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The Changing Retail Landscape Of India

White Paper Series
On
Retail Industry

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INTRODUCTION

The retail market size in India is estimated to be around \$180 billion. Retailing provides jobs to almost 15 percent of employable Indian adults and it is perhaps the largest contributor to India's GDP. But the flip side is that the average size of each of the retail outlets in India is only 50 square feet and though a large employer, the industry is very unorganized, fragmented and with a rural bias.

For Indian retailing, things started to change slowly in the 1980s, when India first began opening its economy. Textiles sector (which companies like **Bombay Dyeing**, **Raymond's**, **S Kumar's** and **Grasim**) was the first to see the emergence of retail chains. Later on, **Titan**, maker of premium watches, successfully created an organized retailing concept in India by establishing a series of elegant showrooms.

For long, these remained the only organized retailers, but the latter half of the 1990s saw a fresh wave of entrants in the retailing business. This time around it was not the manufacturer looking for an alternative sales channel. These were pure retailers with no serious plans of getting into manufacturing. These entrants were in various fields, like - **FoodWorld**, **Subhiksha** and **Nilgiris** in food and FMCG; **Planet M** and **Music World** in music; **Crossword** and Fountainhead in books.

Through the 1990s, organized retail in India added just 1 million sq. ft of space a year. The pace picked up from 2001 onwards. But estimates have it that in 2003 alone, a breathtaking 10 million sq. ft was picked up by this fledgling industry. But it is believed the best is yet to come. Over the next three years, a confluence of events will push organised retail into a new orbit.

Even till last year, the number of malls in operation was barely in double digits. This year at least 50 new malls - of 1 lakh sq. ft size and above - are slated to go into business in 2004. Retail consultants KSA Technopak estimates that another 200 malls will come up in 2005 and 2006. In all, 40 million sq. ft of retail space will enter the market in the next 2-3 years.

Much of this rapid scale-up across the sector is helped partly by the fact that organised retail is now no longer starved of **funds for expansion**. The older players are generating more substantive cash flows than ever before. Also, the favourable stock market performances of **Trent** and **Pantaloon** have helped loosen the purse strings of promoters and banks. **RPG** has also begun diverting its investments from Old Economy ventures to retail. Shoppers' Stop, in fact, is readying for an IPO this year. Even Pantaloon,

which scared away most investors with its over-aggressive investment strategy, is now finding takers in the market.

Experts say the current land grab will hit a higher pitch. Growth will attract newer players and fuel more growth. *KSA Technopak CEO Arvind Singhal says: "The share of organised retail in the total retail pie is likely to grow from 2% now to 5-6% by 2007." In their latest India Retail Review, real estate consultants Knight Frank presage a share of 20% by 2010.*

Indian retailers are fully aware that they have about two years. Hence the hurry to ramp up fast. The frenetic pace of expansion will, of course, throw up a new set of challenges.

RETAIL GROWTH DRIVERS - Youth Spending Power and increased Consumer Credit

India's status as a good IT hub for outsourcing by U.S. companies has led to young Indians between 20 to 24 years old taking up call center jobs straight out of college. This is a consumer base that typically lives at home, with the family. They have disposable income that is totally discretionary and about 20 to 30 percent higher than prevailing wages.

- *"We have tripled our sales in Bangalore city in the last three years," says Shumone Chatterjee, marketing director, **Levi Strauss** India. And he believes this is largely due to the effect of disposable income coming into the hands of the 18-22 age group employed in BPO jobs.*
- *Vishu Ramachandran, regional head (consumer banking), **Standard Chartered Bank**, India, estimates that India adds around 3 million young earners in the age group 20-24 annually. These first-time earners account for 7-8% of its credit card base of 1.4 million - a figure that is expected to more than double in the next few years.*

- *According to Nasscom, BPO firms employed 245,500 people in 2003-04.*
- *Assuming 90% of this workforce is below the age of 25 and earns Rs 10,000 a month on an average, the purchasing power of youth is no less than **Rs 2,200 crore annually.***

- The important thing is that most of the income earned is basically 'pocket money'. Many of the people in this segment live at home, so rent and food is taken care of.
- But BPO is just one example. From retail to insurance to banking, entry-level jobs are aplenty. IT firms added 55,000 employees this year, mostly engineering graduates. Infosys alone recruited 10,000.
- Also this segment is very aware of brands.

Also although this nation of one billion people has a per capita income only half that of China, it's estimated that there are roughly 150 million middle class consumers. For retailers, these facts present a great opportunity

TRENDS IN RETAILING

- **Modern retail formats** - The growth of western-style malls is changing the way urban consumers shop. We're seeing many bigger box, value-based formats setting up shop. The size of these stores is about 50,000 square feet, a departure from the smaller mom & pop-type store that dominates the local retail landscape
 - Shoppers' Stop - **department store** format
 - Westside - emulated the Marks & Spencer model of **100 per cent private label**, very good value for money merchandise for the entire family
 - Giant and Big Bazaar - **hypermarket/cash & carry store**
 - Food World and Nilgiris – **supermarket** format
 - Pantaloons and The Home Store - **speciality** retailing
 - Tanishq has very successfully pioneered a very high quality organized retail business in fine jewellery

A new entrant in the retail environment is the '**discounter**' format. It is also known as **cash and- carry or hypermarket**. These formats usually work on bulk buying and bulk selling.

Shopping experience in terms of ambience or the service is not the mainstay here. RPG group has set up the first 'discounter' in Hyderabad called the **Giant**. Now Pantaloon is following suit. India will see the first Rs 1,000-crore plus retailers by 2005 in two categories: food and grocery, and apparel.

Major Players in India			
Retailer	Current Revenues (Rs. Millions)	Outlets	Projected outlets
Pantaloon	7000	31	74 (by 2005)
RPG	5500	1	12 (by 2006)
Shoppers' Stop	4000	13	40 (by 2005)
Lifestyle	2300	7	15 (by 2005)
Westside	1200	13	21-23 (by 2005)
Ebony	850	8	14 (by 2005)
Piramyd	720	3	19 (next four years)
Globus	NA	7	15-17 (by 2005)

source: Business World

Retailing in India is still evolving and the sector is witnessing a series of experiments across the country with new formats being tested out; the old ones tweaked around or just discarded. Retailers are also fine-tuning their formats by trying out smaller versions of their stores in an attempt to reach a maximum number of consumers. **Crossword** bookstores is experimenting with Crossword Corner, to increase reach and business from their stores. **FoodWorld** is experimenting with a format of one-fourth the normal size called FoodWorld Express.

- **Entry of global brands**

U.K.-based department store **Marks and Spencer**, clothing retailer **Benetton**, Spanish clothing chain **Mango**, **Hugo Boss** have also broken ground in India. Apparel retailer **Tommy Hilfiger** is reportedly the latest entrant into India. According to trade publication *Women's Wear Daily*, the company is expected to open at least six free-standing Tommy Hilfiger stores in major cities, carrying men's and junior sportswear and jeans wear.

International Retailers Eying India		
Retailer	Type	Status
Carrefour	Multi-format retailer	Postponed entry
Auchan	Hypermarkets	Evaluating
Shoprite	Supermarkets	Opening in Mumbai
Marks & Spencer	Lifestyle stores	Already in
Dairy Farm	Multi-format retailer	Tied up with RPG
7-eleven	Supermarkets	Evaluating
Metro	Cash-and-carry	Already in
Wal-Mart	Hypermarkets	Wait & watch
Landmark	Lifestyle stores	Already in
Mango	Apparel Retailer	Already in

Source: *Business World*

- **Global Sourcing**

Wal-Mart CEO Lee Scott, in a speech to the National Retail Federation's annual convention this past January, said his company is eyeing India as well...especially in light of indications that the Indian government may be gearing up to relax excessive regulations that have hampered retail growth in the past. *"I think we will see global retailers moving to India over the next few years to take advantage of what is happening there,"*

According to **Bill Wertz, Wal-Mart's director of International Marketing affairs**, Wal-Mart currently is trying to expand its supplier sourcing in India.

"We are interested in importing more from India. Down the road we may be interested in building stores there. The most encouraging factor for us is the size of the market."

After IKEA (\$450 million) and GAP (\$300 million), Wal-Mart is the largest retailer sourcing from India. In 1995, Wal-Mart sourced apparel and household products worth \$30 million from India. By January 2004, it will source merchandise worth \$250 million from India. In contrast, Target's sourcing numbers from India have stayed at \$80 million for over a decade now.

Now, all the retailers, wants to make that number grow. The reason being most retailers do not want to be too dependent on China as see India an alternate sourcing base. This has been triggered by the events like SARS outbreak, Asian bird flu crisis. Also today, retailers like fear that the Chinese currency is undervalued by 35%. If there is a correction, prices of everything they sell will rise proportionately. Hence they focus on India as an alternative sourcing base.

- **Balance of Power** -Today **FoodWorld** sells 14-16% of all Gillette Mach3s sold in Chennai, 10% of Surf Excel and Surf Automatic, and 10% of Nescafe Premium. As organised retail scales up, the first signs of pressure on the traditional supply chain are becoming apparent. Thus companies like HLL have evolved a distinct distribution channel altogether (called "Modern Trade") to service the needs of such large grocers.

Increased investments and the entry of big business houses in retailing is leading to the emergence of bigger retailers, who can both bargain with the suppliers, as well as, reap economies of scale. Hence, discounting is becoming an accepted practice. This leads us to another emerging trend of discount stores.

- **Emergence of discount stores**

Discount stores (like **Subhiksha** In Chennai, **Margin Free** in Kerala and, RPG's - **Giant** in Hyderabad and Mumbai, **Big Bazaar** in Kolkata, Hyderabad and Bangalore, **Vijay Sales** in Mumbai to mention a few) have finally arrived in India and they are expected to spearhead the revolution in organisation retailing. Though this segment is growing, it is small compared to international standards where around 60 per cent of the business comes from this format.

- **Global Sourcing in Retail BPO**

The \$45-billion UK retail major **Tesco** has set up its first captive unit outside the UK, in Bangalore. Called Tesco Hindustan Service Centre, it employs 100 people - 40 on business process outsourcing (BPO) tasks and the rest on IT development. By end 2004, the India team will be expanded to 350. Tesco has 2,318 stores and a workforce of 326,000.

On the BPO front, the back office operations will be focused on payroll, billing and answering technology-related queries. The IT work would include developing new applications, maintaining applications and integrating IT solutions that the company uses. The team will implement and integrate retail solutions like Retek, Terradata and PeopleSoft.

Interestingly, this is the first significant case of retail offshoring to India. The retail major plans to make the India facility a premier retail-focused shared services centre. Till Tesco stepped in, retail back office work in India was restricted to collections and telemarketing.

- **Growth of e-retailing**

The share of e-commerce as a percentage of overall commerce is growing year after year. For 2004, estimates expect online retail sales in USA, including travel sales, to grow 27 per cent over last year to reach \$144 billion. The trend is the same all over Europe and other developed countries. In India the current size of the e-commerce market may be small now, but will grow as Internet penetration increases.

An IDC study estimates B2C e-commerce spending in India could cross \$500 million (Rs. 2300 Crore) by the end of 2006, with a compound annual growth rate of 79 percent.

Broadly, there are three drivers to e-commerce: Ease and Convenience; Bargains/Discount; and Wide Selection. The **Indian Railways online ticket booking site** <http://www.irctc.co.in/> has made booking train tickets extremely easy and convenient. Several auction sites in India have airline tickets, which can be bought online at one-third of the cost of the actual price. Such bargains and discounts help customers to get the best deal and provide airline companies with an alternative retail channel to sell their tickets.

Challenges faced by the online shopping industry are not just the size of the market. There are other inhibiting factors which have been handled creatively, and this has led to the growth of e-commerce in India.

- Payment using credit cards. The biggest challenge in India is to find alternate modes of payment, which are taking shape in the form of cash on delivery, cash on order and debit cards.
- Fear of their credit cards getting misused. Using credit cards online with premier sites is safe, since the customer is taken directly to the bank site where the person transacts and the credit card information is not captured by the website.
- Quality of product that is delivered. Most of the reputed sites have tied up with good vendors and have clear returns and refund policies. In addition, the consumer feedback and reviews are available in major ecommerce websites.
- Fulfillment within the promised time is another area of concern. Main e-commerce sites have tied up with good logistics service providers, and the entire process from order collection to dispatch is captured online. This information is available online or through customer care service. Reputed sites have a 24X7 customer care facility where the customer can call or mail to address grievances or other issues.

The industry has been growing in the last few years, though the size of the e-commerce industry is still small compared to normal commerce. However, all major websites have invested in technology and vendor relationships, which will help them, scale their e-commerce rapidly as Internet penetration increases.

E-shopping is Evolving

Overall, the trend for online shopping is very positive. The reasons for this optimism, according to dot-com players, are an increased availability in online payment options, a wider range of merchandise, online tracking of shipments, 24-hour, seven-day-a-week customer care, and a larger Internet reach at cheaper costs. Today, the customer has a choice of payment modes: credit cards, cash on delivery, Internet banking accounts, demand drafts and cash on order.

Recent developments in online shopping business in India

- **Yahoo India** and **Rediff.com** have announced a strategic alliance to jointly promote online shopping and mobile content across both portals. The existing tie-up enables users to buy and gift products and accessories from leading international brands such as Nike, Arrow, Tissot, Phillips and Casio, among others, to their friends and families across 800 locations in India. The Rediff Marketplace provides Yahoo! shoppers to choose from the widest range of payment options in a safe and secure environment starting from the popular "cash on delivery"

payment system to credit and charge cards, cheques, demand drafts and direct debit to bank accounts of banks like ICICI, HDFC, UTI, IDBI, GTB, Federal and Centurion Bank.

- **E-Bay** recently acquired 100 percent stake in **baazee.com** for a \$50 million.

KEY ISSUES RELATED TO RETAILING IN INDIA

India is among the top 15 global retail markets but it is also perhaps among the least actively competed for with global retailers.

- **Space and Infrastructure**

To establish a retail shop / mall, the real estate and the infrastructure are very vital. The expenditure and availability on both the accounts do hinder the growth of the retail chain. The lack of secondary infrastructure also affects the logistics and supply chain management for retail companies.

- It has a complicated tax structure. Implementation of VAT has also been postponed.
- **Growth in non-Metros** - Most retailers concentrate on the top eight metros. That's because the market here is ready for organised retail and a premium pricing strategy is easier to adopt. But the question to be asked is that does that leave enough room for growth. Already Malls are coming up in small cities like Indore, Ludhiana, Chandigarh and Meerut. According to the latest **RK Swamy BDDO guide to urban markets**, Chandigarh tops the chart as the city with the highest per capita income. The figure for the city is Rs 26,710, ahead of the likes of Panaji, Delhi and Greater Mumbai. The city also has the distinction of having the highest auto ownership ratio and an average monthly expenditure on fast moving consumer goods.
- **Availability of manpower**- Like most underdeveloped service businesses, retail lacks a large talent pool. And thanks to the BPO boom, Shoppers' Stop says it is losing counter staff at an alarming rate: about one in every three leaves each year. And replacing 30% of the staff every year jacks up training and recruitments costs.
- **Finding quality suppliers** - Most retailers are trying to increase margins. About 350 farmers in Karnataka are doing contract farming for RPG. Everybody wins. The farmers get a guaranteed off take, and 46-

48% of the price which the consumer pays (up from the earlier 40%). As for FoodWorld, now sourcing half of its total fresh produce from these farmers, it can sell it 15-20% cheaper in the market. Also, in apparel, it isn't easy to find suppliers who can match the capacities that a fast-expanding chain like Shoppers' Stop needs. That's why **store labels** come in and so do international labels, which offer gross margins of 40%.

- **Differentiation and Reach** - Too many department stores, too many exclusive outlets all too close to each other. There's hardly enough differentiation and this could make it hard to build store loyalty. Besides, customers don't want to travel more than 20 minutes to visit a store. So, building higher levels of traffic when catchments are shrinking is a tough challenge.
- **Pace of expansion** - There are enough recent examples of chains that tried ramping up too fast too soon. Barista, Domino's and Shoppers' Stop all fell into a cash trap. So deciding the right pace of expansion will be equally critical.

- **FDI Policy**

FDI is normally one of the ways of getting technical inputs. And because of this dearth of FDI in this sector, development in terms of systems, people, and skills might take a longer time.

But transformation is happening and it is possible to overcome some of these issues.

MAJOR RETAIL PLAYERS IN INDIA

Name	Retail Category	Name	Retail Category
Subiksha	Food and Grocery	Shopper's Stop	Fashion
Food World	Food and Grocery	Globus	Fashion
Nilgiris	Food and Grocery	Lifestyle	Fashion
Apna Bazaar	Food and Grocery	Trent	Fashion
		Westside	Fashion
Planet M	Music	Piramyd	Fashion
Musicworld	Music	Ebony	Fashion
Oxford	Books	Pantaloon	Fashion
Crossword	Books		
Giant	Hypermarket		
The Home Store	Home furnishing		
Big Bazaar	Hypermarket		
Loft	Footwear		
Vijay Sales	Electronics /Durables		

<ul style="list-style-type: none"> • Vivek`s • Vasant & Co • Jainsons 	Electronics /Durables	All three together accounts for 25 per cent of sales in the southern states.
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NEW OPPORTUNITIES DUE TO GROWTH OF THE RETAIL INDUSTRY

• **Opportunities for Sourcing Companies**

As India's basket of production increases, retailers, brands and importers can explore specific opportunities suited to their business.

A large base of European and American customers are already served from India, with almost 70% of apparel exports headed to the US and EU. Even as these companies are growing their sourcing from India, other customers are also starting to build up their presence, directly or through indirect relationships.

Even while the sun sets on the quota regime Indian exporters are also targeting non-quota market, including Australia, Japan, West Asia, South Africa and Latin America.

• **Opportunities for Consumer Brands**

India has one of the largest and one of the fastest growing economies in the world. It has averaged an annual growth rate of GDP over 6% over the last several years, and this is improving the overall prosperity of the population. The consumer market was already relatively well-developed which is improving further with favourable factors such as rationalisation of taxes, reduced import tariffs, and a growing young segment that is willing to spend more. International brands already present in the market include **Benetton, Lacoste, Levi Strauss, Crocodile, Dockers, Lee, Wrangler, Nike, Reebok, Adidas, Zegna, Marks & Spencer** etc.

There is also a boom in retail development: organised retailing projected to grow from a 0.8% share to 5% by 2005, of a \$170 billion market (in absolute terms) [a \$935 billion market, in PPP terms]. This is being enabled by development of retail infrastructure e.g. mall space.

Structure of the Indian Consumer Market				
Consumer Classes				
(Annual income Rs.)	1996	2001	2007	Change
The Rich (Rs.210,000 or more)	1.2	2	6.2	416%
The Consuming Class(Rs. 45,000 -Rs.210,000)	32.5	54.6	90.9	179%
The Climbers (Rs.22,500 to Rs. 45,000)	54.1	71.6	74.1	37%
The Aspirants(Rs. 16,000 -Rs. 45,000)	44	28.1	15.3	-65%
The Destitute(Below Rs. 16,000)	33	23.4	12.8	-61%
Total	164.8	179.7	199.3	21%

Note: Each household averages 5.5 individuals. Income figures actual not PPP adjusted

Source: NCAER

However, as many companies have discovered in the last ten years, this opportunity needs to be qualified. Depending on the product and its price, the market may be half-a-million people in 6 cities, or 20 million in 25 towns. Very few companies, such as Unilever, can actually aim to reach out to 500 million Indian consumers or more. The lesson is that, while the consumer market is sizeable and certainly growing, it is important that each company carries out a structured assessment of the potential for their products, before beginning to build any expectations.

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