

CHAPTER 4
RETAILING IN INDIA:
A REVIEW OF PRESENT SCENARIO

4.1. INTRODUCTION

Retailing is one of the pillars of the economy in India and accounts for 10% of GDP¹. The retail industry is divided into organized and unorganized sectors. Over 12 million outlets² operate in the country and only 4% of them being larger than 500 sq ft (46 m²) in size. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and pavement vendors, etc. Most Indian shopping takes place in open markets and millions of independent grocery shops called kirana. Organized retail such as supermarkets accounts for just 6% of the market as of 2009. Regulations prevent most foreign investment in retailing. Moreover, over thirty regulations such as "signboard licences" and "anti-hoarding measures" may have to be complied before a store can open doors. There are taxes for moving goods to states, from states, and even within states. An increasing number of people in India are turning to the services sector for employment due to the relative low compensation offered by the traditional agriculture and manufacturing sectors. The organized retail market is growing at 35 percent annually while growth of unorganized retail sector is pegged at 6 percent. The Indian Retail Industry employees around 25 million people, of which 5% are employed in the organized sector³.

4.2. EVOLUTION OF RETAIL IN INDIA

- a. While barter would be considered to be the oldest form of retail trade. Since independence retail in India has evolved to support the unique needs of our country, given its size and complexity". *Haats, Mandis* and *Melas* have always been a part of the Indian landscape. They still continue to be present in most parts of the country and bring all essential part of the life and trade

in various areas. Retail snapshot focuses on *Haats*, *mandis* and *melas*, a reality of the Indian landscape.

Table 4.1: Facts about Various Types of Retail Outlet

| Type of Retail Outlet | Facts- Numerical |
|------------------------------|--|
| Haats | Average Sales per Day-Rs.2.25 lakh Number of sales outlets per - Haat 300+ Number of Visitors per Haat- 4500+ Average Sales per Outlet-Rs 900 Villages covered by a Haat - 20-50 |
| Melas | Annually held (Approx) - 25,000+ Outlets held at every mela at an average - 800+ Average Sales per Mela-Rs 143 Lakh |
| Mandis | At average exists - 6,800 catering to a population of 1.36 Lakh |

(Source : CII – Retail Scenario in India – Unlimited Opportunity)

- b.** The PDS or the Public Distribution System would easily emerge as the single largest retail chain existing in the country. The evolution of the public distribution of grains in India has its origin in the 'rationing' system introduced by the British during World War II. The system was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities/towns were covered. The system was abolished post war, however, on attaining independence, India was forced to reintroduce it in 1950 in the face of' renewed inflationary pressures in the economy.
- c.** The system, however, continued to remain an essentially urban oriented activity. In fact, towards the end of the first five-year plan (1956)⁴, the system was losing its relevance due to comfortable food grains availability at this point in time, PDS was reintroduced and other essential commodities

like sugar, cooking coal, and kerosene oil were added to the commodity basket of PDS. There was also a rapid increase in the Ration Shops (now being increasingly called the fair price shops or FPSs) and their number went up from 18,000 in 1957 to 51,000 in 1961. Thus, by the end of the Second Five Year Plan, PDS had changed from the typical rationing system to a social safety system, making available food grains at a 'fair price' so that access of households to food grains could be improved and such distribution could keep a check on the speculative tendencies in the market.

- d. The Canteen Stores Department and the Post Offices in India are also among the largest network of outlets in the country, reaching populations across state boundaries. Table 4.2 given below indicates the numbers of these retail outlets.

Table 4.2 : No. of PO/CSD/PDS/KVIC

| PDS | Post offices | KVIC | CSD Stores |
|------------|---------------------|-------------|-------------------|
| 463,000 | 160,000 | 7,000 | 3,400 |

(Source : Sudarshan R (2007), Retail Management – Principles & Practices, New Century Publications, Pg. no. 32).

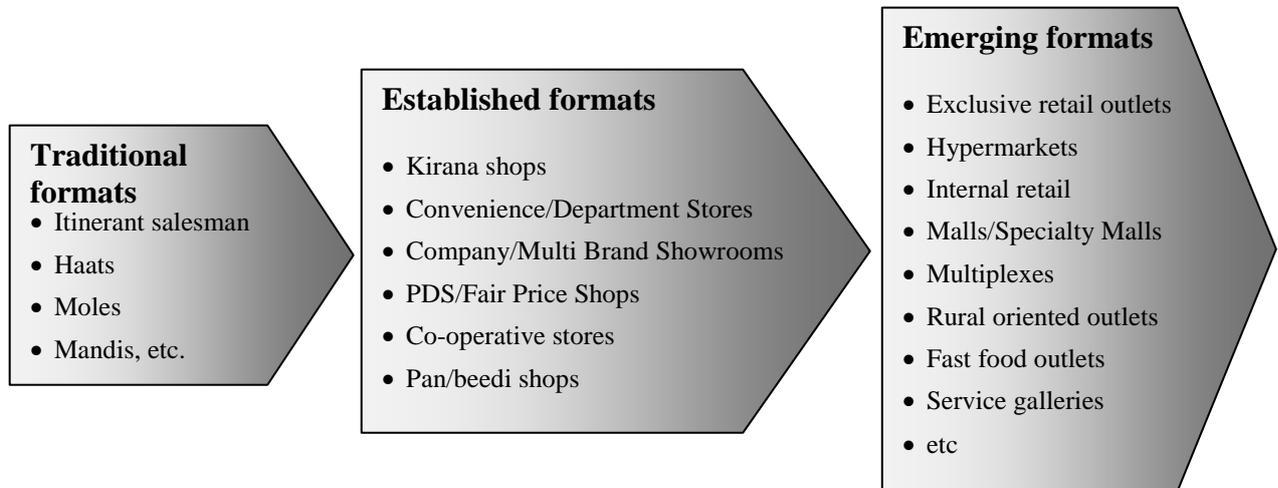
- e. The Khadi & Village Industries (KVIC) was also set up post Independence. Today, there are more than 7,000 KVIC stores across the country. The co-operative movement was again championed by the government, which set up the Kendriya Bhandars in 1963. Today, they operate a network of 112 stores and 42 fair price shops across the country. Mother Dairy, another early started controls as many as 250 stores, selling foods and provisions at attractive prices⁵. In Maharashtra, Bombay Bazaar, which runs stores under the label Sahakari Bhandar and Apna Bazaars, runs a large chain of co-operative stores.
- f. In the past decade, the Indian marketplace has transformed dramatically. However from the 1950's to the 80's, investments in various industries was limited due to low purchasing power in the hands of the consumer and the

government's policies favouring the small-scale sector. Initial steps towards liberalization were taken in the period from 1985-90. It was at this time that many restrictions on private companies were lifted, and in the 1990's, the Indian economy slowly progressed from being state-led to becoming "market friendly".

- g.** While independent retail stores like Akbarally's, Vivek's and Nalli's have existed in India for a long time, the first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond's, which set up stores to retail fabric. It also developed a dealer network to retail its fabric. These dealers sold a mix of fabrics of various textile companies. The Raymond's distribution network today comprises 20,000 retailers and over 256 exclusive showrooms in over 120 cities of the country.
- h.** Other textile manufacturers who set up their own retail chains were Reliance - which set up Vimal showrooms and Garden Silk Mills, which set up Garden Vareli showrooms. It was but natural that with the growth of textile retail, readymade branded apparel could not be left behind and the next wave of organized retail in India saw the likes of Madura Garments, Arvind Mills, etc. set up showrooms for branded menswear. With the success of the branded menswear stores the new age Departmental store arrived in India in the early nineties.
- i.** This was in a sense, the beginning of a new era for retail in India. The fact that post liberalisation, the economy had opened up and a new large middle class with spending power had emerged, helped shape this sector. The vast middle class market demanded value for money products. The emergence of the modern Indian housewife who managed her home and work led to a demand for more products, a better shopping ambience, more convenience and one stop shopping. This has fuelled the growth of departmental stores, supermarkets, and other specialty stores.

- j. The concept of retail as entertainment came to India with the advent of malls. The development of malls is now visible not only in the major metros but also in other parts of the country.

Figure 4.1: Development of Retail Formats in India



(Source : Gilbert David (2008), Retail Marketing Management, Pearson Press, Delhi)

Major Indian Retailers: Indian apparel retailers are increasing their brand presence overseas, particularly in developed markets. While most have identified a gap in countries in West Asia and Africa, some majors are also looking at the US and Europe. Arvind Brands, Madura Garments, Spykar Lifestyle and Royal Classic Polo are busy chalking out foreign expansion plans through the distribution route and standalone stores as well. Another denim wear brand, Spykar, which is now moving towards becoming a casual wear lifestyle brand, has launched its store in Melbourne recently. It plans to open three stores in London by 2008-end. The low-intensity entry of the diversified Mahindra Group into retail is unique because it plans to focus on lifestyle products. The Mahindra group is the fourth large Indian business group to enter the business of retail after Reliance Industries Ltd, the Aditya Birla Group, and Bharti Enterprises Ltd. The other three groups are focusing either on perishables and groceries, or a range of products, or both.

- RPG Retail-Formats: Music World, Books & Beyond, Spencer's Hyper, Spencer's Super, Daily & Fresh

- Pantaloon Retail-Formats: Big Bazaar, Food Bazaar, Pantaloons, Central, Fashion Station, Brand Factory, Depot, aLL, E-Zone etc.
- The Tata Group-Formats: Westside, Star India Bazaar, Steel junction, Landmark, Titan Industries with World of Titans showrooms, Tanishq outlets, Croma.
- K Raheja Corp Group-Formats: Shoppers Stop, Crossword, Hyper City, Inorbit
- Lifestyle International-Lifestyle, Home Centre, Max, Fun City and International Franchise brand stores.
- Pyramid Retail-Formats: Pyramid Megastore, TruMart
- Nilgiri's-Formats: Nilgiris' supermarket chain
- Trinethra- Formats: Fabmall supermarket chain and Fabcity hypermarket chain
- Vishal Retail Group-Formats: Vishal Mega Mart
- Reliance Retail-Formats: Reliance Fresh
- Reliance ADAG Retail-Format: [Reliance World](#)
- Aditya Birla Group - more Outlets

4.3. GROWTH OF RETAIL IN INDIA

The foregoing review has provided some information that enables the construction of a framework for analyzing the retail development in India. The driving forces towards development can be broadly classified into six categories and which is followed by a discussion on each of the torrential forces. .

4.3.1. Economic Development:

The development of the Indian economy is a necessary condition for the development of the Indian retail sector. The example of Thailand shows that the impetus to modernization of retail was provided by the, economic boom in Thailand (Feeny et al, 1996). Development increases the disposable income in the hands of consumers and leads to an increase in the proportion of spending on discretionary non- food items. Economic development also enfranchises new households as potential customers for modern retail and leads to increased ownership of personal transportation among consumers, which in turn can increase their willingness to

travel longer distances to shop in new format stores. The growth of the economy can also provide gainful employment to those who would otherwise enter retailing in areas like hawking, roadside vending and other similar low cost entries into the retail sector.

Rapid economic development may also positively influence the views of international retailing companies about the business prospects and investment attractiveness in a country. A high degree of inflation in the economy is however, not conducive to modernization of the retail sector. In Brazil, the real progress in retail was noticed only after the stabilization of the economy and control of inflation (Alexander and Silva, 2002)⁶. Development also has an influence on the regions and cities where modern formats are initially set up. In the Greek, Thai and Brazilian cases, modern formats initially appeared in the important cities. This has been noticed in India as well as the modern formats first appeared in the metros like Delhi, Mumbai and Chennai and the mini metros like Bangalore and Hyderabad due to the comparatively higher level of disposable incomes available in these cities.

4.3.2. Improvements in Civic Situation:

The civic situation includes factors like safety and security in the city and the various municipal regulations governing the opening, location and operation of stores and the nature of public transport available. A safe and secure environment will encourage the setting up of 24 hour convenience stores and the operation of shopping plazas and encourage shopping expeditions for the whole family. The presence of adequate parking facilities or excellent public transportation will encourage consumers to be more mobile in their choice of store. City or state regulations on opening or closing hours, rent control laws, availability of adequate electrical power and regulations relating to licensing will affect both the time required to set up a new store as well as the cost of store operation and its viability. Many of the civic factors mentioned above would be dependent on the economic development and administrative policies in the area. The impact of the civic situation may influence the choice of the cities, states, zones in which the modernization investments will be made.

4.3.3. Changes in Consumer Needs, Attitudes and Behaviour:

The growth of modern retail is linked to consumer needs, attitudes and behavior. Marketing channels including retailing emerge because they receive impetus from both the supply side and the demand side. On the demand side, the marketing channel facilitates provides service outputs that consumers value. These service outputs may include but are not limited to bulk-breaking, spatial convenience, waiting and delivery time and assortment (Coughlan et al, 2001, pg 30)⁷. In Indian retailing, convenience and merchandise appear to be the most important factors influencing store choice, although ambience and service are also becoming important in some contexts (Sinha et al, 2002)⁸. Modernization will have to address convenience issues while presenting strong alternatives to the weaknesses of traditional formats in selection of merchandise available for sale. Modern formats need not be expensive and can offer lower prices to consumers (Rao, 2001)⁹.

4.3.4. Lower prices :

Lower prices in turn will increase the attractiveness of modern formats and rapid growth in the preference for purchasing from new format stores. Store ambience includes issues such as lighting, cleanliness, store layout and space for movement. Modern stores can offer a far better ambience compared to traditional stores. On the service front, traditional stores especially kirana stores offer credit and home delivery. These needs will have to be addressed by new format. Experience from Brazil shows that the combination of entertainment and shopping provided by some shopping centers is attractive to consumers. This may become important in India as well because of the limited entertainment options currently available in cities. While consumer needs, attitudes and behaviour will influence the development in retail; it is likely that investments in retailing and the creation of new stores offering value will in turn influence consumers. This appears to have happened in Greece, Thailand and Brazil.

4.3.5. Changes in Government Policies:

The Indian government has clarified on a number of occasions that foreign direct investment will not be permitted in India. Major international retailer organizations

will be watching for signals of policy change especially because China has permitted foreign investment in retail. In opening up the retail sector, the government may consider various approaches such as insisting on joint ventures, limiting the foreign stake, or specifying the cities areas where investment is permitted. Thailand's example shows that in case of joint ventures, the local partner can play a significant role in the success of the joint venture. The Brazilian experience shows that local retailing groups can successfully compete against international chains if they adopt innovations and restructure operations in accordance with market needs. Some policy protection can be given to consumer cooperatives which have been providing value to their members and customers. This protection can be in the form of allowing these organizations to access capital from the local market and operate in a more professional manner. The government can also play a positive role in simplifying or eliminating the plethora of regulations governing retailing. Specific laws relating to franchising will also be desirable for foreign and Indian brand owners to adopt the franchise route in a bigger way.

4.3.6. Increased Investment in Retailing:

The prospects for significant modernization and development in retailing will depend on the nature of investment in this sector. The investment will be of two types- foreign and domestic. The quantum and nature of investment will depend on the factors outlined earlier namely economic development; civic situation; consumer needs, attitudes and behaviour and government policies. Although FDI is not yet permitted in retailing, a number of global retailers are testing the waters by signing technical agreements and franchises with Indian firms. Fast food chains like McDonalds and Pizza Hut are already operating in the metros. A Marks and Spencer store is already operational in Mumbai. Several global retailers are awaiting a change in policy. However, the development of the Indian retail sector is dependent not just on foreign investment but on Indian investment as well. Since the 1980's industrial groups such as Reliance and Raymonds have been active in encouraging development of well appointed exclusive showrooms for their textile brands. In the 1990's industrial houses like Rahejas, Piramals, and Tatas have entered retailing. Several Indian and foreign brands have used franchising to establish exclusive outlets for their brands.

At present the new format stores cater mostly to households belonging to the higher income families. The catchments area for these modern stores has to be fairly large as the number of such households is small in relation to the total population. This local store constrains the growth of chain stores have also been plagued by low conversion relation to the number of footfalls. This means that although large number of people visits the store, the number of buyers average the bill amount is small. Due to low sales, the bargaining power of the retailers with suppliers and manufacturers is low this restricts their average gross margin. On the other hand expenses involved in setting up and maintaining a modern for store tend to be much higher than traditional store due to additional expenses on larger size, better locations and sure ambience. Therefore if the returns on investment in the retail formats have to be attractive, modern retailers have to develop strong supply chain that provides them significant gross margin while delivering merchandise at attractive prices to customers order to do this, modern retailers will need to eliminate middlemen and buy directly from suppliers and make use technology to control inventory. These developments will be important for the survival and existence of middlemen such as wholesalers agents who will have to find new business models to survive. Manufacturing firms will also face pressure from strong buyers on price, delivery and service terms.

Increase in Power of Organized Retail: Bargaining power of organized retail translates directly into higher gross margins. At present, there are a large number of independent retailers with little bargaining power vis-a-vis manufacturers, distributors and wholesalers. Manufacturers have been promoting their brands and generating consumer demand for branded products. This makes it necessary for all varieties of store especially in urban areas to stock branded products. Manufacturers take advantage of the consumer pull to limit margins to the retailers.

Retailers can increase their power in several ways. They can invest efforts in developing their own store brands. The supermarket chain Food world has begun doing this in a limited way with food grains and pulses. Secondly they can invest in supply chain, buy directly from the sources and eliminate middlemen. Thirdly they

can attempt to obtain volumes in buying by aggregating the requirements of various stores, and bargaining for better prices by placing large orders. Although this strategy suits chain stores, independent grocers may also get together by forming a cooperative or buying club in order to benefit from scale economies in purchasing. Retailers can also obtain several benefits from using information technology. They can monitor their stocks and sales using IT and thus manage their working capital more efficiently. They can also analyze data about customers and their buying habits and be in a position to develop marketing strategies and promotional offers to increase customer purchasing at the outlet.

Manufacturing firms will need to develop new strategies for dealing with powerful retailers. The first change required will be one of mind-set. Negotiations with powerful retailers will have to be carried out at much higher executive levels within the firm. New structures such as National account managers, Category managers etc. would need to be deployed. Firms will have to reconsider their brand promise, brand promotion and their brand building policies to deal with store brands that will be introduced by retail chains. Firms will also have to re engineer their logistics policies to meet the demands of powerful retailers for just in time delivery to their distribution centers or stores. New product introductions will have to be coordinated with the retail chains so that adequate shelf space is available at launch. The firms will need to carefully look at their product cost structures both in terms of variable cost and allocated fixed costs in order to maintain profitability in the face of pressures for price reductions from powerful retailer.

The Indian retail sector is largely traditional, but stores in modern format are emerging. The contribution of organized retailing in the share of retail sales in India is currently very small. Based on an analysis of retail developments in countries such as Thailand, Brazil and Greece, and some experience in India, it is possible to conclude that modernization of retailing in India would be influenced by some important factors. These factors include economic development; improvements in civic situation; changes in consumer needs, attitudes' and behaviour; changes in government policies; increased investment in retailing and rise in the power of organized retail. The development of modern retail will have several implications

for managerial practice in manufacturing firms. Firms will need to proactively review and their sales structures, brand activities, logistics policy and price structure to cope with pressures from powerful retailers.

4.4. SIZE OF RETAIL IN INDIA

Liberalization of the Indian economy and rationalization of business procedures have already ensured a high economic growth with a rapidly expanding base for the manufacturing and hi-end services sectors. Fresh avenues for gainful employment to a predominantly young and talented population have created high disposable incomes that translate in to higher consumption and thus better opportunities for all verticals of Retail to flourish.

The current slow down in the Indian economy notwithstanding, the retail segment in the country seems to be in for a big time expansion led by most major Indian business majors and global players. Even though the CB Richard Ellis report released in April 2008, placed India at a dismal number 44 in the list of preferred destinations for global retailers looking to expand, fresh announcements in the media belie this fact. However, going through these years of learning nearly all stake holders in the industry are re-considering their retail plans. A need for consolidation in retail business is evident and to give it effect many have hit the drawing boards again – not necessarily means that there is any down turn in the industry. In spite of the fast track growth of the retail industry, India is still undergoing through the initial development phase of modern retail.

The country's dynamic retail landscape presents a grand opportunity to investors from across the globe, to use India as a strategic business hub. With the changing face of retail, the Indian consumer is in for a rapid transformation. With retail spending growing at double digit, Private Final Consumption Expenditure (PFCE) at current prices was estimated at Rs. 26,07,584 crore in 2007-08 as against Rs. 23,12,105 crore in 2006-07.

Table 4.3: Turnover in different segment of retail

| INDIAN RETAIL MARKET (Rs. Crore) | | | | ORGANIZED RETAIL (Rs. Crore) | | |
|--|------------------|------------------|------------------------------|---------------------------------|---------------|------------------------------|
| Retail Segments | 2006 | 2007 | Growth 2007 > 2006 (%) | 2006 | 2007 | Growth 2007 > 2006 (%) |
| Clothing, Textiles & Fashion Accessories | 113,500 | 131,300 | 15.7 | 21,400 | 29,800 | 39.3 |
| Jewellery | 60,200 | 69,400 | 15.3 | 1,680 | 2,300 | 36.9 |
| Watches | 3,950 | 4,400 | 11.4 | 1,800 | 2,150 | 19.4 |
| Footwear | 13,750 | 16,000 | 16.4 | 5,200 | 7,750 | 49.0 |
| Health & Beauty Care Services | 3,800 | 4,600 | 21.1 | 400 | 660 | 65.0 |
| Pharmaceuticals | 42,200 | 48,800 | 15.6 | 1,100 | 1,540 | 40.0 |
| Consumer Durables, Home Appliances/equipments | 48,100 | 57,500 | 19.5 | 5,000 | 7,100 | 42.0 |
| Mobile handsets, Accessories & Services | 21,650 | 27,200 | 25.6 | 1,740 | 2,700 | 55.2 |
| Furnishings, Utensils, Furniture-Home & Office | 40,650 | 45,500 | 11.9 | 3,700 | 5,000 | 35.1 |
| Food & Grocery | 743,900 | 792,000 | 6.5 | 5,800 | 9,000 | 55.2 |
| Out-of-Home Food (Catering) Services | 57,000 | 71,300 | 25.1 | 3,940 | 5,700 | 44.7 |
| Books, Music & Gifts | 13,300 | 16,400 | 23.3 | 1,680 | 2,200 | 30.9 |
| Entertainment | 38,000 | 45,600 | 20.0 | 1,560 | 2,400 | 53.8 |
| TOTAL | 1,200,000 | 1,330,000 | 10.8 | 55,000 | 78,300 | 42.4 |

(Source: As per the Images F&R Research estimates for India Retail Report)

The Indian Retail market stood at Rs.1,330,000 crore in 2007 with annual growth of about 10.8 per cent. Of this, the share of organized Retail in 2007 was estimated to be only 5.9 per cent, which was Rs.78,300 crore. But this modern retail segment grew at the rate of 42.4 per cent in 2007, and is expected to maintain a faster growth rate over the next three years, especially in view of the fact that major global players and Indian corporate houses are seen entering the fray in a big way. Even at the going rate, organized retail is expected to touch Rs.2,30,000 cr (at constant prices) by 2010, constituting roughly 13 per cent of the total retail market.

The consumer spending is ultimately pushing the economy into a growth-and-liberalization mode. The Indian market is becoming bolder by the day, with the economy now expected to maintain its growth at over 8-9 per cent and average salaries being hiked by about 15 per cent, there will be lot more consumption.

A ‘Vibrant Economy’, India topped A T Kearney’s list of emerging markets for retail investments for three consecutive years and stood 2nd only behind Vietnam this year. The 2nd fastest growing economy in the world, the 3rd largest economy in terms of GDP in the next 5 years and the 4th largest economy in PPP terms after USA, China & Japan, India is rated among the top 10 FDI destinations.

Barring recent political disturbances, India has been sailing smooth with 2nd stage reforms in place, India can be reasonably proud of having put in place some of the most widely accepted Corporate Ethics (Labour Laws, Child Labour Regulations, Environmental Protection Lobby, Intellectual Property Rights, and Social Responsibility) and major tax reforms including implementation of VAT, all of which make India a perfect destination for business expansion.

In terms of international tourist spending, India is the fastest-growing market in Asia Pacific, according to the Visa Asia Pacific release. The economy has been growing at about 9 per cent a year, which shows that India’s growth rate can actually exceed that of China by 2015. The Indian economy is expected to grow larger than Britain’s by 2022 and Japan’s by 2032, to become the third-largest economy in the world after China and US, and finally become the second largest economy after China by 2050, so the global economic forecasts say.

A report by investment banker Goldman Sachs, credits India with the potential to deliver the fastest growth over the next 50 years with an average rate of more than five per cent a year for the entire period. All these are clear portends in terms of investments and returns. Total FDI (foreign direct investment) inflow in 2007-08, was to the tune of USD25 billion – up 56% over previous year - with investments in infrastructure development and capital market continuing to flow in at a rapid pace.

To sustain an ambitious GDP growth target of nine per cent per annum, India needs to invest around USD 500 billion in development of Infrastructure over the next five years. Of this, about USD150 billion is expected to come from foreign investment. Indian retail industry itself has attracted total investment of over Rs.20,000 crore in creating infrastructure, systems & shop-fit.

At the heart of the India growth story is its population, the generators of wealth, both as producers and consumers. With the largest young population in the world - over 890 million people below 45 years of age, India indeed makes a resplendent market. The country has more English speaking people than in the whole of Europe taken together. Its 300 million odd middle class, the “Real” consumers, has attracted the attention of the world, and as the economy grows so does India's middle class. It is estimated that 70 million Indians earn a salary of over USD 19,500 a year, a figure that is set to rise to 140 million by 2011. The number of effective consumers is expected to swell to over 600 million by this time – sufficient to establish India as one of the largest consumer markets of the world.

India's consumers are in a metamorphosis. As spending powers and habits change in India these voices are becoming more defined, more demanding and more adventurous. The retail boom in India is driving three categories of retail product investment, namely consumer brands, retail formats and shopping centers. Each of these product categories is undergoing massive attention.

In this land of 15 million retailers, most of them owning small mom and pop outlets, we also have a modern retail flourishing like never before. There is little room for conflict as evidenced from the fact that India presents a unique case of consumption-driven economy: while the US reels under recession, where supply clearly outstrips demand, India confronts inflation, where Industry and retailers are as yet unable to provide what the consumer demands.

Over the last few years Indian retail has witnessed rapid transformation in many areas of the business by setting scalable and profitable retail models across

categories. Indian consumers are rapidly evolving and accepting modern retail formats. New and indigenised formats such as departmental stores, hypermarkets, supermarkets, specialty and convenience stores, and malls, multiplexes and fun zones are fast dotting the retail landscape.

The Indian retail market has been gaining strength, riding on the sound vibes generated by a robust economy that has given more disposable incomes in the hand of the consumer who will keep demanding better products and services, and a better shopping environment.

Table 4.4 : Share of Organized Retail to Total Market

| Retail Segments | % Organized | | | |
|--|-------------|-------------|-------------|-------------|
| | 2004 | 2005 | 2006 | 2007 |
| Clothing, Textiles & Fashion Accessories | 13.6% | 15.8% | 18.9% | 22.7% |
| Jewellery | 2.0% | 2.3% | 2.8% | 3.3% |
| Watches | 39.6% | 43.5% | 45.6% | 48.9% |
| Footwear | 25.0% | 30.3% | 37.8% | 48.4% |
| Health & Beauty Care Services | 6.0% | 7.6% | 10.6% | 14.3% |
| Pharmaceuticals | 1.8% | 2.2% | 2.6% | 3.2% |
| Consumer Durables, Home Appliances/Equipments | 7.8% | 8.8% | 10.4% | 12.3% |
| Mobile handsets, Accessories & Services | 6.5% | 7.0% | 8.0% | 9.9% |
| Furnishings, Utensils, Furniture-Home & Office | 6.7% | 7.6% | 9.1% | 11.0% |
| Food & Grocery | 0.5% | 0.6% | 0.8% | 1.1% |
| Out-of-Home Food (Catering) Services | 5.7% | 5.8% | 6.9% | 8.0% |
| Books, Music & Gifts | 9.8% | 11.7% | 12.6% | 13.4% |
| Entertainment | 2.6% | 3.3% | 4.1% | 5.3% |
| Total | 3.0% | 3.6% | 4.6% | 5.9% |

(Source: As per the Images F&R Research estimates for India Retail Report)

In the overall Retail pie Food and Grocery was the dominant category with 59.5 per cent share, valued at Rs.792,000 crore, followed by Clothing and Accessories with a 9.9 per cent share at Rs.131,300 crore. Interestingly, out-of-home food (catering) services (Rs.71,300 crore) has overtaken Jewellery (Rs.69,400 crore) to become the third largest retail category, with a 5.4 per cent market share – this largely reflects the massive employment opportunities to youngsters in the services sector and accompanying changes in consumer lifestyles.

Consumer durables (Rs.57,500 crore) is the fifth largest retail category followed by Health & Pharmaceuticals (Rs.48,800 crore), Entertainment (Rs.45,600 crore), Furniture, Furnishings & Kitchenware (Rs.45,500 crore), Mobiles & Accessories (Rs.27,200 crore), Leisure retail (Rs.16,400 crore), Footwear (Rs.16,000 crore), Health & Beauty Care services (Rs.4,600 crore) and Watches & Eyewear (Rs.4,400 crore) in the order.

In the organized retail segment, the picture is different altogether. Clothing & Fashion Accessories is the largest category with 38.1 per cent of the market share, valued at Rs.29,800 crore, followed by Food & Grocery accounting for 11.5 per cent of the organized retail market at Rs.9,000 crore, Footwear with 9.9 per cent of the organized retail market share at Rs.7,750 crore, Consumer Durables with 9.1 per cent market share at the fourth place (Rs.7,100 crore), and Out-of-home food (catering) services and Furniture, Furnishings & Kitchenware retail in the order.

The mobile & accessories retail market has shown fastest growth in 2007 (25.6%) over the previous year, the other two prominent categories being out-of-home food (catering) services where growth was 25.1 per cent and books, music & gifts leisure category which achieved 23.3 per cent growth.

India's biggest USP and asset base is its youthful population, whose appetite for leisure and entertainment is galloping at 14 per cent p.a. With the rapid addition of malls with multiplexes there is a coming together of leisure retail, cinema and gaming. It is indeed difficult to analyze each of these components in isolation. All

players are after all trying to get to capture a share of consumer's mind – his time and money. As the consumer's spend on leisure and entertainment increases, the mix of his spends is going through a churn like never before. Leisure and entertainment are recession proof. The affluence across the country has touched a large part of the population and there is no looking back. Multiplexes, leisure retailers across books, music, gaming all form a shared existence and whilst the shares of the pie keep shifting the overall leisure and entertainment business is well on its way to a Rs. 60,000 crore mark by 2010-11.

In the organized retail segment, however, the fastest growth was recorded in the tiny health & beauty care services category (Rs.660 crore), which grew at the rate of 65 per cent in 2007 over the previous year – again a reflection of rise in services sector employment that demands proper grooming. The second fastest growing organized retail category is that of Entertainment (53.8%), followed by the mobile phones & accessories and the food & grocery retail categories, both of which achieved 55.2 per cent growth in 2007.

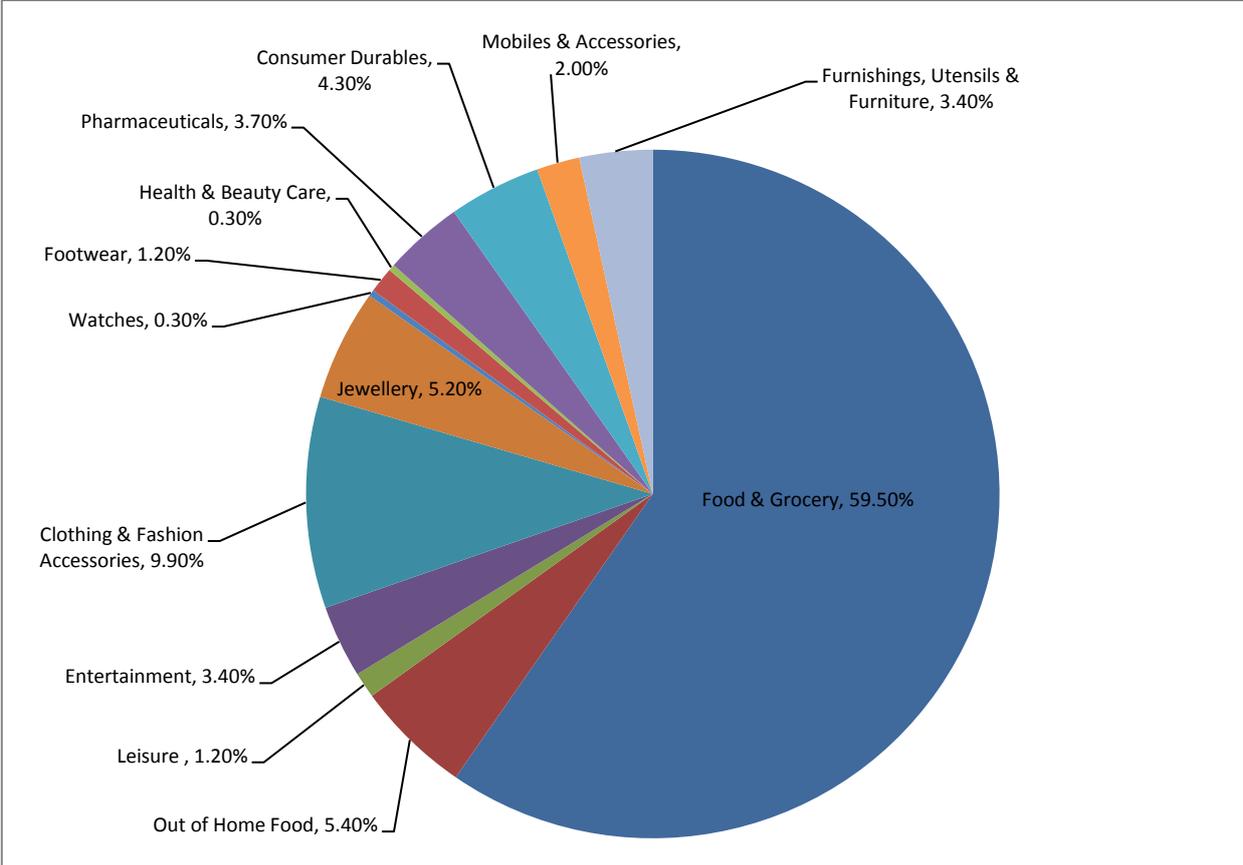
Much of the stupendous growth opportunity in Catering services (25.1%) and leisure retail (23.3%) categories was utilised by the unorganized retailers because organized players could not keep up to the desired growth momentum. A closer study of the retail growth story at constant prices shows that in both these categories growth of organized retail was higher in 2006 (41.7% and 26.1% respectively) as compared to 2007 (37% and 25%).

At constant prices, growth in the fashion & accessories retail category, both in the overall market and the organized retail segment, have been consistently positive since 2004: while the overall market grew 12.8 per cent in 2007, the organized segment grew 35.5 per cent.

In jewellery retail, the overall market growth was higher in 2007 (9.6%) as compared to the previous year (9.2%) but growth in organized retail was slightly at a lower pace in 2007 (31%) as compared to the previous year.

The overall market growth in the timewear category has declined from 10.7 per cent in 2005 to 9.7 per cent in 2006 and further down to 8.9 per cent in 2007. However, growth in organized retail was higher in 2007 (16.6%) as compared to 2006 (14.8%). Popularity of mobile phones is to a large extent responsible for the dampening of the overall market growth in this category while the renewed enthusiasm in the organized segment is on account of the fillip from luxury brands and offerings that are positioned more as a hi-end lifestyle statement than on the functionality aspect of the product.

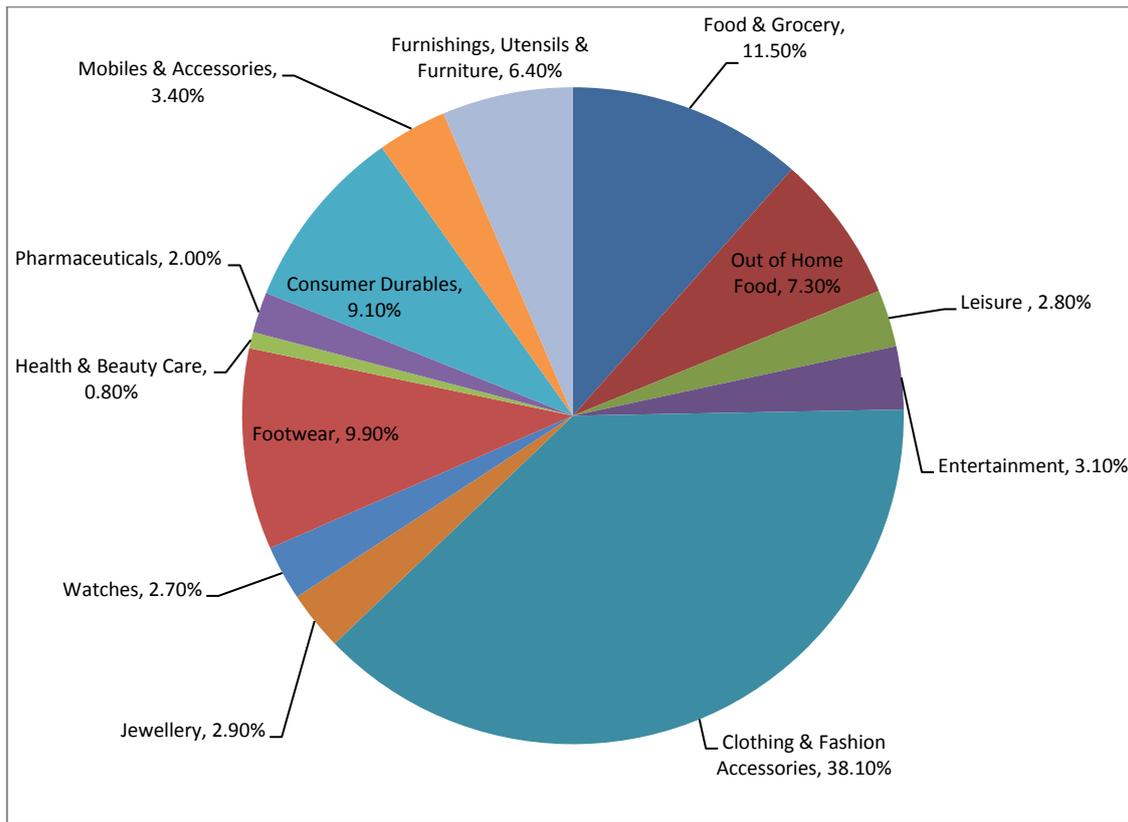
Chart 4.2: Share of different segments in Indian Retail in 2007
(Market Size: Rs.1,330,000 crore at prevailing prices)



(Source: As per the Images F&R Research estimates for India Retail Report)

Chart 4.3: Share of different segments in Organized Retail in 2007

(Market Size: Rs.78,300 crore at prevailing prices)



(Source: As per the Images F&R Research estimates for India Retail Report)

Footwear retail, the overall market as well as its organized segment, has grown faster year after year but growth in 2007 was especially remarkable: the overall market grew 12 per cent in 2007 as against a 9.2 per cent growth in 2006 while the organized segment grew 42.3 per cent and 36.4 per cent respectively for the two years. The global brands have actually turned the heat on, and the domestic brands too appear to have accepted the challenge in the true spirit.

Growth in the health and beauty care category has been remarkable in 2007, though the organized segment growth in 2007 (57.5%) was slightly lower as compared to 2006 (59.1%). The demand is stupendous but organized players have hardly much to boast of in terms of innovative concepts and global standards when it comes to providing the customers with an experience that is superior and radically different from what the unorganized segment offers. This category needs to be positioned as a “wellness” category that provides individualised services to customers with

synergies of health & beauty care, pharmaceuticals and specialised clinical services – all at one place.

Another category that merits special mention is Furnishings and Furniture retail, where the overall market grew at seven per cent in 2007 as compared to just 3.2 per cent in 2006 – thanks to the housing sector boom. The organized segment also grew faster at 29.7 per cent in 2007 as compared to 23.1 per cent the previous year, but this Rs.45,500 crore category calls for better attention from organized players. Is India ready for ready-to assemble furniture? May be not but surely the market will change in next couple of years. Global players need to understand that Indian homes are different and so are the Indian environments, maintenance standards. At present most large players entering this segment are busy experimenting and in the process have lost monies too.

Consumer durables and the mobile phone & accessories categories have both grown faster in 2007 as compared to 2006. At constant prices, the overall food & grocery retail market grew slightly higher at 2.3 per cent in 2007 as compared to a 2.2 per cent annual growth in the previous two years. But the organized retail segment in this category is simmering in the true sense – a 50 per cent growth in 2007 as compared to 42.9 per cent in 2006, and lot more fireworks can be expected this year and the years ahead. Valued at Rs.9,000 crore, this organized market constitutes barely 1.1 per cent of the total food & grocery retail market.

Timewear (48.9%) and Footwear (48.4%) are the most organized of all retail categories. Clothing & fashion accessories retail comes next with the organized segment controlling 22.7 per cent of the market.

With the given rapid pace of retail growth, it is expected that Indian retail market (estimated at current prices) will be in excess of Rs.18,10,000 crore by year 2010; Organized retail will likely exceed Rs.2,30,000 crore, accounting for nearly 13 per cent of the total market in 2010. This growth will call for a greater availability of quality retail space in the country.

Each time one takes stock of the country's retail estate scenario, one invariably comes across statistics to show that every city in the country is bursting at its seams with shopping centre activity. If mall space were to be taken as an indication of the level of activity, we find that the country has witnessed nearly 12- fold growth in the last five years, with total mall space having increased from just about 3.7 million square feet in 2002 to over 47 million square feet in 2007. Also, the opening up of the real estate sector to FDI has brought India in the international investment spotlight. FDI inflow in to the sector has propelled the realty sector growth at over 30 per cent per annum. There is yet a lot more to unfold on India's retail landscape in the years ahead.

Currently, there are about 280 operational shopping centres in various formats and sizes (including some partly operational), and this number is expected to rise to almost 500 by end-2010. Of the new malls coming up, 40 per cent are concentrated in the smaller cities. Shopping centre business alone is estimated to become a Rs 40,000 crore business by 2010-11.

By 2011, India will have an additional 280 hypermarkets, 3,200 supermarkets, 400 department stores, and approximately 1,200 mega speciality stores & category killers and 20,000 exclusive brand outlets across the various retail categories. Malls alone will provide an additional 200 million square feet of gross leasable quality retail space (GLA) by year 2011.

The emergence of Shopping Centers is already beginning to define a new lifestyle for India. There is no doubt a huge demand for clean, contemporary shopping and entertainment complexes that will house India's brands and retail formats and offer New India an exciting and rewarding shopping experience for the whole family. A number of winning solutions will doubtless emerge over the next few years but the dominant centers for the long term will be those that are designed around the Indian consumer and cater to the long term specific needs of a particular location. A shopping center doesn't serve all India. It serves consumers living largely within a five to fifteen kilometer radius of that center. So a successful shopping center in Trivandrum will be designed differently to one in Ludhiana. The tenant mix will be

different. The food court will have a different menu offer and local services such as transport and logistics will be tailored to the needs of the local community.

Organized retailing in small-town India is already growing at over 50-60 per cent a year, compared to 35-40 per cent growth in the large cities. About 200 tier- III cities with population of less than 2 million and another 500 rural towns have the potential to be the hub for rural markets, where organized retailing can effectively set base – each of these 700 centres will on an average be catering to about 1,000 villages.

Supply Chain, Logistics & Infrastructure

Organized retail is a function of strong supply chain and robust physical infrastructure. Basic supply chain framework takes care of operational performance at each nodal point – from order to delivery. In view of this, major retailers will have to continuously upgrade their back-end, front-end and supply chain dynamics in order to provide a standard of value and services to their customers.

Corporate bigwigs such as Reliance, AV Birla, Tata, Godrej, Bharti, Mahindra, ITC, RPG, Pantaloon, Raheja and Wadia Group are expected to invest close to Rs.1 trillion in the business of retail over the next five years. Reliance Retail is investing Rs.30,000 crore in setting up multiple retail formats backed by a 68- strong distribution network, with expected sales of over Rs.100,000 crore by 2010. The Future Group's Pantaloon Retail and RPG's Spencer's are also going all out to maintain their dominant position on India's retail horizon. The Lifestyle India, Indiabulls, Wadhawan Group, Vishal Retail, petroleum majors IOCL, BPCL & HPCL, and others are firming up more and more ambitious retail expansion plans by the day. While global retailers Metro AG and Shoprite Holdings increase their presence on the Indian retail landscape, the Bharti – Wal-mart combine is scouting locations for their joint retail venture. The recent tie-up between Tata and Tesco further adds to the action in retail.

Regional Retailers

Realising the big picture of retail regional retailers too are waking up to position

themselves strong against MNCs and Indian Corporate big wigs jumping into the ring. But the match has only just begun and promises to be a show stealer. Some of the larger regional players are looking to tie up with international retailers. Although multi national and large Indian retailers clearly have the advantage of size and power, local companies have survived by adapting. As the big guns introduce new branding strategies, improved merchandising and management techniques, local retailers are fast to catch up and emulate to co-exist.

The big players in what has traditionally been a fragmented market makes existing food retailers look really tiny, even in the case of large regional chains that have been around for years. The South particularly has a large concentration of such businesses which are giving the MNC / Corporate Retailers a run for their money.

Even as multinational retailers are firming up their India strategies, franchising is emerging as the preferred option. Franchisee activity is expected to pick up in tier-II cities as well. According to a Frost & Sullivan research, the overall Indian third-party logistics (3PL) market, estimated at about USD 890.3 billion in 2005, is expected to grow at a compound annual growth rate of 21.9 per cent to reach USD 3,556.7 million in 2012. Shop-fit and Technology are the other sunrise retail support sectors that offer immense opportunity for investment and growth.

Rural Retailing

With several states in the country permitting retailers to purchase produce directly from farmers, the farmers too are adapting to the new opportunity to cultivate assigned crops and take special care of the same. This gets them instant credit at higher prices than what they received from the erstwhile traders/middlemen. Corporate retailers like ITC, Godrej, Reliance, AV Birla and many others have already established the farm linkages. Indian farmers are finally making good money, after centuries of social and economic exploitation. The Indian government too has chipped in with a massive loan waiver worth Rs.60,000 crore to lighten the farmers' debt burden.

India's rural markets offer a sea of an opportunity for the Retail sector. The urban-

rural split in consumer spending stands at 9:11, with rural India accounting for 55 per cent of private retail consumption. Indeed the market can be tapped with focused attention and strategy.

India's rural markets offer a sea of an opportunity for the Retail sector. The urban-rural split in consumer spending stands at 9:11, with rural India accounting for 55 per cent of private retail consumption. Currently the Indian retail market is estimated at Rs.1,330,000 crore, and almost half of this growing retail market at present lies in rural India, which is a tremendous growth sector that needs to be tapped with care.

According to National Council of Applied Economic Research (NCAER) reports, rural India is home to 720 million consumers across 627,000 villages. Seventeen per cent of these villages account for 50 per cent of the rural population as well as 60 per cent of rural wealth. This implies that reaching out to just 100,000 plus villages will ensure access to most of the rural opportunity.

The urban market undoubtedly continues to grow but with most of the retail initiatives concentrated in the metropolitan and Tier-I and Tier-II cities, these markets are fast getting saturated. Realising this, most of the big retail companies have started targeting the Tier-III cities and the rural towns to spur their growth. The 'bottom of the pyramid' market is for sure now looking attractive for companies wanting to explore new turf. Hariyali Kisan Bazaars (DCM) and Aadhars (Pantaloon-Godrej JV) have already set up rural retail hubs, Choupal Sagars (ITC) has done the same and so have Kisan Sansars (Tata), Reliance Fresh, and others like the Naya Yug Bazaar.

4.5. ORGANIZED RETAIL MARKET BOOM AND THE INDIAN SOCIETY

India has the highest shop density in the world and only organised sector comprises only 6% of the total Indian retail market. This organized retail sector is poised for a take off. India is ranked third in the global retail development index out of 30 by AT Kearney.

The drivers for the impending retail boom or 'R' revolution are many. The increasing purchasing power of the Great Indian Middle Class is the major reason for retail rush that is being witnessed. Fuelling this fact is the changing demography of the Indian populace. The percentage of young people in the country is increasing. It projects well for the retail business as it is the young people who buy more than the old. Again the percentage of women in the population is showing an increasing trend. This again is good news for the retail market as women are more avid shoppers compared to men. The spread of the visual media is contributing its might in spreading visibility of various consumer goods to the public which heighten their aspirations to consume more and to shop in more congenial and luxurious environment. The increasing number of double income family who have more disposable income is another contributing factor for this phenomenon.

Positive outcomes of organized retailing:

Organized retail market boom is expected to create the much needed mass employment. It will upgrade India's layer second and third tier cities to international standard. While this boom addresses India's basic infrastructure challenges it promises to create demand for the product of rural India and a more efficient agricultural sector. The organized retail market boom is expected to bring positive outcomes in many of sectors like economic growth, exports, education, IT industry, food processing, infrastructure and traffic, banking, tourism, agribusiness management along with the greater customer satisfaction. Development of world class retail shops is likely to gives direct employment to many professionals like real estate dealers, builders, architects, display designers, retail shop managers and workers like sales persons, security etc. The local community is likely to benefit from employment opportunity so generated. The employees have the opportunity of getting pension, other employee benefits and union membership under this organized sector.

Small business can spring up around such mega retail outlets giving service to a large number of shoppers visiting the malls.

- The organized retail market boom is expected to become one of the pillars to Indian economy as are oil and gold for Middle East. Indian exports will get a boost when the big showrooms source Indian goods from small businesses for their international outlets and it will help us to find the market for the products from rural India.
- Products from rural market and from small units will get private brand equity and market all over the world since retail majors for their successful in sourcing cost-effective goods for supply through their retail outlets will be depending more on the unorganized manufacturing sectors and small units. Most of the working groups in these house based workers are women and children. Artisans and household providers of goods and services will be roped into the supply chain by enhancing their skills to bring about quality consciousness and increase their real time incomes. Removing the middle operators these working groups will be getting better remunerations and the living standards of these women labourers will surely improve.
- Think of the increase in transport required for providing goods and services for the retail outlets. This boom will eliminate the absence of cold-storage infrastructure problem of our farmers and help them to get the product to market place in time. The supply chain can again provide opportunities for a host of manufacturing, trading, and services. Air, road and rail transport is going to benefit from this. Numbers of domestic airlines is now increasing their cargo services considerably to meet the requirements of this sector.
- The big book stalls in these hypermarkets become a blessing to voracious readers and researchers. It offers considerable discount and variety of books to all age of people, that now small magazine stalls fail to offer.
- Managing inventories is one of the important asset of the big retailers. The best practices available in the world in this field would come into the country with the coming of players like Wal-Mart in the logistics of retail marketing. India is the fastest growing mobile market in the world. These showrooms will become major hubs for this electronic industry. Organized

retail showrooms give the consumers wide range of electronics goods ranging from robots to imported toys.

- The air conditioning and refrigeration industry is likely to get a big boost. Commercial air-conditioning is likely to overtake the domestic market with the coming of this boom. The refrigerated containers required to transport perishables to various retail outlets would be enormous. The production of consumer durable goods is expected to increase by this organized retail sector. There are many other sectors which are likely to be affected directly or indirectly by this boom. Consumers would be the group which benefits the most. They would get wider choices of products and cheaper prices. This will increase consumption rate and will indirectly generate more employment and wealth. The local retailers will start offering better discounts that other foreign retail giants could not cope. Time saving online shopping, home delivery through web portal and ability for better comparison of products will increase customer satisfaction.
- Education is considered as the most happening sector in India. While retail giants entering in to the fray there are many opportunities opening up in the educational sector. Retailers like Reliance itself now hire around 60-70 percent of its front end staff from government school pass outs. To face this expected talent shortage higher educational institutions starts introducing new courses. Retail career area includes store operation, supply chain management, human resource management, entrepreneurship, IT, sales etc. The management schools like NMIMS, IIMs has started offering courses with specialization in this field. Number of e-learning portals start provides online courses for retail in India. Foreign Institutional Investors and corporate like Lifestyle tie up with Indian institutes like National Institute of Fashion Technology (NIFT) to start both short and long tem course for fashion retail management and retail supply chain management. This tie up will slowly shift in to other education fields also offering high quality foreign education in Indian soil. The great demand for those qualified students surely attract more and more youngsters and managers to this

attractive courses and more and more public and private institutions start offering variety of courses in this field. The non organized market sectors hiring these qualified professionals will also have change in their methodology for quality of services, supply chain management, store organization, financial management and product appreciation.

Growing organized food retailing in India will bring significant change in the agribusiness management. The supermarket and fresh food outlet showrooms will directly procure product from the farmers. They will be offering better seeds and fertilizers to these farmers. The government subsidiaries to fertilizers will reach directly to farmers instead of factory owners. This strategy will surely influence the quality of food items and efficiency of the farming process. More and more biotechnology research and development labs will be established to meet the demand for good seeds. The irrigation and power supply will be facilitated for the growing demand of the product funded by these big giants. The organized retail marketing will channelize large-scale private investments into irrigation, agriculture marketing, agriculture extension services and infrastructure such as roads, cold storage and grain banks.

Farmers are likely to get better prices for their products as these mega retailers are likely to procure their farm products directly from the farmers. Many of the middle men would be eliminated. They start contracts based farming and get assured buyer with stable price. The food procurement business helps the farmers when government controversial decisions to import food items or when state procurement agencies stay away

People becoming fashion conscious. The retail markets bring the latest in fashion accessories and kids wear for customers of all age groups. Indian customers will accept the international fashion brands like Parfois, Vincci, Oakidi and Obaibi with open arms and there will be drastic changes in the dress code. The traditional saree, Kadhi and silks dress will be shifted to occasional one. Baby care products like bed linen, rolling products, handbags, jewellery, watches, sunglasses, hats, belts and

hair accessories range of footwear of foreign brands will take place in the daily use of Indian customers.

There will be new business opportunities. The retail boom surely encourages set up foreign brand names for manufacture in India. The Indian market become more competitive the small retailer groups will start using quality measures like Retail Service Quality Scales (RSQS) for their performance improvement and will develop new standers suitable to Indian context. The foreign retailers will engage in studies related to Indian customer behavior which is widely different and new ways to market local products available. Co-creation like Future Group with Food Bazaar and co-branded labels will be more. Opportunity for profit attracts more and more new business groups for entering in to this sector. 100 per cent export oriented unit like Himatsingka Seide, Welspum opening stores in Indian market. The business house like Wadia, Godrej, Tata entering in to organized retail sector. The players like Ebony, Crosswords, Globus, Café Coffee Day, Barista, Lifestyle start expanding their operations. This will trigger India's economic growth.

The IT sector offers fairly high income to Indian youngsters. The greater purchasing opportunity makes them to work hard for the luxuries in their life. The world class restaurants occupied in these retail showrooms will become a best place for get together and facilitate better family relationship. These retail showrooms will be a great relief for old age people since they will not need not to walk anywhere. Those who come back to India from foreign nation would be able to continue using their favourite brands as they are easily available through these retail shops.

The celebrations will become more enjoyable with costly gifts. The contest and offers during the festival season by theses big giants varies like air tickets, gadgets, jewellery, chocolates, etc. The offers from air services like Singapore airlines and number of tourism development agencies like from other countries give a new face to the festival season in India.

The shopping during festival season like Onam, Diwali will be really a true experience with 'special of year' products. The sales during valentine's day in 2007 itself was around 15 percent more than during Diwali season in these Shoppe and it is expected to increase by 20-25 percent in coming year. These figures show the considerable influence of these retail outlets to bring more and more fun days to Indian society.

Global Retail Development Index 2010

India remains among the leaders in the GRDI. The large growing markets in India still present major retail opportunities, and they will for decades to come. While opportunities remain in bigger cities, retailers are also expanding to smaller but faster-growing cities. Retailers are strengthening supply chain operations to spur profitable growth while refining merchandising capabilities and internal organizations to take advantage of their scale.

Throughout Asia-Pacific, the post-recession outlook is bright, with domestic demand and exports increasing, retail sales stabilizing and consumer confidence improving. Aggressive expansionary fiscal and monetary policies further bolster retail. Grocery still accounts for almost two-thirds of total organized retail sales, but the proportion of spending on food is declining annually as consumers increase discretionary spending on clothing, transportation, communications, appliances and recreation. Hypermarket and convenience stores are the formats of choice, but local competition is fierce.

India, a GRDI leader in 2009, takes 3rd place in 2010. Despite the slight dip, India remains quite attractive for retail. The retail market is worth about \$410 billion, but only 6% of sales are through organized retail, meaning that the opportunity in India remains immense. Retail will continue to grow rapidly – up to \$535 billion in 2013, with 10 percent coming from organized retail, reflecting a fast-growing middle class demanding higher-quality shopping environments and stronger brands.

Store growth and consumer insight have been the focus for the past few years. The market is maturing, as most retailers are now focusing on profitable growth. Several

domestic retailers filed for bankrupt or exited the market during the downturn, including Subhiksha and Magnet, while others optimized their operations, including store labor, rent negotiations and strategic cost management. Expansion plans did not slow, however: Bharti Retail strengthened its position in northern India by opening 59 stores, Bharti Wat-Mart is expected to open 10 to 15 wholesale locations in the next three years, and Marks & Spencer is considering plans to open additional outlets in the next few years.

Established retailers are tapping into the growing retail market by introducing innovative store formats, such as community shopping, village malls and destination shopping stores. For example, Future Group set up a first-of-its-kind community-shopping center in Bangalore. Another innovative concept, “wedding malls”, devoted to nearly every aspect of weddings, are making a splash in the Indian market.

While rising commodity prices hit Indian consumers in all segments (including cereals, grains, fruits and vegetables), retailers launched a wide range of private labels. More profitable for retailers, these brands are gaining customer acceptance in categories beyond staples. Future Group plans to add 10 to 15 new private-label categories every year; this year, it expanded its Tasty Treat label to breakfast cereal, noodle and soup categories. Beyond private labels, Wal-Mart is working to change the agricultural supply chain model in India to improve productivity and quality of goods by launching a direct farm produce sourcing system.

Foreign players continue to demonstrate strong interest in India – most major hypermarket retailers either have a presence or are studying the market for entry. In apparel, Zara (owned by Spain’s Inditex Group) opened its first store in 2010, while Polo Ralph Lauren and Diesel are expanding.

Desirable real estate is a lingering challenge for retailers. Mall rental rates are lower because of an oversupply of space, but there is still a lack of quality street locations. Given these challenges, many retailers see tier 2 cities as the next frontier. Customers in these locations are proving similar to those in tier 1 cities, meaning

that retail models translate well – even increasing profitability because of lower operating costs. Spencer’s Retail, More & Shoppers Stop already plans to expand.

Regulations pose another challenge to retail growth in India, particularly the foreign investment restrictions for multi-brand retail, which will probably not change anytime soon. As a result, cash-and-carry formats will thrive, as foreign companies are allowed full ownership. Wal-Mart and Metro have already successfully entered through this route, and Carrefour and Tesco plan to follow.

Table 4.5: World Global Retail Development Index (2010)

| 2010 Rank | Country | Region | Market attractiveness (25%) | Country risk (25%) | Market saturation (25%) | Time pressure (25%) | GRDI score |
|------------------|----------------|----------------|------------------------------------|---------------------------|--------------------------------|----------------------------|-------------------|
| 1 | China | Asia | 50.6 | 85.8 | 32.9 | 86.6 | 64.0 |
| 2 | Kuwait | MENA | 75.4 | 94.3 | 56.2 | 24.5 | 62.6 |
| 3 | India | Asia | 35.4 | 51.3 | 62.2 | 97.8 | 61.7 |
| 4 | Saudi Arabia | MENA | 65.3 | 86.5 | 50.7 | 31.0 | 58.4 |
| 5 | Brazil | Latin America | 73.5 | 74.3 | 48.8 | 36.9 | 57.8 |
| 6 | Chille | Latin America | 71.8 | 92.3 | 27.5 | 38.3 | 57.5 |
| 7 | UAE | MENA | 79.1 | 100.00 | 18.8 | 32.0 | 57.5 |
| 8 | Uruguay | Latin America | 67.7 | 74.3 | 58.6 | 23.1 | 55.9 |
| 9 | Peru | Latin America | 43.4 | 54.6 | 72.2 | 49.2 | 54.9 |
| 10 | Russia | Eastern Europe | 63.4 | 55.1 | 32.0 | 61.8 | 53.1 |

(Source: AT Kearney World Global Retail Development Index (2010))

There are number of companies operating their retail outlets in different formats. A summary of the same is given in table 4.6.

Table 4.6: Summary of Key Retail Formats in India

| Retailer | Format | No. of Stores | Value Proposition | Product Strategy | Pricing Strategy |
|-----------------|---------------------------|----------------------|---|---|-------------------------|
| Big Bazaar | Hypermarket | 75 | Is se sasta aur accha kahin nahin | Food & no food incl. Private labels | Discount |
| Food Bazaar | Supermarket | 109 | Ab ghar chlana kitna asaan | Food & grocer, incl private labels | Discount |
| Fashion Station | Speciality Store | 3 | Affordable fashion for the masses | Apparel & lifestyle products | Discount |
| Brand Factory | Discount Store | 6 | Best brands. Smart price | Apparel & accessories | Discount |
| Star & Sitara | Discount speciality store | 74 | Beauty services at affordable prices | Beauty services | Discount |
| Home Town | Speciality store | 4 | Ab ghar banana kitna asan | Products & services for the home | Regular |
| Chamosa | Speciality Store | 27 | A taste of India | Tea & Snacks | Regular |
| Future Bazaar | e-store | N.A. | Lowest prices. Everyday | Apparel, books, toys etc | Discount |
| Pantaloons | Department Store | 35 | Fresh fashion | National brands & private labels | Regular |
| Central | Mall | 5 | Shop. Eat. Celebrate | More than 300 brands & pvt labels. Apparel, accessories, foot-wears, Dining, Pubs, disco & services | Regular |
| aLL | Speciality Store | 34 | A little larger | Apparel & Accessories for plus size | Regular |
| Depot | Speciality Store | 91 | Books, Music gifts, freedom. | Books, music, gifts freedom | Regular |
| Blue Sky | Speciality Store | 38* | Accessories like never before | International brands & private labels | Regular |
| Shopper's Stop | Department Store | 20 | Feel the experience while you shop | Apparel, accessories. National & International brands & private labels | Regular |
| Home Stop | Speciality Store | 2 | Make your house, into a beautiful home designed by you! | All home needs- furniture, home & health equipment. National & International brands | Regular |

| Retailer | Format | No. of Stores | Value Proposition | Product Strategy | Pricing Strategy |
|-------------------|-------------------|----------------------|------------------------------|---|-------------------------|
| Hypercity | Hypermarket | 1 | N.A. | Food & Non food. National & International brands & private labels | Discount |
| Mother care | Speciality store | 11 | | Apparel & accessories for the new born & children | Regular |
| Brio | Speciality Store | 16 | N.A. | Coffee & Snacks | Regular |
| Desi Café | Speciality Store | 2 | N.A. | Indian Snacks | Regular |
| Cross Word | Speciality Store | 45 | N.A. | Books, music, toys | Regular |
| Westside | Department Store | 29 | N.A. | Apparel, accessories, cosmetics private labels | Regular |
| Star India Bazaar | Hypermarket | 2 | Chota Budget. Lambi Shopping | Food & Non Food | Discount |
| Landmark | Speciality Store | 9 | | Book, music, toys, gifts | Regular |
| Trumart | Supermarket | 26 | | | |
| Piramyd | Department Store | 7 | | Apparel, accessories, cosmetics & home | Regular |
| Spencer's Express | Convenience Store | 93 | Not specifically stated | Food & grocery & basic home needs | Regular |
| Spencer's Daily | Supermarket | 143 | Not specifically stated | Food & grocery & basic home needs | Marginal Discount |
| Spencer's Super | Supermarket | 8 | Not specifically stated | Food & grocer & basic home needs | Marginal Discount |
| Spencer's Hyper | Hypermarket | 12 | Not specifically stated | | Discount |
| Music World | Speciality store | N.A. | Not Specifically stated | Music | Regular |
| Books & Beyond | Speciality Store | N.A. | Not Specifically Stated | Books, Stationery & toys | Regular |
| RPG Cellucom | Speciality store | 110 | Not Specifically stated | Mobile phones and accessories | Regular |

(Source: Pradhan Swapna(2009), Retailing Management, Tata McGraw Hill)

The features & characteristics of the different retail formats in India slightly vary from the global definitions. It is described in table 4.7.

Table 4.7: Characteristics of Select Retail Formats

| Format | Description | Size | | Examples |
|----------------------------|--|---------------|---------------|--|
| | | (Intl) | (India) | |
| Category Specialist/Killer | Offer a narrow variety but a very deep assortment of the merchandise. Merchandise may be sold at price lower than that. | 50,000+ | 15,000+ | Circuit City, Toys R Us, Home Depot, Nalli's Kumaran (Chennai), Toykemp (Bangalore), The Loft (Mumbai), Vijay Sales (Mumbai) |
| Convenience Store | Usually located near residential areas & open long hours. Offers an assorted mix of products including milk, bread and eggs. | 3,000-8,000 | 500-1000 | 7-Eleven, Speed mart, In & Out |
| Department Store | Large Stores selling several product lines, with each operating as a department. Product mix is largely non-food like apparel, accessories, books, music, footwear, etc. Level of service is very high. | 75,000+ | 5,000-40,000 | Shopper's Stop, Pantaloons, Marks & Spencer, Harrods, Selfridges, Macy's, Bloomingdale's, Globus, Ebony. |
| Factory Outlets | Stores which sell branded merchandise at a discount. Levels of service are low. Typically, these are franchise outlets located away from the main markets. | 5,000-10,000 | 500-1,000 | Levi's Factory Outlet, Reebok Factory Outlet, Wrangler Factory Outlet. |
| Hypermarket | Large self service stores selling a mix of products. These stores offer large depth in the product mix which includes food and non-food item like apparel, CD's DVD's footwear etc. The low price for the products is a key attraction for the customer. | 80,000-22,000 | 40,000-75,000 | Hypermarket, Big Bazaar, Wal-mart, Giant, Sabka Bazaar. |
| Single Price Stores | Offer an assorted mix of branded and unbranded merchandise to appeal to the budget conscious customer | 5,000-20,000 | 500+ | Family Dollar, General, 9 to 9, 49 to 99 |
| Speciality Stores | Focus on brand or a particular category. They offer a narrow product line but good depth. Level of service is high | 5,000-8,000 | 2,000-5,000 | Walgreens, Boots, Crossword, Planet M, Rhythm House, Music world |

| Format | Description | Size | | Examples |
|--------------|---|--------------|-----------|---|
| | | (Intl) | (India) | |
| Supermarkets | These stores offer food, laundry and household maintenance products. They are self service, low cost, low margin and high volume operators. | 8,000-20,000 | 800-5,000 | Reliance Fresh, More for you, Spencers, Spinach, Food Bazaar Asda, Kroger, Tesco, Food world, Foodland, , Nilgiri's |

(Source: Pradhan Swapna(2009), Retailing Management, Tata McGraw Hill)

4.6. FOREIGN DIRECT INVESTMENT IN INDIAN RETAIL

Foreign Direct Investment (FDI) in India has been a point of debate, for some time now. To start with, let us first understand what is meant by the term Foreign Direct Investment. The most common definition of FDI has been originally provided by the International Monetary Fund and was subsequently endorsed by the Organisation for Economic & Cooperative Development.

Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy ("direct investor") in an entity resident in an economy other than that of the investor ("direct investment enterprise"). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment "Involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

India is fast emerging as a key destination for FDI. According to the FDI Confidence Index prepared by A T Kearney, India ranks third in FDI attractiveness ranking, the first being China. Developing countries, emerging economies and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernisation and employment generation, and have liberalised their FDI regimes to attract investment.

An international retailer can enter the Indian retail market through any of the following methods:

- Hi-Tech items / items requiring specialized after sales service
- Social sector items
- Medical and diagnostic items
- Items sourced from the Indian small sector (manufactured with technology provided by the foreign collaborator)
- Two-year test marketing (simultaneous commencement of investment in manufacturing facility required)

Foreign owned Indian companies cannot own and run retail shops to sell other category of goods to consumers in India. Hundred per cent FDI is, though, permitted on specific approval basis in case of trading companies in India, for carrying out any of the following:

- Export Trading
- Bulk imports with sales either through custom bonded warehouses / high seas sales
- Cash and carry wholesale trading
- Sales substantially to group companies

FDI up to 100% is allowed for e-commerce activities, subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in 5 years, if these companies are listed in other parts of the world. Further, these companies can engage only in business-to-business (B2B) e-commerce and not in retail trading, inter-alia, implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce as well.

FDI upto 51% is allowed , with prior government approval for retail trade in 'Single Brand' products. FDI in retailing of goods under multiple brands, even if the goods are produced by the same manufacturer is not allowed under the current guidelines.

Some of the popular entry options for foreign players have been as follows:

- Franchising of operations appears to be the most popular strategy followed by the international retailers for entry into India. Under franchising, the parent company lends its name and technology to a local partner, and gets royalty in return. In case a master franchisee is appointed at the national or regional level, the parent company gets the right to appoint local franchisees. Nike, Marks and Spencer, Pizza Hut and Mango are some of the best-known foreign players who have adopted this setup of operations.
- The other route for entry is a joint venture, whereby the international partner provides equity and support to the Indian investor. The Indian partner provides all the local knowledge that is typically needed in such a venture. Mc Donalds and Reebok have adopted the joint venture route in India.
- An international organisation may also set up a manufacturing facility in India. Two key retailers who have adopted this strategy include Benetton and Bata.
- On the other hand companies may also set up distribution offices in India and thereby trade in the country through local Indian retailers. Swarovski and Hugo Boss operate in India through distribution offices. Metro Cash and Carry has entered into the country by way of wholesale trading.

While it is obvious that the benefits of a large organised retail sector are many, investments into the country need to ensure that it is the consumer who gets a better product. It is argued that FDI will increase volumes in sales, which would translate into more manufacturing, more jobs in industry, and more prosperity. International experience has demonstrated that the only way that farmers can get better prices for their products is through improvement in the value added food chain. An organised retail sector can provide the forward linkages for mass marketing of processed and packaged goods. Organised retailing would generate employment, both direct and indirect, as notwithstanding the capital intensity of modern retail business, it continues to be labour intensive as well. It would also lead to creation of indirect

employment in support activities throughout the supply chain, starting from producers to packaging, storage, transport and other logistic services.

It is further believed that far from leading to an influx of imported goods, foreign companies would source most of their items domestically and would in fact, use quality Indian products to stock thousands of their outlets in foreign countries, thus giving a fillip to our manufacturing as well as export. Transfer of technology to ventures would ensure adherence of quality standards, good marketing production techniques and introduction of global best practices in management. This would result in the integration of Indian manufacturing with the global supply chain.

Those against the opening up of the retail sector to FDI argue that the global players come with deep pockets. This is believed to be unfair to the domestic retail industry. There are apprehensions in certain quarters that FDI in retailing would lead to unfair competition and ultimately, result in large scale exit of domestic retailers, especially small family managed outlets. There is also the fear that global retail chains would use India as a dumping ground for sub-standard or outdated products. The Indian advantage is that it is amongst the least saturated of all major global markets in terms of penetration of modern retailing formats.

The benefits from FDI do not accrue automatically and evenly across countries and sectors. In order to reap the maximum benefits from FDI, there is a need to establish a transparent, broad and effective enabling policy environment for investment and to put in place, an appropriate framework for its implementation.

Recent policies pronouncements by the government indicate that the retail industry, including the wholesale sector, will be opened to foreign direct investment (FDI). The argument is that the organized retail sector is very small and therefore it needs fresh funds to expand. Ignore the idiocy of this tautological argument .Instead lets focus on what will be the impact of such investment on the estimated 50 million retail outlets in India that provide livelihood to approximately 100 million people.

Some Retailing Myths

- FDI will bring in global retailers who will wipe out the local retail industry.
- FDI will bring in global retailers who will swamp India with imported merchandise.
- FDI will bring in global retailers who will end up creating massive job losses in India.

Objective analysis shows some facts:

- Practically no country in the world has completely banned FDI in retailing. Some do impose conditions on the number and locations of stores and ownership pattern, but by and large, these are few and contingent on specific conditional factors.
- In practically no developed or developing country have ‘global’ retailers wiped out the local retail industry, yes over time there is a steady decline. Most countries in the number of corner shops and the so called mom-and-pop stores on account of consolidation as well as emergence of large format stores. However, the risk to the local kirana is the same from the Big Bazaar or Reliance Mart or Star India Bazaar or Spencer’s Hyper as it would from a Tesco or Wal-Mart or a Carrefour and to the local textile merchant the same from a Shoppers Stop or Lifestyle or Westside, as it is from Debenhams or Marks & Spencers.
- All retailers whether Indian or international can only import merchandise under the customs regulations of Government of India. The risk from import is exactly the same and has no bearing on the ownership of the retail business.
- Globally, the retail sector is one of the largest employers. One only has to examine employment statistics in countries like China, Singapore, Malaysia, Thailand and Brazil to validate this.

The largest benefit that can accrue to India from a liberal FDI policy on investments in the retail sector is a strong up gradation of its agriculture and small and medium manufacturing sectors.

Retailers such as Wal-Mart, Carefour, Tesco, Metro and Ikea have been successful largely because of their remarkable ability to source merchandise very efficiently if were to operate in India, major investment from such organizations would be in developing an efficient supply chain for the consumer goods needed by them. They can bring in better systems for improving efficiencies, quality, product development, response time, and packaging / labelling. This will be the fillip that the Indian manufacturing and agriculture sector needs to move up the value chain.

Another positive thing is improved supply chain will beg better product basket from India for exports. It is likely that India will be competitive in the manufacture of many consumer goods and many of the global retailers can well use India as base for supplying some of these goods for their other international markets. China's experience with Wal-Mart is one such example, with the US retailer buying over US \$20 billion worth of goods from China in 2006, as against its local sales in China which barely crossed US \$3 billion in the same year.

India must not give in to the quixotic arguments and shrill renting of fringe political groups and self-serving activists opposing FDI, or for that matter any large investment, even if it is from Indian entrepreneurs and large corporate houses in the modern retail. The government should look at the larger interest of the nation itself and then take a pragmatic stand on this issue.

Those who support FDI in retail assume that fresh investment means more jobs. However if we go by the US experience, the exact opposite will happen. Researcher in the US have studied the effect of chain stores particularly Wal-mart, on small retailers and our policy maker must look in these findings before formulating policies.

It has also been seen that whenever a large retailer has entered a US town, wages have gone down because supply is more than the demand. Moreover large stores activate block wage hikes. Mega stores also force suppliers to keep their costs down. This has pushed large parts of American manufacturing to China. If chain stores enter India, they are also likely to buy low cost good from China. Therefore, instead of employing more people there would be job cuts in retail, wholesale and manufacturing segments.

A 1999 study showed that for every job created by Walmart in Mexico, 1.5 jobs were lost. Our entire economic policy is based on India follow a development trajectory similar to the United States. If we follow that model in retail, it can be safely said that there would be job losses then; does opening up the sector make any sense? How did this idea that FDI in retail is a good thing gain acceptance, despite evidence to the contrary? The answer is that our economic thinking is governed by dyed-in-the wool neo-conservatives who believe in “free trade “ so FDI is always considered good.

Each neo-conservative idea is aggressively sold and the pitch always starts with how every major country in the world has it and we don't. So we read articles in newspapers mentioning how organized retailing is 84% of retail trade in Hong Kong and 11% in Vietnam while in it is only 2%. This view presumably takes into account only chain or mall stores. However organized retailing should mean all registered and licensed shops. If all those are taken into account, then the figure is probably far greater than 50% for India.

The next argument to gain public support is that FDI is essential for a sector. The ground reality, which gets short shrift, is that retail is already getting enough investment. A report released by price water house coopers, which our bureaucrats will believe, predicts 220 operational malls in 2000, up from malls in 2003.

India has done badly at WTO along with the developing world. But WTO still does not compel us to open retail. The next tactic is to trumpet consumer welfare. But we

never get to know what exactly constitutes consumer welfare if consumer welfare means lower prices then can be achieved by making better policies.

United States, with a population of only 300 million people in an area almost twice the size of India needed efficiency in its retail segment to reach out to sparsely populated areas. In India on the other hand, the care problem is employment generation. And on that count international experience show that letting foreign investment into retail is like pointing a loaded gun at your own heart and pulling the trigger, this is what Indian retailers feel.

4.7. DRIVERS OF GROWTH IN INDIAN RETAIL

We are all witness to the change happening in retail in the country. The local *bania* has gradually transformed himself into a small supermarket. The transformation of what used to be known as Phoenix Mills, into High Street Phoenix is a reality. This change is not restricted to the metro cities but has rapidly spread to smaller cities and towns as well. The person driving this change is the Indian consumer. In this section, we look into the reasons of the retail change in India.

The size of the population in India has always made it a large 'market. However, from the 1950's to the 80's, investments in various industries was limited due to the low purchasing power in the hands of the consumer and the government's policies favouring the small-scale sector. Initial steps towards liberalisation were taken in the period of 1985-90. The late Prime Minister P.V. Narasimha Rao and the then finance minister, Manmohan Singh are credited with having ushered in the first serious attempts at economic reform and laying the platform for taking consumerism to another level. It was at this time that many restrictions on private companies were lifted, and in the 1990's, the economy slowly progressed from being state led to becoming 'market friendly'.

4.7.1. Socio-Economic Factors

Socio-economic factors are seen as fundamental to development. India is today a nation which has a large middle class, a youth population which is happy spending and a steady rate of growth of GDP. Table 4.8 indicates the changes that have been

visible in India over a period of time.

The primary indicator of socio-economic change is the increase in life expectancy from 58 years in the year 1991-92 to an average of 66 years in 2006-07. Basic amenities like drinking water and electricity are also likely to be commonly available. Thus we can say that there is a definite improvement in the basic quality of life of an average Indian citizen. With the basic necessities being taken care of, there is a good chance that the demand for other products and services may increase.

Table 4.8: Socio-Economic Indicators of Change in India (1991-92, 1996-97, 2006-07)

| Indicators | 1991-92 | 1996-97 | 2006-07 |
|--|----------------|----------------|----------------|
| Life Expectancy (in terms of years) Male | 57.7 | 60.1 | 66.1 |
| Female | 58.7 | 61.1 | 67.1 |
| Infant mortality rate (per thousand births) | 78 (a) | 68 (b) | 48 |
| Death rate (per thousand) | 10 | 8.7 | 7.4 |
| Birth rate (per thousand) | 28.9 | 25.72 | 21.7 |
| Fertility rate (per thousand) | 130.3 | 113 | 91.4 |
| Literacy rate (5) 15-35 years | 56 | 90 | 100 |
| 7 years & above | 52 | 75 | 90 |
| Per capita consumption of food grains (kg) | 182 | 193.6 | 225 |
| a) Village without drinking water (thousands) | 3.0 (d) | 0 | 0 |
| b) Village partially covered (less than 40 lpcd) | 150 | Neg | 0 |
| Electricity as source of lighting (% of dwelling) | | | |
| Rural | 27 (c) | 50 | 80 |
| Urban | 75 (c) | 80 | 95 |

(Source: www.indiastats.com, accessed 01/12/2006.)

4.7.2. Changing Income Profiles

Steady economic growth has fuelled the increase in personal income in India. The middle-class forms the backbone of the India market story and it is the rising incomes in the young middle-class population that is fuelling its growth. The definitions of income classes vary from one study to another. For the purpose of this topic, the income classification done by NCAER is considered. According to the NCAER data, the middle income and the upper middle-income categories are likely to witness the most significant expansion in the coming decade. The upper and middle class are likely to increase their share in the population from 19.6% in 1995-96 to 42.6% in 2009-10, a substantial increase, while the middle-income category is likely to witness an increase from 32.9% to 39.8% in the same period. Not only does the population determine the volume of the market, but the relative size of the different income segments as well. The building up of the Indian middle class and the higher income echelons will provide a demand for niche and branded products.

Table 4.10 indicates that the disposable income of Indian consumers has increased steadily. The proportion of the major consuming class (population that has an annual income that is higher than Rs 90,000) has risen from 20 per cent in 1995-96 to 28 per cent in 2001-02; this is expected to move up to 35 per cent by 2005-06 and to 48 per cent by 2009-10. This translates into a CAGR of 9.3 per cent over the next 8 years and will result in higher spending capacity and eventually, in greater consumption.

Although the aspiring class shows a CAGR of only 8 per cent, its share will double from 17 to 34 per cent. The households in the category of seekers will also increase to around 10 per cent of total households. This is reflective of the growth in the consuming class. An increase in the spending class implies an expanding opportunity that retailers can tap.

As is seen in Table 4.10, the share of persons falling in the Deprived Category is likely to decrease and it shows a negative growth rate from the period 2001-02 to the period 2009-10. At the same time, the share of persons falling in the Super Rich,

Sheer Rich, Near Rich and Almost Rich is seen to be increasing, which is reflective of an increasing affluent society and this is also an indicator of consumption levels and the products consumed. This increase in incomes has happened in both urban and rural India, giving rise to what is now popularly termed as the 'Great Indian Middle Class'.

Table 4.9: The growing Indian middle class

| Classification | Income Class | 1995-96 | 2001-02 | 2005-06 | 2009-10 (P) | CAGR (%) |
|----------------|--------------|---------|---------|---------|-------------|----------|
| Deprived | < 90 | 131,176 | 135,378 | 132,250 | 114,394 | -2 |
| Aspirers | 90-200 | 28,901 | 41,262 | 53,276 | 75,304 | 8 |
| Seekers | 200-500 | 3,881 | 9,034 | 13,813 | 22,268 | 12 |
| Near Rich | 1,000-2,000 | 189 | 546 | 1,122 | 2,373 | 20 |
| Clear Rich | 2,000-5,000 | 63 | 201 | 454 | 1,037 | 23 |
| Sheer Rich | 5,000-10,000 | 11 | 40 | 103 | 255 | 26 |
| Super Rich | > 10,000 | 5 | 20 | 53 | 141 | 28 |
| Total | | 164,876 | 188,192 | 204,283 | 221,945 | |

P: Projected, CAGR between the period 2001-02 and 2009-10.

Note: Income is in Rs '000 per annum at 2001-02 prices, while households are in '000s.

(Source: NCAER.)

4.7.3. The Age Factor

Compared with several advanced countries, where the overall population is aging, India is a very young nation, with more than 70% of its population below the age of 40, and more than 47% below the age of 20. This age distribution is of significance to marketers of goods and services. It partially explains the boom in all Indian cities in consumption of impulse products and leisure-related expenditure in general, since the onset of liberalisation. According to the Census of India, 2001, 54 % of the population in India is aged 24 years and below, 35 per cent and 19 per cent of the population in the ages 0-14 years and 15-24 years respectively. The youth population in the age group 15-24 years is expected to increase from 195 million in

2001 to 240 million in 2011. Out of the total population increase of 371 million between 2001 and 2026, the share of the workers in the age-group of 15-59 years in this total increase is 83 per cent. The increasing youth population which is also started earning early also increases the overall purchasing capacity in the country, and has implications on the productivity of labour.

The projected increase in the economically active population of young Indians holds the key to India's prosperity and its economic potential over the next twenty years, and is expected to unlock a new wave of consumer demand provided the current trend of economic liberalisation continues to generate investment and trade opportunities in the economy.

4.7.4. The Changing Role of Women and the Evolving Family Structure

According to the 2001 census report, the population of working women has increased from 22 % in 1991 to 26 % in 2001. The increased economic independence of women has redefined the rules of social behaviour. Apart from an increase in the family income, it has led to a change in the type of products and services which are demanded. The purchasing habit of a working woman is different from that of a housewife, since the former has lesser time to devote to the household tasks. Working women would prefer a one-stop shop for purchasing their regular products. Also, a working woman's propensity for spending is higher than that of a housewife. The increase in the number of working women will hence drive the need for convenience and will play a major role in the success of many modern retail formats in the country.

Apart from the increase in the number of working women, the average household sizes have also decreased from 5.57 in 1991 to 5.36 in 2001. With more and more nuclear families proliferating, it is to be reasonably expected that with time, poverty is also setting in. Nearly 1.5 - 2 per cent of joint families give rise to nuclear families every year. The rise in the number of nuclear families typically, is seen as a factor which will translate into higher spending on retail goods and works in favour of organized retailing. In fact, it is estimated that nuclearisation would account for 3 to 4 per cent increase in aggregate spending over the next five years. Thus, the

nuclearisation of families is also seen as a driver of modern retail trade.

4.7.5. The Changing Consumption Basket

Occupational changes and the expansion of media have made a significant change to the way the consumer lives and spends his money. The increase in the contribution made by services is also a reflection of the new opportunities that are available to the youth in terms of job opportunities. The Indian population is today characterised by youth, who also have the spending power. There is also an easier acceptance of luxury and an increased willingness to experiment with the mainstream fashion, resulting in an increased willingness towards disposability and casting out, from apparels to cars to mobile phones to consumer durables. Occupational changes and the expansion of media have made a significant change to the way the consumer lives and spends his money. The changes in income brought about changes in the aspirations and the spending patterns of the consumers.

The historical pattern in India and in most developing economies shows that as incomes rise, consumers tend to spend proportionally less on basic necessities and more on discretionary items. A similar change is underway in India. As millions of deprived households move into the aspirer segment, they will begin to be able to afford products and services beyond their immediate needs for food and clothing. Marketers will have to take into consideration the significant changes that are occurring in the market place in terms of spending, before evolving strategies for the market.

4.7.6. Increased Credit Friendliness

There is a radical change in the Indian consumers' mindset regarding credit. There has been a dramatic shift in terms of how a consumer defines capital expenditure and revenue expenditure. Many capital expenditures, i.e. money spent on buying a house, vehicle, jewellery or consumer durables has transformed into consumer revenue expenditure because of the easy availability of finance. Car loan and loans credit purchases also get added in this revenue expenditure category. In 1995, just 2.6 million urban households in India could afford a mortgage. After eight years of

rapid economic expansion, that number had rocketed to 20.5 million-a compounded annual growth rate of 29.4 per cent.

The credit card market in India has itself expanded significantly in terms of new geographies and new segments. As compared to the global credit card market, however, India still has a long way to go. As of March 31, 2010, the total number of debit and credit cards issued in India was estimated to be around 191 millions. Indians withdrew/purchases nearly Rs. 62,872 crores using credit cards and Rs.26,172 crores using debit cards¹⁰. Visa saw a 36 per cent growth in the number of cards issued, making India the third biggest card market for Visa, after Japan and Korea.¹¹ Credit cards are a means of spending or for that matter, increased spending, and this augers well for the development of modern trade.

4.7.7. Geographical Dispersion of Market Potential

There is considerable variance in economic prosperity levels among various Indian states, which linked to the overall wealth creation from agriculture, trade and industrial development. Accordingly, there are affluent and poor districts in most states, classified according to their market potential. At a national level, India has 500 active districts (excluding Jammu and Kashmir), of which the top 150 districts (Class A) account for 78%, while the next 150 (Class B) account for 15% of the national market potential for a wide category of goods. The remaining 200 districts (Class C), which have 40% of the geographical share, are backward and account for only 7% of India's market potential. The spread of affluent and non-affluent districts is uniform in all the four regions. However, the Eastern, North-eastern and Central regions of India have the largest share of backward districts.

Urbanisation has increased at a rate of 2.7 per cent over the last 10 years (1990-2000). In 2000, the urban population was estimated to be 281 million (27.7 per cent of the total population). This pace of urbanisation is expected to be maintained, and urbanisation is expected to increase at 2.4 per cent from 2000 to 2015. While the effects of urbanisation are visible in many parts of India, rural India is also moving rapidly from poverty to prosperity. The Census of India defines rural as any habitation where the density of population is less than 400 per sq.km, and where at

least 75 per cent of the male population is engaged in agriculture, and where there isn't any municipality or board. Going by this definition, of the 600,000 villages in India, 15,000 have a population below 5,000.¹²

Taking into considerations, the size of the rural population and the increase in the incomes at all levels, the rural market is definitely an opportunity for modern trade.

With multiple drivers for the consumption boom, India has become an attractive market for foreign investors and organisations. As a country of enormous economic and social contrasts, India offers a complex marketing arena and demands high specificity in the assessment of its market opportunities for various classes of goods. India's complexity goes beyond sheer numbers: its one billion people inhabit four climatic zones-from the temperate north to the tropical south, from the parched west to the inundated east; speak one or more of at least 15 official languages; follow several religious and personal beliefs; differ enormously in their food habits and social customs; and live together under varying states of human development, from the highly affluent to the utterly destitute.

Besides internal contrasts, India is culturally different from several other markets, including Asian markets, for historical and social reasons. Consumer goods marketers find India a very unique market that may defy replication of strategies used successfully in other emerging markets, and must be dealt with on its own terms.

4.8. CHALLENGES TO RETAIL DEVELOPMENT IN INDIA

Organized retail in India is little over a decade old. It is largely an urban phenomenon and the pace of growth is still slow. Some of the reasons for this slow growth are:

- a. **Retail not being recognized as an industry in India**--Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.

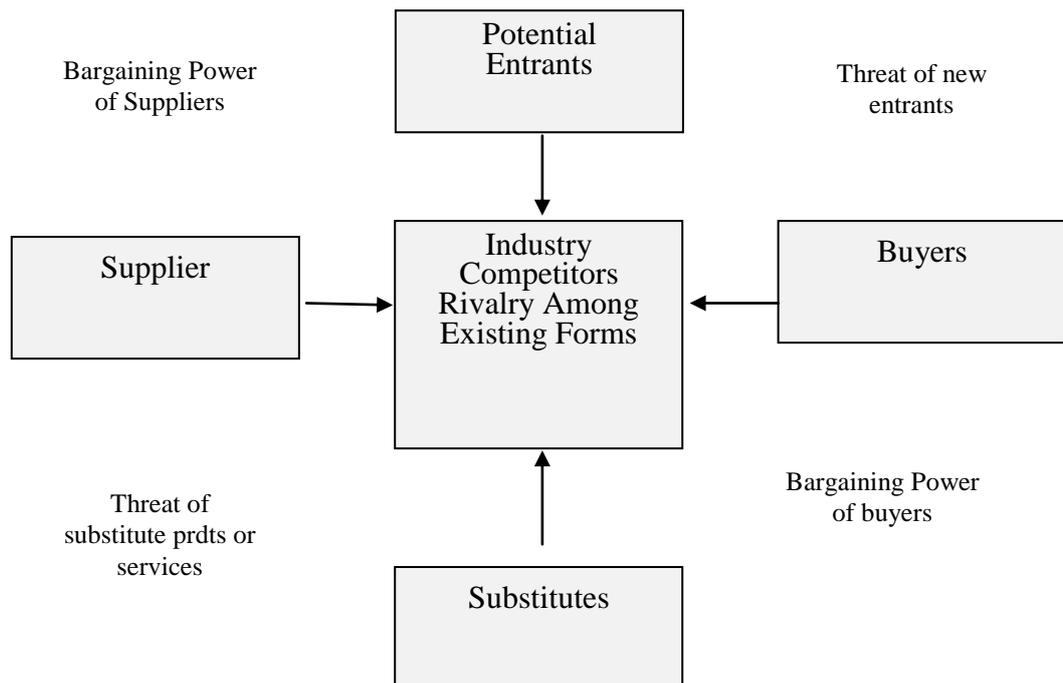
- b. **The high costs of real estate**--Real estate prices in some cities in India are among the highest in the world. The lease or rent of the property is one of the major areas of expenditure; high lease rentals eat into the profitability of a project.
- c. **High stamp duties**--In addition to the high cost of real estate, the sector also faces very high stamp duties on transfer of property, which varies from state to state (12.5% in Gujarat and 8% in Delhi). The presence of strong pro-tenancy laws makes it difficult to evict tenants. The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time consuming and complex as are the legal processes for settling of property disputes.
- d. **Lack of adequate infrastructure**--Poor roads and the lack of a cold chain infrastructure hampers the development of food and fresh grocery retail in India. The existing supermarkets and food retailers have to invest a substantial amount of money and time in building a cold chain network.
- e. **Multiple and complex taxation system**--The sales tax rates vary from state to state, while organized players have to face a multiple point control and tax system, there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi. With the introduction of Value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruptions in the supply chain are likely to get corrected over a period of time.

In an attempt to understand the retail industry in India, an analysis of the industry has been done using the five competitive forces as stated by Michael Porter. The Five Forces model is a strategic tool that is used to analyse the attractiveness of the industry structure. The five fundamental competitive forces are:

- a. **Entry of competitors:** The ease of entry for competitors to enter the market and to start competing and the barriers to entry which may exist.
- b. **Threat of substitutes:** The ease with which a product or a service can be

- substituted, especially is made cheaper.
- c. **Bargaining Power of Buyers:** The position of the buyers, can they work together to gain efficiencies in buying?
 - d. **Bargaining Power of Suppliers:** The position of the sellers. Do many suppliers exist or is there a existence of only a few suppliers?
 - e. **Rivalry among the existing players:** The level of competition between the existing players, the size and the strength of the players in the industry.

Figure 4.4: Competitive Forces



(Source : Swapna Pradhan (2009), Retailing Management, Tata McGraw, Pg. No.24)

The five forces together determine the intensity of industry competition and profitability and also help us understand the forces which are critical from the point of view of strategy formulation. Let us consider each of the five forces with respect to the Indian retail sector.

- a. **Threat of New Entrants:** In the case of the Indian retail sector, there exists a high threat of new entrants as the sector itself is in a nascent stage and is growing. Limited barriers to entry exist. Government regulation on FDI in

the country can be seen as a barrier to entry. Other barriers to entry may be the inability to build economies of scale, substantial capital requirements in terms of investment in store locations, limited access in terms of distribution and high costs in terms of supply chain efficiencies. Product differentiation or the lack of product differentiation could also be seen as a threat to entry.

- b. **Threat of Substitutes:** The presence of substitute products can lower the attractiveness and profitability because they limit price levels. The threat of substitute products is a function of the buyer's willingness to buy a substitute product and is influenced by the relative price and performance of substitutes and the costs of switching to substitutes. In Indian retail, the threat of substitutes is very high. The unorganized retailing in India is still the largest wherein cheaper versions of products are available. This still services most of the middle and poor income families in the country.

- c. **Bargaining Power of Suppliers:** The price at which the product is available to the retailer for selling to the end consumer is very important in retail, as it plays a large role in the actual profitability. If suppliers have high bargaining power over a company, then in theory, the company's industry is less attractive. The number of buyers and the existence of a few dominant suppliers influence the bargaining power of suppliers. The availability of undifferentiated, highly valued products and suppliers who can integrate forward into the industry (e.g. brand manufacturers threatening to set up their own retail outlets) can be seen as a threat. The suppliers to the retailing industry are the companies who provide the finished products to make various retail products. The bargaining power of suppliers varies from the products supplied. The bargaining power of suppliers is low because there are a large number of potential suppliers in the market. Therefore the prices become competitive. The emergence of private labels in apparel and food has in fact played a key role in controlling the bargaining power of suppliers.

- d. **Bargaining Power of Buyers:** The bargaining power of buyers is greater when there are few dominant buyers and many sellers in the industry, the

products are standardized and the suppliers do not threaten to integrate forward into the buyer's industry. In Indian retail, the bargaining power of buyers is fast increasing and can be termed as moderate to high, depending on the product or service. The buyers are the most powerful in the retailing industry. In an age of the informed consumer, meeting the buyer's expectations in terms of product, price and service is increasingly becoming difficult.

- e. **Intensity of Rivalry:** The intensity of rivalry between competitors in an industry depends on the structure of competition, for example: rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader. The structure of industry costs, the degree of differentiation and the switching costs determine the intensity of rivalry in any industry. The competition among the existing firms in the Indian market is not very high as there are few players in the market. High product differentiation is a major factor that intensifies the competition (although, it differs from product to product).

4.9. PROSPECTS AND EMERGING TRENDS IN INDIA RETAIL

New after understanding the retailing and its various aspects, let's elaborate the prospects of retailing in India. Let's deal with it one by one. The first point that brightens the prospect is the highest percentage of youngsters in the Indian population. Because of it the companies be it Reliance, Tata, Birla, Big Bazaar of India or Walmart, Carrefour, Metro and other global giant wants to enter into retailing in India. Because they know that the spending power of the Indian youth is high.

And most of them prefer to buy things from the retail stores like Reliance fresh, Food world, Big Bazaar etc. rather than from the local kiranawala, because of convenience, higher standard of hygiene and the attractive ambience. If we look at the retailing scene in clothes and footwear, we will find the presence of a large no. of unorganized players. They generally display a limited range of inexpensive and popular item. Whereas in contrast modern clothing and footwear stars are spacious

with sample products displayed in windows

With growth in incomes Indians have been spending more on health, beauty products, entertainment and food. Therefore, Big retailers are aiming to provide all these amenities under one roof through the mall culture. There people can go and shop with having fun and leisure. This thing presently account for a tiny share but in the future the business is bound to grow as new and new malls will open.

Moreover, the laws are also getting more and more business friendly. Main rules regarding FDI in retail and real estates are getting lesser and lesser which means entry of large no. of players mainly foreign in the Indian market that will lead to a double-digit growth in this sector.

One more factor that helps in retail growth is the fact that means of entertainment are less in India. So, people generally feel these retail stores or malls as a place to end up spending amount on food and entertainment. So that means there is immerse potential in it. Therefore every one will keep this thing in mind and try to open up more avenues like this where people can enjoy and spend some quality time.

- Indian retail network is getting organized and corporatized and spreading across the country. Indian retail corporate are using multi-formats e.g. Pantaloons etc
- The Indian retailers are also becoming media players in indoor retail e.g. Stop-Fash media, the creators of digital signage. Pantaloon-Future media.
- Retail companies are increasingly spending on both the environment and fixtures and fittings emphatic lightings and digital signage and are all in for an international appeal and inviting feel so that they are selling an experience and not just goods.
- The retail business is an early adopter of IT and various levels of usage are emerging such as data warehousing/mining, supply chain management, scanner data bar-coding, UPC, EDI & RIFD.
- The latest fad for fragrance retailing is now enamouring the great Indian retail dream, so also the emergence of private labels.

- Loyalty schemes and reward points are being extensively used to retain and reward customers e.g. First Citizen (Shoppers-Stop) Green Card (Pantaloons), Club West(Westside),Inner Circle (Lifestyle),
- Pantaloons have tied up with ICICI bank to launch ICICI -Big Bazaar credit/debit card.
- Store design is becoming international e.g. HyperCity has partnered with JAP of London for its store design. Future Group (Pantaloons) has its own in house design company Idiom, which constantly is working on design ideas.
- The emergence of retail brands e.g. Stop, Fresh and Pure etc.

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