

A Study on Problems and Prospects of Franchising Business in Organized Retail Sector

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Abstract

India presents a large market opportunity due to large number of costumers and increasing purchasing power. There are significant challenges as well in Indian retail sector. These challenges includes geographically dispersed population, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods etc. This paper studies the Indian retail sector opportunities and major concern for the growth of this sector.

Keywords: consumers, franchising, multi-brand, market and retail sector.

1. Introduction

A significant feature of the current economic scenario in India is the emergence of organized retail sector. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the near future. Major industrial houses have entered in this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking opportunities in India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the development of organized retail sector in the country.

Franchising is the practice of using another firm's successful business model. Franchising is a business arrangement where the owner (the franchisor) of a business permits the other (the franchisee) the licensed right to own and operate businesses based on the former's business concept, using its trademark. The International Franchise Association (IFA) defines franchising as a "continuing relationship in which the franchisor provides licensed privilege to do business, plus assistance in organizing, training, merchandising and management in return for a consideration from the franchisee". Rapidly growing franchising industry in India, although at a very emerging stage, is said to be the second largest in the world. Globally, the franchising model is very popular in sectors such as education and training, financial services, apparel, and retail. Franchising as a concept has been

steadily gaining popularity because of vast untapped potential in the Indian context. Emergence of tier I and II cities as the next big retail destination, lower level of capital required to start the business, lower risk, marketing network and sales channels are the major drivers for growth of this sector. Developments such as relaxation of foreign investment rules and liberalized guidelines have clearly led to increase in the number of franchised outlets in India. Single-brand retailers are now allowed to own up to 100% of their operations in India. Bata, the footwear company, was among the first franchisors in India, followed by other multinationals such as Coca-Cola. Pioneers among the Indian companies are NIIT, Apollo Hospitals and Titan Watches. Franchising has several advantages. An obvious advantage to the franchisee is the wider market penetration, greater brand presence in the domestic as well as international markets with relatively low capital investment. The franchisor on the other hand, leverages the franchisor knowledge of the domestic market such as regional preferences. At the same time, the consumer gains from the availability of a wider range of products and services that are on a par with its international counterpart. Franchising also helps to nurture the country's entrepreneurial skill.

Franchising market in India, although just over a decade old, has enormous potential. The size of economy, diversity of the population, rise in disposable income, change in lifestyles and the beginning of modern retailing provide excellent franchising opportunities in the country. Sectors such as retail, telecom, education and healthcare, are the fastest growing. Other sectors such as automotive,

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IT, beauty and tourism are rapidly catching up. Besides, the fact that about 15% of sales in India are through franchised outlets, as against 60% in the US, is indicative of the massive industry potential.

Retail Sector in India

The Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. India's retail and logistics industry, organized and unorganized in combination, employs about 40 million Indians (3.3% of Indian population). Between years 2000 to 2010, consumers in select Indian cities have gradually begun to experience the quality, choice, convenience and benefits of organized retail industry.

Retail: With over 350 malls and 1500 supermarkets in year in 2011-12, the retail sector in India, is poised for the largest leap. Factors such as growing urbanization, rising disposable income and changing lifestyle pattern among the urban population have contributed to the estimated 8% annual growth of this sector. Retail sales in India through franchising constitute about 2% of total retail sales, as against nearly 50% in the US, indicating huge potential for the market. Retailers are now tapping tier I and II cities as the new hub for malls and other retail outlets.

Telecom: With the consistently growing subscriber base, franchising has emerged as a sure winner in the Indian telecom market. In order to match up to the growing demand, the major players are opting for franchisees to reach out to the consumers.

Education: The education sector is not likely to be severely impacted by the current slowdown. Franchisees

have gained from the sudden spurt in the number of play schools, spoken english centers, computers and overseas education consulting.

Traveling Industry: A sudden shoot in foreign exchange revenue from the traveling industry has forced domestic as well as international players to opt for franchising. Major players such as Thomas Cook, Kuoni Holidays, Cox & Kings and Mercury Travels, are on the lookout for franchisees for expand their market presence.

Outcome of retail business on Indian market

Organized retail sector is expected to grow stronger than GDP growth in the next five years driven by changing lifestyles, promising income and favorable demographic outline. The country is largest democracy in the world and has fairly young population. Approximately 71% of the population is less than 34 years [1]. India's retail market is expected to rise to \$833 billion by the year 2013 [1]. Value of Indian retail market was \$ 511 billion in year 2008. As per image F & R research Indian retail sector is growing at the rate of 10.8% per annum. Retailing business has been considered as a sector of importance in the socio-economic growth strategy of the country [2]. India is witnessing retailing boom being propelled by increasing urbanization, rising purchasing power parity (PPP) of ever growing India's middle class, changing demographic profiles heavily titled young population, technological revolution and globalization. Rise in consumer confidence, improvement in profitability and aggressive expansion plans gives better indication for listed players in the organized retail space [3]. Moreover, analysts believe listed retailers could attract foreign investments by spinning off their subsidiaries into separate companies which can provide a great opportunity for the improvement of this sector. Indian retailing will see a sea of change in the next five years with driving consumption boom never seen in the history of any country [4]. From a drought situation there will be a flood of modern retail, So Indian retail will be on a steady ground of sustained growth year after year and thereafter. Retail business in India, as anywhere else in the world, plays a crucial role in an economy of the country [5]. Retail in India has the potential to add value over Rs 2, 00,000 crore (\$45billion) business generating employment for some 2.5 million people in various retail operations and over10 million additional workforce in retail support activities. Modern retailing today is growing faster than expected while the current growth rate is around 30 percent, the sector is expected to grow at 40- 50 percent on a year basis [6]. Retailing is the next sunrise segment of the economic development of the country [7]. There is a hectic activity in the sector in terms of expansion, entry of international brands and retailers as well as focus on technology, operations,

infrastructure and processes. All these present a tremendous opportunity in this high growth industry. According to a study the size of the Indian Retail market is currently estimated at Rs 704 corers which accounts for a meager 3% of the total retail market. As the market becomes more and more organized the Indian retail industry will gain greater worth [8]. However, the future is promising, the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations. Multicultural India is transforming from a socialist economy to a consumption-led, creative economy. The scope and depth of change that is taking place due to the revolutionary retail market with enormous opportunities for marketers and retailers, not only in large cities but also in small towns [9]. So retailing can play a significant role in creating the India of tomorrow. The retail sector provides a unique platform to India and Government need to engage with the sector and utilize its potential for social development. So the Indian market and its consumers poised for a retail consumption explosion that will continue for future [10].

Major Concerns

Key issues impacting the market are the absence of specific legislation regulating the franchising business. Prominent among these are cases when the quality of service provided by the franchisee falls below the prescribed standard or when the franchisor defaults in providing the promised support. Being a relatively new concept in India, there is lack of information and sharing of best practices among the players. Besides, several laws such as intellectual property, taxation, labor, property and exchange control regulations govern the franchising agreement, which confuses the foreign franchisor. Another major concern is that a large number of financial institutions do not consider soft expenses as part of project cost. The vast geographical expanse of the country, while on one hand, offers certain advantages, also pose a challenge to the franchising business. In such cases, the business can opt for a single master franchisee for the entire country or a master franchisee for each of the four regions, depending on the type of business. Indian retail has experienced limited growth, and its spoilage of food harvest is amongst the highest in the world, because of very limited integrated cold-chain and other infrastructure. Beside these following are also some issues in franchising business:

- Poor Supply Chain Management
- Employee training and retention
- Managing working capital

- Diversifying into untapped rural areas
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favors small retail businesses.
- Absence of integrated IT management.
- Low skill level for retailing management.
- Lack of Retailing Courses and study options
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

Conclusions

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. The retail industry in India has come forward as one of the most active and fast paced industries with several players entering the market. Indian retail is still growing, and growing at a fortunate rate. Progressive policies, economic and political stability, liberal policies on technology, changing consumers profile and demographic character, increasing urbanization, improved infrastructure, increasing number of nuclear families, increasing working women population are new opportunities. Challenges to the manufacturers and service providers would propagate when market power shifts to organized retail.

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