and economic development of India. The aim of my paper is to highlight the impact of middle class on retail, being a sunrise industry in India. During the last six decades, Indian middle class has been growing in numbers as a reflection of the process of development. The high rate of economic growth over the past decade has resulted in a large number of people moving from poverty into the middle class.

The National Council of Applied Economic Research (NCAER) has made an attempt to define the middle class in terms of annual income ranging from Rs 2-10 lakhs. In a recent report by Mc Kinsey Global Institute (MGI), India's middle class has been defined as a household income segment between US\$ 4930 and US\$ 24,651 (as per May 2007 exchange rate.) Further, MGI report stated that over a period of 20 years ranging from 2005-2025, Indian household income would grow at an average rate of 5.3% annually. The number of middle class households would grow to 583 billion by 2025.

As a result, the Indian middle class would form the third largest country by itself in terms of population and nearly twice the current population of US. By 2025, India will be the fifth biggest

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consumer market in the world (after US, Japan, China and UK). MGI report further stated that Indian consumption would increase four-fold to US \$ 1.5 trillion by 2025. India's middle class continues to grow and attract consumer goods manufacturers and marketers alike. The middle class represents a sizeable market with its ability to consume. The increasing disposable income and purchasing power with the middle class has led to a retail revolution. "India is retailing" has become a common slogan. Global Retail Development Index (GRDI) has placed India at the top, of its scale for the third consecutive year. As per GRDI, Indian retail market is expected to grow at a compound annual rate of 40% from \$ 8 billion to \$ 32 billion by 2016. Therefore, big players like Reliance, Big Bazar, Subhiksha, Birla have already shown their presence. Retailers are making all efforts to appeal to middle class from constructing a holistic, enjoyable shopping experience to establish an emotional connect. The Slogan of Motorola Co. – "We don't sell, they choose" or Croma's slogan- "We help you buy" is the new approach of retailers to attract consumers. The retailers are trying to make middle class consumer believe that he is in a comfortable, favourable environment and that he is getting a good deal.

To keep the momentum going, government of India has permitted FDI upto 51% in "Single brand retail trading" and 100% FDI in trading for exports, trading of items sourced from small scale industries in India etc. Opening of FDI to retail sector offer a number of benefits to middle class consumers like huge employment opportunities, wide variety of choices (both Indian and foreign brands) under one roof etc.

These measures will enhance the global community's confidence in the Indian economy & reflects the efforts of Indian Government to pace up with the global economy. The hyper development of India is being driven by a tiny section of population called as middle class. This rising and shining new middle class represents an important social force in contemporary India, that has to be depicted as a national icon of a fully developed India.

KEYWORDS

Retail Industry, New Middle Class, social, political and economic development.

INTRODUCTION

The most striking feature of contemporary India is the rise of a confident new middle class. The term "Middle Class" is widely used and most of us understand what we mean when we use it in our everyday conversation. Despite its wide currency, there is little agreement on what constitutes this social category. Landowners, industrialists, professionals, bureaucrats, teachers, poets, novelists, blue-collar workers have all been defined as middle class in one context or another. The middle class has been in existence since ages and it has always contributed to the social political and economic development of India. The aim of this paper is to highlight the impact of middle class on retail, being a sunrise industry in India.

During the last six decades, Indian middle class has been growing in numbers as a reflection of the process of development. In recent years, the discourse about the Indian middle class seems to have caught the public's imagination. The high rate of economic growth over the past decade has resulted in a large number of people moving from poverty into the middle class. Since the middle class has been defined in terms of culture, education or lifestyle, none of these variables are quantifiable. The National Council of Applied Economic Research (NCAER) has made an attempt to define the Middle

class in terms of annual income ranging from Rs 2-10 lakhs. Between 1995-96 and 2001-02, the total middle class households increased from 4.5 million to 10.7 million- an increase by 138%. By 2015-16, they are expected to grow to 38 million, accounting for a total population of 183 million.

In a recent report by the Mc Kinsey Global Institute (MGI). "The Bird of Gold", India's middle class has been defined as a household income segment between US \$ 4930 and US \$ 24,651 (as per May 2007 exchange rate). The lowest " consuming class " income segment, as defined by MGI, is comprised of household earning less than US \$ 2219 or in Purchasing Power Parity (PPP) terms, US \$ 11680. Additionally, MGI stated that over the 20 year period from 2005 to 2025, Indian household income would grow at an average rate of 5.3% annually i.e. household income would grow from US \$ 2804 in 2005 to US \$ 7861 in 2025 (PPP equivalent to US \$ 40,000 app.) As per MGI report, the number of middle class Indian households stands at 50 million and it will grow to 583 million by 2025. As a result, the Indian middle class would form the third largest country by itself in terms of population and nearly twice the current population of the United States. By 2025, India will be the fifth biggest consumer market in the world (after US, Japan, China and U.K.) The MGI report states that Indian private and public consumption would increase four fold to US \$ 1.5 trillion by 2025. India's middle class continues to grow and attract consumer goods manufacturers and marketers alike. Traditionally, once an economy has more disposable income, it tends to upgrade its purchases. Thus, luxury goods and consumer durable companies have a great opportunity to tap into this consuming middle class.

Economic liberalization of mid- 1991 portrayed middle class as a group that is fundamentally tied to the success of economic reforms and asserts that the middle class represents a sizeable market with its ability to consume. The middle class has benefited from economic reforms through the availability of new commodities and increasing opportunity for consumer choices. The increasing disposable income and purchasing power with the middle class has led to a retail revolution. This fast growing middle class consumer population has accelerated growth in retail industry. This class is the major contributor for booming retail sector whether organized or unorganized. Economic indicators show that retail revolution is going to stay. "India is retailing" has become a common slogan.

The retail gold rush is happening on a day-to-day basis. Global Retail Development Index (GRDI) places India at the top of its scale for the third consecutive year. The world is looking at India as destination for retail marketing. It has led to "Consumer Revolution". Never before the Indian consumer had access to such a plethora of options for groceries, clothing, cosmetics, white goods, etc.

As per GRDI, modern retail in India is 2-3% of current total global retail market. This market, is expected to grow at a compound annual rate of 40% from \$ 8 billion to \$ 32 billion by the year 2016. Therefore, big players like the sugar to shipping conglomerate "Birlas intend to kick-start its retail foray by converting two little-known group-owned stores in Kolkata- "85 Landsdown" and "Rose Bird" into the fashion garments. This group supplies garments to global retail giants such as "Wal Mart" and "Gap". Reliance, Big Bazar, Subhiksha have already shown their presence. "Reliance Fresh" opened eleven Supermarkets simultaneously in Hyderabad. Its focus is on food. A few outlets have been opened in Delhi as well. It plans 4000 stores in 1500 towns, cities and villages over the next four years. It will spend around \$ 5-6 billion and will have more than 1000 million square feet of retail space. Big Bazar claims one million shoppers every week. It plans to bombard prime Indian cities with 1500 no frill deep discount friendly neighbourhood value stores- to extract a large piece of the Kiranas or conveniences store pie. Big Bazar and shoppers stop plan to provide " fit, active" facility which offers health, fitness and gym services within Futures Shopping Malls with an investment of Rs 1000 Crores.

Future group has also launched "Tulsi" - the medicine bazaar & beauty products with Star and Sitara Brand. Big Bazar plans to offer health and wellness services by joining hands with Talwalkers through a joint venture Fit and Active. According to a study by the Indian Council for Research on International Economic Relations (ICRIER), retailing contribute to 10% of GDP and employs 7% of the total national workforce. The share of the organized sector in retail trade is currently a mere 3% and is expected to reach 10%-16% by 2016, indicating a huge opportunity for prospective new players.

Retail sector in India is reflected in sprawling shopping centers, multiplex- malls and huge complexes which offer shopping, entertainment and food all under one roof. Retailers are making all efforts to appeal to middle class from constructing a holistic, enjoyable shopping experience to establish an emotional connect. High footfalls and ample parking space at malls provide an opportunity for sale of high-end fitness equipments. Retailers provide clean and hygienic but functional surroundings, easy access- getting in and getting out, affordable prices for middle class, best buying strategy over the mom and pop outfits, provide security to the product & clients, make the consumer believe that he is in a comfortable, favourable environment and that he is getting a good deal. They also educate customers, remove parking problems etc. In other words, creating a right ambience can make all the difference to a retailer. The slogan of Motorola Co.- " We do not sell, they choose", Big Bazar's Slogan- " Is se Sasta Aur Achcha kahin Nahi" or Croma's Slogan- " We help you buy" is the new approach of retailers to attract consumers, especially the middle class. Subhiksha claims to provide products at the cheapest price. Many retail chains offer goods at below the maximum retail price (MRP), like More. All this implies that a middle class customer is likely to gain by retail revolution in future. On line websites like Flipkart, Snapdeal, Amazon, etc. have also given a fillip to retail industry and the middle class.

To keep the momentum going, government of India has permitted Foreign Direct Investment (FDI) upto 51% in "Single brand retail trading" in India with prior government approval. FDI Policy permits 100% FDI in:

- Wholesale cash and carry activities
- Trading for exports
- Trading of items sourced from small scale industries in India
- Test marketing of such items for which a company has approval for manufacturer.

Additionally, global retailers have an option to enter into franchise

Agreements with Indian retailers to provide technical, managerial and other similar support (right to use trade mark/ brand) to them for carrying out their activities in India.

Many big names in international retail are entering Indian cities. Global players like WalMart, Marks & Spencers, Roseby etc have lined up investments to the tune of US \$ 10 billion for the retail industry. Wal-mart, Carrefour and Woolsworths are also interested in food processing market, a sector that has trebled in value in the past two years and is expected to inflate to \$ 526 billion by 2020.

Gradual opening of FDI to retail sector is not only beneficial to government and retailers but it also offers a number of benefits to consumers, especially middle class consumers. The benefits are in the form of :- huge employment, which will ultimately increase the per capita income, wide variety of choices, (both Indian & foreign brands) available under one roof, increased investment in technology in the form of cold storage chains, food processing sector etc. which will decrease the wastage to a

considerable amount.

These measures will enhance the global community's confidence in the Indian economy & reflects the efforts of Indian Government to pace up with the global economy. The hyper development of India is being driven by a tiny section of population called as middle class. This rising and shining new middle class represents an important social force in contemporary India that could be depicted as a national icon of a fully developed India.

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