1. INTRODUCTION TO RETAIL:

1.1 DEFINITION OF RETAIL

In 2004, The High Court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale) i.e. a sale to the ultimate consumer.

Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.¹

1.2 MEANING OF RETAIL

The word retail is derived from the French word retailer, meaning to cut a piece off or to break bulk. In simple terms, it implies a first-hand transaction with the customer.

Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable.² Therefore, a retailer is a dealer or trader who sells goods in small quantities. Retailing is the final step in the distribution of products, for consumption by the end consumers. It consists of all activities involved in the marketing of goods and services directly to the consumers, for their personal, family or household use. This excludes direct interface between the manufacturer and institutional buyers such as government

¹ FDI In Indian Retail Sector: Analysis Of Competition In Agri-Food Sector, Internship Project Report, Rupali Gupta, Christ University, Bangalore, Under The Guidance Of: Payal Malik (Adviser, Economics Division), April-May 2012, Competition Commission Of India

and other bulk customers.³

1.3 EVOLUTION OF ORGANIZED RETAIL

American mass retailing began in the late 1800s with Montgomery Ward marketing its products through general merchandise mail order catalogues, which was very effective at that time for reaching a largely rural society.

In the 1940s, the population began its movement to the suburbs as the economy shifted from an agricultural base to an industrialized nation. The 1950s witnessed the reaffirmation of the traditional family. The 1960s witnessed the growth of enclosed shopping centers, with department stores anchors and specialty retail chains. In the 1970s, promotional pricing started to pick up the department stores as off-price retailer emerged. The growth of retail space slowed, as sales increase came at the expense of competition, not of market growth. The 1980s witnessed the growth of off price retailing as a distinct, enduring retail format. Over the years as the consumer demand increased and the retailers geared up to meet this increase, technology evolved rapidly to support this growth.⁴

1.3.1 The Global Retail Scenario

The Global Retail Industry has experienced a good recovery since early 2010, after a couple of difficult years due to worldwide economic downturn and a resultant dip in employment and consumer confidence. Government stimulus packages coupled with strong domestic demand in some developing countries took the global retail industry’s size to an estimated US$ 14.5 trillion in 2010, a 10.9% growth Y-O-Y. Food sales accounted for 43.4% of the overall sales, while non-food sales represented the rest.

However, recently indicators for the retail sector have turned uncertain with the developed nations facing headwinds of high rate of unemployment,

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³ Dr. Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
slowing Gross Domestic Product (GDP) growth, escalating public debt and the possibility of further economic deceleration on the back of proposed austerity measures. On the other hand, emerging economies that have been the main driving force for the global economy are experiencing positive catalysts such as rising per capita income and improving living standards, a vast pool of population driving domestic demand, growth in organized retail and opening of new retail outlets.

Albeit the strong growth, consumer demand in emerging markets is also marred by certain discouraging factors including concerns over sustainability of economic growth, deteriorating business confidence, high inflation and soaring interest rates. There are additional concerns facing the retail industry including exchange rate volatility and a changing stance in fiscal policy. Thus, the global retail industry needs to find a sustainable growth trajectory by achieving a balance between muted consumer sentiment in developed markets and an overheating economic environment in emerging markets.

Despite the uncertain conditions, the fundamental consumption story of the emerging markets remains strong which is expected to help the retail industry to tide over the slowdown in developed economies. The emerging markets may even witness a greater shift towards discretionary spending as dispensable income rises, in turn, driving demand for branded and luxury goods. The global retail industry is expected to expand at a 5-year CAGR of 8.5% reaching US$ 21.8 trillion in 2015. This is higher than the 7.5% annual average expansion that the industry witnessed between 2006 and 2010.

In spite of the growing clout of developing nations, the global retail industry continues to be dominated by North American and European retailers. Leading food retailers globally include the US-based Wal-Mart Stores Inc., French retailer Carrefour SA, Metro AG based in Germany, and the UK-based Tesco PLC. Some of the top names among non-food retailers are Costco Wholesale Corporation, Home Depot Inc. and Target Brands Inc., all headquartered in the US. To survive in difficult business dynamics in their home countries, most of these companies have been actively expanding their
global footprint and exploring growth opportunities in the relatively untapped emerging markets.\textsuperscript{5}

Large format retail businesses dominate the retail landscape in the United States and across Europe, in terms of retail space, categories, range, brands, and volumes. Indian retail industry cannot hope to learn much by merely looking at the Western success stories in retail. Their scales of operations are very huge, the profit margins that they earn are also much higher and they operate in multiple formats like discount stores, warehouses, supermarkets, departmental stores, hyper-markets, convenience stores and specialty stores. The economy and lifestyle of the West is not in line with that of India and hence the retailing scene in India has not evolved in the same format as the West nor can we learn valuable lessons from their style of operations.

In retailing, the conventional wisdom used to be, that, the critical success factor was location. But precise location no longer matters and geo-demographics are increasingly becoming irrelevant. The leading multiple chain retailers, superstores and malls create their own centers of gravity, attracting customers by car, bus, train or even by plane to wherever they are located.

The growth of multiple chain retailers has been relentless for many years in the west and this has been accompanied by the development of retail names as brands in their own right. Wal-Mart and Nordstrom in the U.S. & Sainsbury’s and Marks & Spencer in the U.K. have grown by rapid geographic expansion in their own countries. Specialists like Benetton of Italy and IKEA of Sweden and The Body Shop of the UK are international and the fast food chains like McDonald’s and Pizza Hut are everywhere. The same products are increasingly available from the same names on every continent. Retailers worldwide have immensely benefited from the sustained growth of the disposable income of their global consumers.

\textsuperscript{5} From A&P to Wal-Mart: the evolution of the Supermarket Industry, Paul B. Ellickson, Department Of Economics, Duke University, May 24, 2007
1.3.2 Key Trends in the Global Retail Industry

- **Geographic Saturation**

The end of the nineties has signified a turning tide of retailer power. The limit to retail ambition is geographic saturation. There is already a fear that the U.S is ‘over-malled’, that available shopping space exceeds customer demand for products. The retailer logic that ‘if we build new stores they will come’, is being belied. Many retailers have started postponing their store expansion plans. The track record of some of their international store expansions is also not promising.

- **Category Killer Competition**

The threat of saturation is accompanied by a new competition from the low cost category killers. Specialist competition is eating away at the market share and forcing down the prices and gross margins of the multiple chains e.g. Toys R Us and Home Depot.

- **Alternative Shopping Channels**

The newest retail format that is showing growth in the U.S. is the Internet. The potential for on-line shopping which is growing in the U.S. questions retailers’ investments in more physical sites and stores and makes it imperative that they too explore the new agenda of ‘E-retailing’ or ‘e-tailing’. The traditional high street retailing is gradually losing market share to new retail channels such as online and mobile, which are rapidly gaining popularity among shoppers. The US and European online retail is expected to grow at a CAGR of 10% from 2010 to 2015. During the same period, online retail sales as a percentage of total retail sales in the US is expected to increase from 8% to 11%. Improving connectivity through the Internet and smartphones will underpin growth in online and mobile retailing at the expense of traditional retail channels. The increasing use of online social

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6 Sunder, Building Successful Indian Brands, Bharathidasan Institute of Management
networks and computer applications by retailers to reach consumers is expected to make modern retailing more mainstream. Retailers looking to expand into newer geographies are gauging market demand through these modern channels before making substantial financial commitments to the new markets.

✓ **Downsizing**

Since the time the industry started feeling the effects of the global financial crisis, retailers around the world have been exposed to a difficult business environment characterized by unstable consumer sentiments, increased commodity prices, rising income pressures, and competition. Downsizing, for survival and being competitive, has since become one of the typical facets of the industry. Companies have been trying to counter the negative market forces by trimming workforce, scaling down on retail space in unprofitable markets, rationalizing packaging costs, and also cutting down on packaged quantities to safeguard profitability in an inflationary environment, while holding on to their previous price points.

✓ **Growth of Private Labels**

Over the last ten years, annual sales of private label products have increased 40% in supermarkets and by 96% in drug chains. The prime reason for the growing acceptance of private labels among customers is price utility since these products are generally cheaper than well-known national brands. This factor becomes even more imposing in the current economic climate. Retailers also view the strategy of marketing through private labels as an efficient means of differentiating themselves from competitors, and creating consumer loyalty and repeat footfalls.⁷

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1.4 INTRODUCTION TO INDIAN RETAIL INDUSTRY

India is a nation of shopkeepers. There are more than 12 million retail outlets in India, and India has highest density of retail outlets in the world. India is one of the largest emerging markets, with a population of over one billion. It is one of the largest economies in the world in terms of purchasing power. Retailing in India is at a nascent stage of its evolution, but within a small period of time certain trends are clearly emerging which are in line with the global experiences. Organized retailing has become more popular in big cities in India and most of the metropolitan cities and other big cities are flooded by modern organized retail stores. Many semirural areas have also witnessed entry of such organized retail outlets. In India, the retail sector is the 2nd largest employer after agriculture. In fact due to wide network of retailing in India it is known as nation of shopkeepers. There are about 12 million retail outlet spread across India and the country has the highest density of shops in the world i.e. one shop for every 20 to 25 families or 11 retail shop for every 1000 persons. There are only four shops per 1000 in USA. Retailing in India provides employment to about 7% of total work force in the country and contributes about 14% to GDP of India. However the retailing sector in India is highly fragmented and consists predominantly of small, independent and owner managed shop. The retail landscape in India is changing rapidly and is being scrutinized by large scale investments by foreign and domestic players. Market liberalization and changing consumer behaviour have sown the seeds of a retail transformation. Indian retailing is growing fast and imparting the consumer preferences across the country. The Retail Market in India has undergone significant changes in the last 10 years. India is witnessing changing life styles, increased incomes, the demographic variability and vibrant democracy. Indian retailing is expanding and is expected to reach at US$ 637 billion by 2015. Organised retail which presently account for only 4-6 per cent of the total market is likely to increase its share to over 30% by

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8 Organized Retail Industry in India – Opportunities and Challenges, Tazyn Rahman, IJRFM, Volume 2, Issue 2 (February 2012), ISSN 2231-5985
India's retail sector is estimated to touch US$ 833 billion by 2013 and US$ 1.3 trillion by 2018, with a compound annual growth rate (CAGR) of 10%, which is quite lucrative. The industry is playing vital role in the economic growth of the country. Today retailing is largest contributing sector to country's GDP i.e. 10% as compared to 8% in China, 6% in Brazil. Retailing as a whole contributes almost 10% of India’s GDP, and employs almost 8% of India’s employable population. The organized sector accounts for a mere 5 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer. India is the fifth largest retail destination globally from among thirty emergent markets, with a size of US $ 500 bn., and has been growing at 7% per annum with a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country. Retail is the India's industry of the future. It can also be a big source of employment, more so for unskilled labour. Organized retail accounts for just 5% of total retail sales and has been growing at 35% CAGR. Retail has emerged as the growth driver for Indian economy. A McKinsey report ‘The rise of Indian Consumer Market’, estimates that the Indian Consumer Market is likely to grow four times by 2025. According to the Investment Commission of India, the overall retail market is expected to grow from US $262 billion to about US $1065 billion by 2016, with organized retail amounting to US $165 billion (approximately 15.5 per cent of total retail sales). According to FICCI, organized retail in India currently stands at Rs 17,00,000 crores and is growing at 25%. The BMI India Retail Report for the first-quarter of 2011 forecasts that total retail sales will grow to US$ 674.37 billion by 2014. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organised retail infrastructure are key factors behind the forecast growth. With the expanding middle and upper class consumer base, there will also be opportunities in India's tier II and III cities.

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10 Organized Retail Industry in India – Opportunities and Challenges, Tazyn Rahman, IJRFM, Volume 2, Issue 2 (February 2012), ISSN 2231-5985
12 Organized Retail Industry in India – Opportunities and Challenges, Tazyn Rahman, IJRFM, Volume 2, Issue 2 (February 2012), ISSN 2231-5985
Mass grocery retail (MGR) sales in India are expected to undergo enormous growth over the forecast period. BMI predicts that sales through MGR outlets will increase by 145 per cent to reach US$ 21.35 billion by 2014. China and India are predicted to account for more than 91 per cent of regional retail sales in 2011, and by 2014 their share of the regional market is expected to be more than 92 per cent. Growth in regional retail sales for 2011-2014 is forecast by BMI at 48.1 per cent, an annual average 15 per cent. According to a McKinsey & Company report titled 'The Great Indian Bazaar: Organised Retail Comes of Age in India', organised retail in India is expected to be 14 - 18 per cent of the total retail market and reach US$ 450 billion by 2015. Driven by the growth of organised retail coupled with changing consumer habits, food retail sector in India is set to be more than double to US$ 150 billion by 2025, according to a report by KPMG. India's retail market is expected to be worth about US$ 410 billion, with 5 per cent of sales through organised retail, meaning that the opportunity in India remains immense. India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A T Kearney in its 9th annual Global Retail Development Index (GRDI) 2010. The retail industry in India is currently growing at a great pace and is expected to go up to US$ 833 billion by the year 2013. It is further expected to reach US$ 1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rates, the consumer spending has also gone up and is also expected to go up further in the future. In the last four year, the consumer spending in India climbed up to 75%. As a result, the India retail industry is expected to grow further in the future days. By the year 2013, the organized sector is also expected to grow at a CAGR of 40%. India is the fifth largest retail destination globally from among thirty emergent markets, with a size of US$ 500 bn., and is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US$ 200 billion by

14 http://business.mapsofindia.com/india-retail-industry/
The Indian market has witnessed vast improvements in political, social & economic environment which indirectly has also great impact on the consumption pattern. Now with the entry of both the India and the foreign corporate in the Indian retail scenario the market has got division into the Traditional and the organized sector. The Indian retail scenario is facing the same issues and challenges as the mom and pop stores in other developing nations with the emergence of big box retailers. The various issues to be faced are such what would be the future pattern of consumption with what type of formats preference by the consumer and whether it will lead to effect on the unorganized traditional retailers. The frenetic pace of development in retail sector has led to estimates by Goldman Sachs that the Indian economic growth could actually exceed that of China by 2015. It is a common belief that this country has immense potential to deliver the faster growth over next 50 years. (Source: India’s Economic growth may beat China by 2015: Goldman Sachs, Asia Pulse, Feb7, 2005).

Retailing in India is one of the pillars of its economy and accounts for 14 to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. In 2010, larger format convenience stores and supermarkets accounted for about 4% of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process. In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and

\[16\] Organized Retailing in India : Challenges and Opportunities, Sanjay Manocha and Anoop Pandey, VSRD-IJBMR, Vol. 2 (3), 2012, 65-80
Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30% of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. AT Kearney, the well-known international management consultancy, recently identified India as “the second most attractive retail destination “from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 14% to the national GDP and employing 7% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy.

While European countries faced another year of turmoil in 2011, developing countries forged full speed ahead. With consumer confidence improving and spending increasing, global retailers continued their expansion in these markets. In the past 5 years, America based Wall mart, France based Carrefour, U.K. based Tesco and Germany based Metro group saw their revenues in developing countries grow 2.5 times greater than their home markets. The 2012 Kearney Foreign Direct Investment Confidence Index has ranked India 2nd most attractive destination for FDI, an improvement from its 3rd rank in 2010.  

The ORP (Organized Retail Penetration) is expected to increase at a compounded rate of 10%. On the demand side, the growth will be driven by the increasing affluence among the urban consumers who have a growing preference for branded products and high aspiration among the youth. On the
supply side, the growth will be supported by expansion plans of existing players and the entry of new players.\textsuperscript{18}

**FIGURE: 1: ORP=Organized Retail Penetration**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2006-07</th>
<th>2011-12</th>
<th>2016-17 (P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Retail</td>
<td>INR 10 trillion</td>
<td>INR 23 trillion</td>
<td>INR 47 trillion</td>
</tr>
<tr>
<td>Organized Retail</td>
<td>INR 0.6 trillion</td>
<td>INR 1.6 trillion</td>
<td>INR 4.8 trillion</td>
</tr>
<tr>
<td>ORP</td>
<td>5.4%</td>
<td>7%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Central Statistical Office (CSO), National Sample Survey Office (NSSO), YES BANK Analysis

**TABLE: 1: ORP=Organized Retail Penetration**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>%AGE SHARE OF ORGANISED RETAIL SECTOR</th>
<th>SOURCE\textsuperscript{19}</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3.5</td>
<td>AT KEARNEY</td>
</tr>
<tr>
<td>2008</td>
<td>5</td>
<td>MC – KINSEY &amp; CO.</td>
</tr>
<tr>
<td>2010</td>
<td>8</td>
<td>AT KEARNEY</td>
</tr>
<tr>
<td>2013</td>
<td>10</td>
<td>AT KEARNEY</td>
</tr>
</tbody>
</table>

(Source: Sunita Sikri & Ms. Dipti Wadhwa, Growth And Challenges Of Retail Industry In India: An Analysis, Asia Pacific Journal of Marketing and Management Review, Vol.1, Issue 1, September 2012, ISSN 2319-2836)

**Graph 1: %Age Share of Organised Retail Sector**

\textsuperscript{18} http://www.infosysblogs.com/retail-cpg/2013/02/fdi_in_retail_sector_in_india.html
\textsuperscript{19} Sunita Sikri & Ms. Dipti Wadhwa, Growth And Challenges Of Retail Industry In India: An Analysis, Asia Pacific Journal Of Marketing And Management Review, Vol.1, Issue 1, September 2012, ISSN 2319-2836
1.4.1 EVOLUTION OF INDIAN RETAIL:

Retailing goes back to centuries; it started as a very primitive business but today has grown tremendously. First people were doing businesses with their neighbours. Goods were exchanged between them. The origins of retail are old as trade itself. Barter was the oldest form of trade. For centuries, most merchandise was sold in market place or by peddlers. Medieval markets were dependent on local sources for supplies of perishable food because Journey was far too slow to allow for long distance transportation. However, customer did travel considerable distance for specialty items. The peddler, who provided people with the basic goods and necessities that they could not be self-sufficient in, followed one of the earliest forms of retail trade. Even in prehistoric time, the peddler traveled long distances to bring products to locations which were in short supply. “They could be termed as early entrepreneurs who saw the opportunity in serving the needs of the consumers at a profit” While barter is considered to be the oldest form of retail trade, since independence, Retail in India has evolved to support the unique needs to our country given its size and complexity.

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20 Dr. Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
22 Organized Retailing in India : Challenges and Opportunities, Sanjay Manocha and Anoop Pandey,
in its initial period was witnessed at the weekly Haats or Gathering in a market place where vendors put on displays their produce. Off course this practice is still prevalent in many towns and cities in India: then the market saw the emergence of the Local Banias and his neighborhood Kirana shop. In fact, these were the common local mummy-dady or multipurpose departmental store located in the residential areas such shops stocked goods and multipurpose utility and were with the vision of providing convenience at the door step of the consumer. Dr.Mandeep Singh, Retail In India: Historical Perspective, Spectrum: A Journal of Multidisciplinary Research, Vol.1, Issue 6, September 2012, ISSN 2278-0637 Haats, Mandis and Melas have always been a part of the Indian landscape. They will continue to be present in most parts of the country and form an essential part of life and trade in various areas. Gradually, a few more start to get together to a place that in turn creates a need for a common place. Later this common place was called a fair. Retailers opened small shops, stocking them with such produce. As towns and cities grew, these retail stores began stocking a mix of convenience merchandise, enabling the formation of high-street bazaars that become the hub retail activity in every city. With the passing of time the number of people doing businesses in a given fair increased, issues like security, transportation becomes a matter of concern. This semi-formalized system then gave birth to small-scale groceries, where people start to provide more combinations in their own neighborhoods. Retailing was focused more on the basic necessities rather than luxury. In terms of retail institutions, it was mainly mom-and-pop stores (Kirana Stores) run by individuals and the wet markets or bazaars. There were also the government-run Public Distribution Shops (PDS) as well as different co-operative stores. All these stores were having counter-service – self-service was not a feasible option. Then came the issue of choice in given grocery, the choices the customer had was limited, this was the beginning of the

25 Dr.Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
27 Dr.Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
concept of “everything under one roof”. Even in the early 1960s, it was reported that “there is not a single supermarket in all of India” (Westfall and Boyd, 1960, p. 14). Over the years, more and more counter-service format stores came up all across the country and by the turn of the century it was almost 12 million. The majority of these stores focused on food and grocery – in the form of fast-moving consumer goods (FMCG) items – sold at maximum retail price (MRP). Many of the stores provide credit to customers. While in terms of sheer numbers it is the grocery kirana stores which dominate, in value terms it is the wet markets which are estimated to be accounting for about 70 per cent of food and grocery retail sales (Jones et al., 2005). The concept of chain-store hardly came up in India in the food and grocery sector. The PDS or the Public Distribution System would easily 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 the 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. Tracing the evolution of Indian retail would be incomplete without mention of the Canteen Stores Department and the Post Offices in India. The Khadi & Village Industries (KVIC) was also set up post-independence. Today, there are more than 7,050 KVIC stores across the country. The Co-operative movement was again championed by the government which set up Kendriya Bhandras in 1963. In Maharashtra, Bombay Bazaar, which stores under the label Sahakari Bhandar, and Apna Bazaars run a large chain of Co-operative stores. In the past decade, the Indian marketplace has transformed dramatically. However from the 1950’s to the 80’s investments in various industries was a limit due to the low purchasing power in the hands of the consumer and the Government’s policies favoring the small-scale sector? It was at this time that many steps towards liberalization were taken in the period of 1985-90. It was at this time many restrictions on private

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29 Dr. Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
companies were lifted, and in the 1990’s the Indian economy slowly progressed from state led to becoming ‘market friendly’. As time passes, joint family changes into nuclear family. There too both members started earning which resulted into a new way of lifestyle. From then instead of mom-and-pop type of stores organized retail stores came into existence. The fact that post liberalization, 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, a better shopping ambience, more convenience and one stop shopping. This has fuelled the growth of departmental stores, supermarkets and other specialty stores. 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 the other parts of the country. The evolution of PDS (Public Distribution System) of Grains in India having its origin in the rationing system introduced by the British during World War II was example of single largest retail chain in the country 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. The Khadi and Village Industries Corporation (KVIC) was set during post-Independence and today it has more than 7000 stores across the country.

The emergence of first phase of organised retailing in India can be traced back when a shopping center into existence in the year 1869 with Mumbai Crawford Market. After that, in the year 1874 Hogg market, popularly and better known as new market came into existence in Calcutta (Now known as Kolkata) this shopping centre was designed by an East Indian Railways Co. Architect R.R. Banya and was named after the then municipal commissioner of Calcutta Sir Stuart Hogg. Earlier the Hogg market even had a garden with a beautiful fountain adding to its ambience and benches too for tired shoppers. Today, the New Market continues to be a premier shopping area in Kolkata despite a part of it being incinerated in late 1985. Its red-brick Gothic clock-tower today bears

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testimony to the past Grandeur of this first shopping center in India. Today from linen to cakes and fruits to fishes everything is available at the New Market Atta reasonable price and this has made the New Market sustain its popularity among the metro customers of Kolkata. The tenant mix of this first shopping center is unique as it has a large number of 2000 stalls which are organized in an order of merchandize. There are rows of stalls dealing with one particular line of Goods. A retail researcher by name Christine Furedy in 70s has observed in her article in the capital on 24th Dec. 1979 tracing the emergence of the New Market, thus “The most complex retail business of late nineteenth century Calcutta, establishment which were to dominate the modern retail sector, were the departmental stores. Although everyone has closed its doors, many Calcuttans still remember the name or recognize their converted, subdivided building: Francis, Harrison and Hathaway; Hall and Anderson; the Army and Navy stores; white a way; laidlow and Co. In their scope and outreach these shops rivaled those to be found in cities of the same size in Britain, Europe or the United States”. The second phase of development of organised retailing can be traced back to the year 1931 when Bata Shoe Co. took lead in opening its chain stores at various cities & towns. It was followed by DCM and Raymonds extensively. The earliest seed of the so-called specialty malls can be traced to shopkeepers who stocked goods of the same product category in a particular locality. If one were to go back to the early 80s, it can be said that organised retail, to a great extent was visible in the functioning of stores such as ‘Akbarally’ in Mumbai and ‘Nilgiris’ and ‘Spencers’ in Chennai. These stores later evolved into multichain outlet and were the first to bring on the ‘onset of organised retail’ in India.

While Independence retail stores like Akbarally’s, Vivek’s and Nallis have existed in India for a long time, Reliance, Garden silk mills, Madhura Garments, Arvind mills etc have set up show rooms for retail sale of their branded products. At present India is rapidly evolving in to an existing and Competitive market place with potential target consumers in both the rich and middle class segments. Manufacturer owned and retail chain stores are springing up in urban area to market consumer goods in a style similar to that of mall in more affluent countries. Even though big retail chain like Crossroad, Saga and Shopper’s stop
are concentrating on the upper segment and selling products at higher prices, some like A.V. Birla Retails, More, RPG’s Spencers, Food World and Big Bazaars are tapping the huge middle class population. During the past two years, there has been tremendous amount of interest in the Indian retail trade from global majors as well as over the years, International brands like McDonalds, Swarovski, Lacoste, Domino’s, Pepsi Benetton among a host of others have come in and thrived in India.  

1.4.2 REFORM PROCESS IN BRIEF:

Reform process in India was initiated with the aim of accelerating the pace of economic growth and eradication of poverty. The process of economic liberalization in India can be traced back to the late 1970s. However, the reform process began in earnest only in July 1991. It was only in 1991 that the Government signaled a systemic shift to a more open economy with greater reliance upon market forces, a larger role for the private sector including foreign investment, and a restructuring of the role of Government. The reforms of the last decade and a half have gone a long way in freeing the domestic economy from the control regime. An important feature of India's reform programme is that it has emphasized gradualism and evolutionary transition rather than rapid restructuring or "shock therapy". This approach was adopted since the reforms were introduced in June 1991 in the wake of payments crisis that was certainly severe. However, it was not a prolonged crisis with a long period of non-performance. The reforms have unlocked India's enormous growth potential and unleashed powerful entrepreneurial forces. Since 1991, successive governments, across political parties, have successfully carried forward the country's economic reform agenda. In 2012 government of India has further liberalized FDI in Multi-brand retail, Aviation Sector and Pension Sector. Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who stocks the

producers’ goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Company</th>
<th>CONTRIBUTION OF RETAIL SECTOR TO GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>12%</td>
</tr>
<tr>
<td>2</td>
<td>INDIA</td>
<td>12%</td>
</tr>
<tr>
<td>3</td>
<td>CHINA</td>
<td>8% - 10%</td>
</tr>
<tr>
<td>4</td>
<td>BRAZIL</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Table: 2: CONTRIBUTION OF RETAIL SECTOR TO GDP**

(Source: Dr. Sanjay Nandal, Impact Analysis Of FDI On Retail Industry In India, International Journal Of Marketing, Financial Services & Management Research, Vol.2, No. 1, January 2013, ISSN 2277-3622)

**Graph 2: Size of Indian Retail**

(Source: Technopak Analysis, CSO)

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Based on the ICICI Research, the Indian Retail Market evolution can be traced in the following way:

![Diagram of Modern Retailing in India](image)

**Table 3: Evolution of Modern Retailing in India**

<table>
<thead>
<tr>
<th>Decade</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early 1980's</td>
<td>Peddlers, vegetables, vendors Neighbourhood kirana store, sole clotting on consumer durables</td>
</tr>
<tr>
<td>1980-1990</td>
<td>Few organized retail players from textile industry – Bombay Dyeing, Raymond, S Kumars,</td>
</tr>
<tr>
<td>1991</td>
<td>Turning Point with liberalized economy, i.e. dilution of stringent laws, NAZ, International</td>
</tr>
</tbody>
</table>

36 Dr. Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
Table 4: Journey of Organised Retail in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>First Phase</td>
<td>Entry, Growth, Expansion, Top Line</td>
</tr>
<tr>
<td>2005</td>
<td>Second Phase</td>
<td>Range, Portfolio, Former Options</td>
</tr>
<tr>
<td>2008</td>
<td>Third Phase</td>
<td>End to end supply chain management, Backend operation, Technology,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>Fourth Phase</td>
<td>M&amp;A, Shakeout, Consolidation, High Investment</td>
</tr>
</tbody>
</table>

(Source: A Report by Ernst Young for IBEF, www.ibef.org/download%5cRetail_220708.pdf)

1.4.3 RETAIL FORMATS IN INDIA

Retail formats prevailing in India are in various forms like Hypermarts / Supermarkets: large self-servicing outlets offering products from a variety of categories. Some of them are followings:

MOM-AND-POP STORES: These are family owned business catering to small sections; these are individually handled retail stores and have a personal touch of the owner.

DEPARTMENTAL STORES: These are general retail traders offering quality products and services to cater to the need of the customers. These are large stores ranging from 20000-50000 sq. ft., catering to a variety of consumer needs. Further they are classified into localized departments such as clothing, toys, home, groceries, etc. Department stores have a large layout with a wide range of merchandise mix, usually in cohesive categories, such as showed towards garments. Example: - Ebony, Shopper’s stop, Westside.

CONVENIENCE STORES: These are relatively small stores 400-2000 sq. feet located in residential areas with a little higher price goods due to the convenience offered to the residents. A convenience store is open long hours, 7 days a week and carrying a limited range of staples and groceries. Examples: In & Out, Safal, 6ten.

SHOPPING MALLS: A huge enclosure which has different retail formats. These
are the biggest structure of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof. Mall is largest form of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts they range from 60,000 sq. ft. to 7,00,000 sq. ft. and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Pyramid, and Pantaloon.

E-TRAILERS: These are retailers providing online buying and selling of products and services.

DISCOUNT STORES: These are factory outlets that give discount on the MRP to the customers. As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods. Discount Circuit is one such example. A discount store is a retail store offering a wide range of products, mostly branded, at discounted prices or apparel or footwear brands. Example – Subhiksha, Koutons, Nike, Levis

VENDING: Vending is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.

CATEGORY KILLERS/ MBO's: These are small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's. Category Killers, also known as Multi Brand outlets, offer several brands across a single product category. These usually do well in busy market places and Metros.

SPECIALTY STORES: These are retail chains dealing in specific categories and provide deep collection. Bangalore based Kids Kemp, Mumbai's Crossword Book Store and RPG's Music World and the Times Groups’ music chain Planet M are focusing on specific market segment and have established themselves strongly in their sectors. Focusing on specific market segments and have established themselves strongly in their sectors. Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M are a couple of examples. Specialty stores are
single category, focusing on individuals and group clusters of the same class with high product loyalty. Examples – Footwear stores (Bata), Archies, Woodland, etc.

**HYPER MARTS / SUPERMARKETS:** Large self service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified into mini supermarkets typically 1,000 sq. ft. to 2,000 sq. ft. and large supermarkets ranging from of 3,500 sq. ft. to 5,000 sq. ft. having a strong focus on food & grocery and personal sales. Hypermarkets offer a large basket of products, ranging from grocery, Fries & processed food, beauty & healthcare products etc. Example – Spencer’s, Big Bazaar

**CASH & CARRY:** These are large B2B focused retail formats, buying & selling in bulk for various commodities and carry several thousand stock-keeping. Example – Mito, a Germany based C&G.  

1.4.3.1 **SUMMARY OF RETAIL FORMATS:**

**Table 5: Retail Formats in Nut Shell**

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
<th>The Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branded Stores</td>
<td>Exclusive showrooms either owned or franchised out by a manufacturer.</td>
<td>Complete range available for a given brand, certified product quality</td>
</tr>
<tr>
<td>Specialty Stores</td>
<td>Focus on a specific consumer need, carry most of the brands available</td>
<td>Greater choice to the consumer, comparison between brands is possible</td>
</tr>
<tr>
<td>Department Stores</td>
<td>Large stores having a wide variety of products, organized into different departments such as</td>
<td>One stop shop catering to varied/ consumer needs.</td>
</tr>
</tbody>
</table>


38 http://www.indiainbusiness.nic.in/industry-infrastructure/service-sectors/retailing3.htm
clothing, house wares, furniture, appliances, toys, etc.

<table>
<thead>
<tr>
<th>Supermarkets</th>
<th>Extremely large self-service retail outlets</th>
<th>One stop shop catering to varied consumer needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Stores</td>
<td>Stores offering discounts on the retail price through selling high volumes and reaping economies of scale</td>
<td>Low Prices</td>
</tr>
<tr>
<td>Hyper-mart</td>
<td>Larger than a supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city</td>
<td>Low prices, vast choice available including services such as cafeterias.</td>
</tr>
<tr>
<td>Convenience stores</td>
<td>Small self-service formats located in crowded urban areas.</td>
<td>Convenient location and extended operating hours.</td>
</tr>
<tr>
<td>Shopping Malls</td>
<td>An enclosure having different formats of in-store retailers, all under one roof.</td>
<td>Variety of shops available to each other.</td>
</tr>
</tbody>
</table>

1.5 FACTORS DRIVING THE GROWTH OR RETAIL SECTOR:

As per the Boston Consulting Group Report as of February 24, 2012; India is the second fastest growing major consumer market in the world. In the past few years the whole concept of shopping has been altered in terms of format and consumer buying behaviour. With the increasing urbanization, the Indian consumer is emerging as more trend and brand conscious. There has also been a shift from price considerations to designs and quality as there is a greater focus on looking and feeling good (apparel as well as fitness). At the same time, the Indian consumer is not enticed by retail products which are high on price but commensurately low on value or functionality. The Indian consumer is also
witnessing some changes in its demographics with a large working population being in the age group of 24-35 years. During the past few years, there has been an increase in the number of nuclear families, an increase in working women and emerging opportunities in the service sector which has been the key growth driver of the organized retail sector in India. Overall consumer spending is likely to expand 3.6 times from USD 991 billion in 2010 to USD 3.6 trillion by 2020 - a 14 per cent annual growth rate, or 8 per cent in real terms. By 2020, India will constitute 5.8 per cent of the world’s total consumer spending significantly higher than the 2.7 per cent it represents now. In addition to the above, use of digital and social media is revolutionizing the ways people interact and communicate with each other.39 Many International brands have entered the market. With the growth in organized retailing, unorganized retailers have brought drastic changes in their business models, many factor are responsible for the growth of retail sector. These are:

**INCRESSING DISPOSABLE INCOME:** Rising disposable incomes in middle class and lower middle class with increase in employment opportunities for young adults in IT & IT enabled sectors are the major cause of retail growth in India.

**INCRESSING NO OF DUAL INCOME NUCLEAR FAMILIES:** In India, hefty pay packets, nuclear family along with increasing working women population and dual income in family are the factors contributing to prosperous retail sector.

**CHANGING LIFESTYLE AND CONSUMER BEHAVIOR:** Due to increasing working population, comfortable life, travel and leisure are given importance. These key factors are growth drivers of retail sector in India which now boast of retailing almost all the preferences of life – apparel and accessories, Appliances, Electronics, cosmetics & Toilets cries etc.

**EXPERIMENTATION WITH FORMATS:** Due to competition in the market, retailing is still evolving and the sector is witnessing a series of experiments with new formats being tested out.

**STORE DESIGN:** Shopping malls and super markets are growing at a very faster rate. Improvements in infrastructure and enhanced availability of retail space, store design are the factors increasing the share of organized retail and thereby

contributing to growth of Indian retail sector.\(^{40}\)

**CHANGING CONSUMPTION PATTERNS:** In a developing economy like India, the biggest challenge a marketer faces would be to tackle the ever changing consumption practices. The majority of the Indian consumers are shifting from brand loyalist to value conscious, which would require greater efforts on the part of a retailer to satisfy the billion demands and provision of enduring services. These changes are reflected in the growing disposable income and per capita growth in the table below:

**Table 6: Disposable Income and Per Capita Growth**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, Purchasing Power parity ($ Per Capita)</td>
<td>3453</td>
<td>3777</td>
<td>4103</td>
<td>4434</td>
<td>4819</td>
</tr>
<tr>
<td>GDP, Purchasing Power parity (Per Capita %)</td>
<td>12</td>
<td>9.3</td>
<td>8.6</td>
<td>8</td>
<td>8.6</td>
</tr>
<tr>
<td>Gross Disposable Income Per Household $</td>
<td>5295</td>
<td>6151</td>
<td>6867</td>
<td>7627</td>
<td>8447</td>
</tr>
<tr>
<td>Gross Disposable Income Per Household Growth %</td>
<td>16.3</td>
<td>26.1</td>
<td>11.6</td>
<td>10.07</td>
<td>10.75</td>
</tr>
<tr>
<td>Rural Population %</td>
<td>70.21</td>
<td>69.98</td>
<td>69.75</td>
<td>69.53</td>
<td>69.3</td>
</tr>
<tr>
<td>Urban Population %</td>
<td>29.79</td>
<td>30.02</td>
<td>30.25</td>
<td>30.47</td>
<td>30.7</td>
</tr>
</tbody>
</table>

*Source: Datamonitor Country Insight, 2011*

**1.6 CHALLENGES TO RETAIL DEVELOPMENT IN INDIA**

Though large number of business houses is coming forward to open up retail chains they will have to face many challenges for augmenting and gaining excellence. Indian retailing is an urban phenomenon and the pace of growth is still slow. Some of the reasons for the slow growth are:

**Lack of Adequate Infrastructure:** Poor roads and the lack of a cold chain infrastructure hamper the development of food and grocery retail in India. The existing supermarkets and foods retailers have to invest a substantial amount of

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money and time in building a cold chain network.\textsuperscript{41} The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.\textsuperscript{42}

**High Cost of Real Estate:** Real estate prices in some cities in India are amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure; a high lease rental reduces the profitability of a project.\textsuperscript{43}

**Lack of Skilled Workforce:** Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.\textsuperscript{44}

**Competition from Unorganized Retailing:** The firm challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labor costs and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector.\textsuperscript{45}

**Entry of International Players:** With the new FDI regime, foreign players are incisive of Indian partners to grab the potential of retail markets in India. Regulations pose the biggest challenge for retail growth in India, particularly the

\textsuperscript{41} Dr.Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
\textsuperscript{42} Sunita Sikri & Ms. Dipti Wadhwa, Growth And Challenges Of Retail Industry In India: An Analysis, Asia Pacific Journal Of Marketing And Management Review, Vol.1, Issue 1, September 2012, ISSN 2319-2836
\textsuperscript{43} Dr.Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
\textsuperscript{44} Dr.Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
\textsuperscript{46} Dr.Shahid Akhter and Iftekhar Equbal Organized Retailing In India – Challenges And Opportunities, Zenith, International Journal Of Multidisciplinary Research, Vol.2, Issue 1, January 2012, ISSN 2231 5780
foreign investment restrictions for multi brand retail, which will probably not change anytime soon.

**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. The retail sector does not have ‘industry’ status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.

**Price War amongst Retail Organizations:** As more and more organized retail outlets are dotting the Indian topography, competition is no more restricted between organized and unorganized retailing.

**Retail Shrinkage:** Retail shrinkage is also one of the major challenges. Retail shrinkage is the difference in the value of stock as per the books and the actual stock available in the shop. Effective online monitoring system need to be implemented.\(^{46}\)

**International Standards:** Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

**Inefficient supply chain management:** Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.

**Cultural Diversity:** India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which is challenging.

**Frauds in Retail:** It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems.

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\(^{46}\) Tazyn Rahman, Organized Retail Industry In India – Opportunities And Challenges, IJRFM, Volume 2, Issue 2 (February 2012), ISSN 2231-5985
As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.\textsuperscript{47}

1.7 SWOT Analysis of Organised Retail Industry of India:

**Strengths:**

- Organized retailing growing at a brisk pace i.e. 8%.
- 2nd largest contributor to GDP after agriculture at 20%.
- Pattern of consumption changing along with shopping trends.
- Consumer spending increasing at 11% annually.
- Paradigm shift in shopping experience for consumers pulling in more people.
- Advancement in the area of Information Technology
- New sales channels like E-commerce and direct marketing.
- Availability of consumer credit
- On an average a super market stocks up to 5000 SKU's against a few hundreds stocked with an average unorganized retailer. This provides variety in products (required breadth & depth for consumers).
- As a consequence of high volumes, procurement will be direct from the manufacturer. Hence, merchandise can be offered at lower costs.

**Weaknesses:**

- Shortage of quality retail spaces at affordable rates.
- Lack of huge investments for expansion
- Need to provide Value for Money-squeezing margins
- Lack of industry status.
- Less Conversion level: Despite high footfalls, the conversion ratio has been very low in the retail outlets in a mall as compared to the standalone counter parts. It is seen that actual conversions of footfall into sales for a mall outlet is approximately 20-25%. On the other hand, a high street store

\textsuperscript{47} Sunita Sikri & Ms. Dipti Wadhwa, Growth And Challenges Of Retail Industry In India: An Analysis, Asia Pacific Journal Of Marketing And Management Review, Vol.1, Issue 1, September 2012, ISSN 2319-2836
of retail chain has an average conversion of about 50-60%. As a result, a stand-alone store has a ROI (return on investment) of 25-30%; in contrast the retail majors are experiencing a ROI of 8-10%.

- Customer Loyalty: Retail chains are yet to settle down with the proper merchandise mix for the mall outlets. Since the stand-alone outlets were established long time back, so they have stabilized in terms of footfalls & merchandise mix and thus have a higher customer loyalty base.

**Opportunities:**

- Increasing urban population-more participants in retail revolution.
- Social factors, like dual household income has enhanced spending power.
- Spends moving towards lifestyle products and esteem enhancing products.
- Average grocery spends at 42% of monthly spends-presents a huge opportunity.
- Increase in use of credit cards.
- Brick and click: A combination of traditional store retailing along with non-store retailing like Internet and E commerce.
- Premium Priced Store: Premium priced stores are targeting the high income group customers and earning healthy profits. Tiffany and Co is an example of such premium priced store.
- Entertainment in Retail: Entertainment Industry and Retail Industry are working hand in hand to attract larger section of consumers. Sony Copr has opened some huge entertainment complexes in USA and so many retail outlets are also housed in the same building and they are complementing each other and both are doing quite well.
- Increase in consuming middle class population: The Indian middle class is already 30 Crore & is projected to grow to over 60 Crore by 2010 making India one of the largest consumer markets of the world. The IMAGES-KSA projections indicate that by 2015, India will have over 55 Crore people under the age of 20 - reflecting the enormous opportunities possible in the kids and teens retailing segment.
Percolating Down: In India it has been found out that the top 6 cities contribute for 66% of total organized retailing. While the metros have already been exploited, the focus has now been shifted towards the tier-II cities. The 'retail boom', 85% of which has so far been concentrated in the metros is beginning to percolate down to these smaller cities and towns. The contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25%.

Rural Retailing: India's huge rural population has caught the eye of the retailers looking for new areas of growth.

India is one of the youngest and largest consumer markets in the world with a median age of around 25 years, which is the lowest as compared with other countries. By 2015, the middle class is expected to constitute around 25% of total households and account for 44% of the total disposable income, and by 2025, the respective figures are likely to go up to 46% and 58%. The Indian middle-class population and their growing disposable income levels will drive the future growth of organised retail in India. 48

Threats:

- Rising lease/rental costs affecting project viability.
- Poor monsoons and low GDP Growth could affect consumer spending drastically.
- Archaic labor laws are a hindrance to providing 24/7 shopping experience.
- Personalized service offered by Kirana stores.
- Unavailability of qualified personnel to support exponential growth in retail.
- If the unorganized retailers are put together, they are parallel to a large supermarket with no or little overheads, high degree of flexibility in merchandise, display, prices and turnover.
- Cultural Variation leads to variation in merchandise in India at different

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geographical locations.

1.8 REGULATORY REGIME

The retail sector cuts across various industries and business models. As a consequence, there is a higher possibility of regulatory overlap. While general corporate, tax, commercial laws and laws related to intellectual property, trade and employment laws remain applicable to the retail industry, as in the case of any other industry, some regulatory aspects might get triggered on account of the format or business model that the investor chooses to adopt, M-Commerce, for instance.49

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.50 International Monetary Organization (IMF) and Organization for Economic Cooperation and Development (OECD) define FDI as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a ‘lasting interest’ in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motive of the direct investor is a strategic long term relationship with the direct investment enterprise to ensure significant degree of influence in the management of the direct investment enterprise. Besides, International Bank for Reconstruction and Development (IBRD) and United Nations Conference on Trade and Development (UNCTAD) also provide definition of Foreign Direct Investment. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It is preferred over other source of foreign capital because it is non-volatile, non-debt creating and results in economic development, modernization and employment generation in the economy.

The legal regimes that controls FDI in India and to that extent FDI in retailing includes Press Notes by Department of Industrial Policy and Promotion, Foreign

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49 Destination India: Welcome Retail, Legal, Tax & Regulatory Primer With Industry Insight, October 2012, Nishith Desai Associates, Legal & Tax Counseling Worldwide
50 http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis, Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis
Exchange Management Act 1999, Guidelines of Reserve Bank of India (RBI) and Security and Exchange Board of India, besides, of course, the Constitution of India. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (‘RBI’) in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (‘FIPB’) would be required.

1.8.1 REGULATORY PATTERNS ACROSS THE GLOBE

There have been proposals for setting up a National Retail Authority, which are yet to attain any momentum in the industry space. With respect to unorganized retail, the Ministry of Housing and Urban Poverty Alleviation has formulated a National Policy for Urban Street Vendors. However, at the moment, there is no single regulatory authority that governs the organized retail sector; nor is there any umbrella legislation. Under List I of Seventh Schedule of the Constitution of India, Inter-State trade and commerce is a subject for the Parliament, the Central legislative body, to enact upon. Under List II, however, trade and commerce within a State is a State subject. A regulatory framework to govern retail sector, consequently, might need the approval of the individual States under the Constitution. However, this position might undergo substantial changes if the Government pays heed to the stakeholders who demand

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51 Hemant K. Batra, Kaden Boriss Legal LLP and the Vice-President of SAARCLAW, India Law Journal
52 http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis,
Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis
‘industry’ status for retail. This is hoped to entail developing a Ministry responsible and accountable for the growth and interests of the sector, a single-window clearance system to streamline license processes associated with establishing retail stores, tax and investment incentives, among other things. While countries like Spain, Denmark and Bhutan have experimented with a national legislation to regulate retail trading, the general trend has been to defer the regulation of retail trading to provincial/regional authorities, as has been done in the UK and Australia.

One can draw a pattern of retail regulation from most jurisdictions including India: retail outlets have been brought within the purview of other generic legislations that deal with taxes, pricing, weights and measures, shopping hours, marketing/advertising practices, licensing, employment etc. Given the complexity of retail structures and the diversity of its segments, this approach makes the most sense. Also, one might note that legislations that cater to the needs of one country cannot be replicated in another. For example, some countries have ‘blue laws’, i.e. laws that deal with religious observances, which might be entirely inapplicable in the context of other countries.

Interestingly, retail trading also provides some scope for ‘private regulations’ where a powerful retailer might want manufacturers or service providers to comply with in terms of quality, carbon footprint etc. before their products can be sold through that retail chain. The antitrust and trade implications of such private norms enforced solely through the market forces, is an intriguing legal issue.53

1.8.2 FOREIGN DIRECT INVESTMENT REGIME IN INDIA

FDI in India is regulated under Foreign Exchange Management Act, 1999 (“FEMA”). The Department of Industrial Policy and Promotion (“DIPP”), Ministry of Commerce and Industry, Government of India makes policy pronouncements on FDI through Press Notes/ Press Releases which are notified by the Reserve Bank of India (“RBI”) as amendments to Foreign Exchange Management (Transfer or Issue of Security by Persons Resident Outside India) Regulations, 2000. Paragraph 4.2.3 of consolidated FDI policy (“FDI Policy”) lays down two entry routes for investment: the automatic

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route and the government/approval route. Under the latter, prior approval of the Government of India through Foreign Investment Promotion Board (‘FIPB’) is required. Investments can be made by non-residents in the capital of a resident entity only to the extent of the percentage of the total capital (sectoral caps) as provided in the FDI Policy. Accordingly, DIPP in press notes 4 and 5 (2012 Series) inserted / modified paragraphs 6.2.16.4 and 6.2.16.5 of the FDI Policy allowing FDI in single brand product retail trading (100%) and multi brand retail trading (51%) respectively with prior approval of FIPB subject to compliance of certain conditions. Further, paragraph 6.2 of the FDI Policy states FDI into cash and carry wholesale trading is allowed up to 100% under automatic route provided that certain conditions are satisfied. Additionally, Paragraph 6.2.16.2.1 of FDI Policy states that companies engaged in the activity of buying and selling by a company through the e-commerce platform would engage only in Business to Business (B2B) e-commerce and not in retail trading. However, provision of services by e-commerce companies to retail consumers is not covered under this restriction.

FDI Policy specifies eligible investors. A non-resident entity can invest in India subject to the FDI Policy. A citizen of Bangladesh or an entity incorporated in Bangladesh can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defense, space and atomic energy. FDI Policy also details the types of instruments through which an investor can invest into India. Issue of shares, fully, compulsorily and mandatorily convertible debentures and preference shares are counted as FDI. The inward remittance received by an Indian company by way of issuance of depository receipts and foreign currency convertible bonds is also counted as FDI. Subject to FDI sectorial policy, non-resident investors can also invest in Indian companies by purchasing/acquiring existing shares from Indian shareholders or from other non-resident shareholders. However, if the activity of the Indian company falls outside the automatic route (i.e. in cases where a prior approval from the Government agencies or RBI is required) as single brand retail trading and multi brand retail trading does, such transfer requires RBI approval. A general permission is granted for issue of equity shares/preference shares against lump sum technical knowhow fee, royalty, subject to entry route, sectorial cap and pricing guidelines and
compliance with applicable tax laws.

As far as the entities into which FDI can be made, non-resident investors enjoy a choice from among companies, partnership firms/proprietary concerns/ limited liability partnership and Venture Capital Funds (VCFs) subject to the adherence to conditions of FDI Policy. There are guidelines laid down in FDI Policy on the calculation of total foreign investment i.e. direct and indirect foreign investment in India.

1.8.3 RATIONALE BEHIND ALLOWING FDI IN RETAIL SECTOR

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity.

The policy of single-brand retail was adopted to allow Indian consumers access to foreign brands. Since Indians spend a lot of money shopping abroad, this policy enables them to spend the same money on the same goods in India. FDI in single-brand retailing was permitted in 2006, up to 51 per cent of ownership. Between then and May 2010, a total of 94 proposals have been received. Of these, 57 proposals have been approved. An FDI inflow of US$ 196.46 million under the category of single brand retailing was received between April 2006 and September 2010, comprising 0.16 per cent of the total FDI inflows during the period. Retail stocks rose by as much as 5%. Shares of Pantaloon Retail (India) Ltd ended 4.84% up at Rs. 441 on the Bombay Stock Exchange. Shares of Shopper’s Stop Ltd rose 2.02% and Trent Ltd, 3.19%. The exchange’s key index rose 173.04 points, or 0.99%, to 17,614.48. But this is very less as compared to what it would have been had FDI up to 100% been allowed in India for single brand.

The policy of allowing 100% FDI in single brand retail can benefit both the foreign retailer and the Indian partner – foreign players get local market knowledge, while Indian companies can access global best management practices, designs and technological knowhow. By partially opening this sector, the government was able to
reduce the pressure from its trading partners in bilateral/multilateral negotiations and could demonstrate India’s intentions in liberalising this sector in a phased manner.

Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country & its productive use, in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmer income & agricultural growth and assist in lowering consumer prices inflation.

Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade.

Lastly, it is to be noted that the Indian Council of Research in International Economic Relations (ICRIER), a premier economic think tank of the country, which was appointed to look into the impact of BIG capital in the retail sector, has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to conclusion that investment of ‘big’ money (large corporates and FDI) in the retail sector would in the long run not harm interests of small, traditional, retailers.

In light of the above, it can be safely concluded that allowing healthy FDI in the retail sector would not only lead to a substantial surge in the country’s GDP and overall economic development, but would inter alia also help in integrating the Indian retail market with that of the global retail market in addition to providing not just employment but a better paying employment, which the unorganized sector (kirana and other small time retailing shops) have undoubtedly failed to provide to the masses employed in them.

Industrial organisations such as CII, FICCI, US-India Business Council (USIBC), the American Chamber of Commerce in India, The Retail Association of India (RAI) and Shopping Centers Association of India (a 44 member association of Indian multi-brand retailers and shopping malls) favour a phased approach toward liberalising FDI
in multi-brand retailing, and most of them agree with considering a cap of 49-51 per cent to start with.

The international retail players such as Wal-Mart, Carrefour, Metro, IKEA, and TESCO share the same view and insist on a clear path towards 100 per cent opening up in near future. Large multinational retailers such as US-based Wal-Mart, Germany’s Metro AG and Woolworths Ltd, the largest Australian retailer that operates in wholesale cash-and-carry ventures in India, have been demanding liberalisation of FDI rules on multi-brand retail for some time.

Thus, as a matter of fact FDI in the buzzing Indian retail sector should not just be freely allowed but per contra should be significantly encouraged. Allowing FDI in multi brand retail can bring about Supply Chain Improvement, Investment in Technology, Manpower and Skill development, Tourism Development, Greater Sourcing From India, Up gradation in Agriculture, Efficient Small and Medium Scale Industries, Growth in market size and Benefits to government through greater GDP, tax income and employment generation.

1.8.4 FDI IN RETAIL SECTOR

India entered into the World Trade Organisation’s General Agreement on Trade in Services (GATS), in January 1995 pursuant to the Uruguay Round negotiations. Each WTO Member is required to have a schedule of specific commitments. It is a document which identifies the service sectors, sub-sectors or activities which are subject to market access and national treatment obligations and any limitations attached to them. One of the standard services to the GATS includes distribution services (i.e. commission agent, wholesale trade services, retailing services and franchising), As per India’s Revised Offer at WTO on August 24, 2005, India has offered to undertake extensive commitments in a number of new sectors/sub-sectors such as distribution services in the areas of commission agents and wholesale trade services. As a backdrop, India is gradually opening up the retail trade sector to foreign

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54 http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis,
Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis
investment. Traditionally, the retail sector in India was considered to be a sensitive sector especially due to factors, such as (i) the employment it generates and (ii) being in its early and undeveloped stage (particularly the domestic organized retail segment) it is not in a position to compete with large players. As a result, the Government policy has largely been to protect agriculturist and small retailers and therefore has discouraged entry of larger retailers in the market. Thus, participation of foreign investors in the retail sector was prohibited.

1.8.4.1 THE INDIAN FDI POLICY TIMELINE

1997 - FDI in cash and carry (wholesale) with 100 per cent ownership was allowed under the Government approval route.

2006 - FDI in cash and carry (wholesale) with 100 per cent brought under the automatic route.

2006 - FDI up to 51 per cent which allowed foreigners to setup stores by partnering joint ventures with Indian firms in single brand product trading under Government approval route allowed.

2010 - Discussion paper on FDI in multi-brand retail trading introduced by Government.

2012 - FDI up to 100 per cent allowed in single brand product trading under the Government approval route subject to certain conditions.

2012 - FDI up to 51 per cent allowed in multi brand retail trading under the Government approval route subject to certain conditions.  

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Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51 per cent ownership and a bureaucratic process.

These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus. Foreign Direct Investment under the Industrial Policy 1991 and thereafter under different Foreign Trade Policies is being allowed in different sectors of the economy in different proportion under either the Government route or

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**Source:** Amisha Gupta, Foreign Direct Investment In Indian Retail Sector: Strategic Issues And Implications, IJMMR, Volume 1, Issue 1 (December, 2010), ISSN-2229-6883, Sri Krishna International Research & Educational Consortium, http://www.skirec.com

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56 Impact Of Foreign Direct Investment In Indian Retail Sector ; Dr. Richa Garg And Renu Arora, International Journal Of Research In IT & Management, IJRIM, Volume 3, Issue 1 (March 2013) (ISSN 2231-4334)
Automatic Route. On 14 September 2012, the government of India announced the opening of FDI in multi brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi-brand retail, thereby making it effective under Indian law. In Retailing, presently 51 per cent FDI is allowed in single brand retail through the Government Approval route while 100 per cent FDI is allowed in the cash-and-carry (wholesale) formats under the Automatic route. Under the Government Approval route, proposal for FDI in ‘Single Brand Product Retailing’ are received in the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry. Automatic route dispenses with the need of multiple approvals from Government and/or regulatory agencies (Government of India or the RBI). Investors are required only to notify the concerned Regional offices of RBI within 30 days of receipt of inward remittances and file required documents with that office within 30 days of the issue of shares to foreign investors.

The Ministry of Commerce and Industry, Government of India is the nodal agency for monitoring and reviewing the FDI policy on continued basis and changes in sectoral policy/sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA) Department of Industrial Policy and Promotion (DIPP).The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (FIPB) would be required.

1. India will allow FDI of up to 51% in multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
3. FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

58 Impact Of Foreign Direct Investment In Indian Retail Sector ; Dr. Richa Garg And Renu Arora, International Journal Of Research In IT & Management, IJRIM, Volume 3, Issue 1 (March 2013) (ISSN 2231-4334)
4. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.

5. All retail stores can open up their operations in population having over 1 million. Out of approximately 7935 towns and cities in India, 55 suffice such criteria.

6. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.

7. The opening of retail competition (policy) will be within parameters of state laws and regulations.  

**Wholesale Cash and Carry**

- According to the FDI Policy, whether a transaction is wholesale or retail would depend on the type of customers to whom the sale is made and not the size and volume of sales. Wholesale trading would mean the sale of goods to retailers, industrial, commercial, other professional business users or to other wholesalers, but not for personal consumption. The consolidated FDI policy released for the first time in 2009 introduced guidelines that mandate relevant permits and licenses to be obtained. It also lists a number of ‘valid business customers’ with whom wholesale transactions can be entered into (besides the Government). These entities should be:
  a) holders of sales tax/ VAT registration/service tax/excise duty registration;
  b) holders of trade licenses under Shops and Establishment Act, issued by the relevant governmental authority, indicating that the purchaser is engaged in a business involving commercial activity;
  c) holders of permits/licenses for undertaking retail trade (like tehzabazi and similar license for hawkers) from the relevant authority; or
  d) institutions having a certificate of incorporation or registration as a society or registration as a public trust for their self-consumption. Full records indicating all the details of such sales like the name of the entity, kind of entity, registration/license/permit etc. number, amount of sale etc. should be maintained on a day to day basis. It is expressly clarified that a wholesale trader cannot open retail

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60 Paul Uttam and Roy Swapan Kumar, Advances in Management, Vol. 6 (1), Jan. (2013) (3), The Indian Government and FDI in Retail Sector in India
outlets, whereby sales will be made to the customer directly. Under the existing FDI Policy, wholesale deals would be permitted among companies of the same group. However, such wholesale trade to group companies taken together could not exceed 25% of the total turnover of the wholesale venture. Here, it is relevant to note that the term ‘group companies’ as used in the FDI Policy with respect to wholesale trading has not been defined therein. Additionally, FEMA does not define the term. In absence of any definition, we may look at the definition of ‘Group Company’ under other relevant laws for guidance. However, a recent news report suggests that the DIPP has proposed that only 51% subsidiaries should be covered under the definition of group companies. Single-brand product retail trading (SBPRT) FDI up to 100% is permitted in SBPRT under the government route subject to fulfillment of certain criteria as recently introduced. Knowing the objectives the government had in mind while allowing foreign Investment in SBPRT will be helpful for prospective investors at the stage of formulating their FDI proposals. The objectives are:

a) Attracting investments in production and marketing;

b) Improving the availability of such goods for the consumer;

c) Encouraging increased sourcing of goods from India;

d) Enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices.

It is subject to further conditions that relate to the following:

a) Products to be sold should be of a ‘Single Brand’ only.

b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.

c) Single Brand’ product-retailing would cover only products which are branded during manufacturing.

d) The foreign investor should be the owner of the brand or a licensee / franchisee / sub-licensee.
This condition was introduced under the last version of the FDI Policy issued by the DIPP on September 30, 2011. This condition was seen to be restrictive as it ignored the IP holding structures prevalent globally. This condition has now been modified pursuant to which only one foreign investor whether owner of the brand directly or a licensee / franchisee / sub-licensee through a legally tenable agreement, shall be permitted to invest in SBPRT in the country, for the specific brand for which approval is being sought. The onus for ensuring compliance with this condition shall rest with the Indian entity carrying out SBPRT in India. The investing entity shall provide evidence to this effect at the time of seeking approval, including a copy of the licensing/franchise/sub-license agreement, specifically indicating compliance with the above condition. The dilution of the above condition is in line with international best practices and IP holding structures. It should provide the right incentive to investment in this sector.

e) In respect of proposals involving FDI beyond 51%, mandatory sourcing of at least 30% of the value of goods purchased will have to be done from India, preferably from MSMEs, 35 village and cottage industries, artisans and craftsmen, in all sectors. The local procurement requirement would have to be met as an average of five years’ total value of the goods purchased, beginning April 1 of the year during which the first tranche of FDI is received. Thereafter, this requirement is to be complied on an annual basis.

The Press Note 1 of 2012 dated January 10, 2012, permitted FDI, up to 100%, in SBPRT and provided that in respect of proposals involving FDI beyond 51%, mandatory sourcing of at least 30% of the value of products sold would have to be done from Indian ‘small industries/ village and cottage industries, artisans and craftsmen’. Certain foreign investors had expressed their concern with respect to this condition, pursuant to which the condition has been modified vide Press Note 4 (2012 Series). The modification of the local sourcing requirement stretched over a five year period is in line with the proposal made by many prospective investors who had emphasized the aforesaid condition shall be computed for a cumulative period from the date of approval instead of being required to comply on day 1 or soon thereafter. This condition will have to be followed by the company incorporated in India carrying out SBPRT and recipient of FDI.
f) Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of SBPRT. Applications seeking permission from the Government for FDI in retail trade of ‘single brand’ products should be made to the Secretariat for Industrial Assistance (SIA) in the DIPP. The application shall specifically indicate the product/ product categories which are proposed to be sold under a ‘single brand’. Any addition to the product/ product categories to be sold under ‘single brand’ would require a new approval of the Government. Applications would be processed by the DIPP, to determine whether the investment satisfies the noted guidelines, before being considered by the FIPB for Government approval. Multi –brand product retail trading (MBRT) DIPP vide Press Note 5 (2012 Series) dated September 20, 2012 has amended the FDI Policy permitting 51% FDI in MBRT under the Government route i.e. with the prior approval of the DIPP and the FIPB subject to the compliance of certain conditions. The current FDI Policy does not define the term ‘multi brand’. MBRT generally implies the sale of multiple brands to retail customers for personal consumption. The proposal to allow FDI in MBRT dates back to July 2010, when DIPP first introduced its discussion paper (“Discussion paper on FDI in retail”) on allowing FDI in MBRT. The proposal of allowing FDI in MBRT was approved by the Cabinet in November 2011. However, due to adverse political backlash, the proposal was kept on hold. There was tremendous international pressure on the government to open up the multi-brand retail sector for FDI, as well as pressure domestically to end the stalemate of policy inaction. The Government has risen from its state of policy inaction and tried to establish a reformist image by allowing FDI in MBRT. As a result, the DIPP vide Press Note 5 (2012 Series) allowed 51% FDI in MBRT under the Government approval route subject to the following conditions:

- Retail sales outlets may be set up in those States which have agreed or agree in future to allow FDI in MBRT

Under List II of the Seventh Schedule of the Constitution of India, trade and commerce within a State is a State subject. A regulatory framework governing retail sector, consequently, needs the approval of States under the Constitution. As of now, only State Governments of Assam, Andhra Pradesh, Delhi, Haryana, Jammu and Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand, and the Union Territories of
Daman & Diu and Dadra and Nagar Haveli have agreed to allow MBRT. Accordingly, it would be the prerogative of the State Governments to decide whether and where a multi-brand retailer, with FDI, is permitted to establish its sales outlets within the State. The establishment of the retail sales outlets will have to be in compliance with applicable State laws / regulations, such as the Shops and Establishments Act etc. Additionally, the companies engaged in MBRT will also have to comply with local zoning regulations, warehousing requirements, access, traffic, parking and other logistics as prescribed by State Governments from time to time. With this restriction, each investor will have to comply with policy on FDI at both Centre and State levels. Depending on State policy on MBRT, the investors may or may not be permitted to invest in those States. Interestingly this seems to be the first time that discretion on whether to permit FDI in a sector or not has been left to the States.

- **Retail sales locations may be set up only in cities with a population of more than 1 million.**

The reach of retail sales outlets of foreign multi brand retail traders will be limited to only those cities with a population of 1 million (including an area of 10 kilometers around the municipal/urban agglomeration limits of such cities). As per 2011 Census only 53 cities qualify for FDI in multi brand retail locations. Additionally, in the States / Union Territories, which do not have any city with a population exceeding 1 million, but are desirous of implementing the policy, would have the flexibility to do so of identifying the largest city where FDI could be allowed. The above restriction of establishment of retail sales outlets in cities with a minimum prescribed population would limit reach of foreign investors. However, the current restriction to Tier 1 and Tier 2 cities seems reasonable given the sensitivity around the sector and prevalent undeveloped/ unorganised retail segment in small towns/ villages which would be unable to compete with large players.

- **Minimum amount to be brought in, as FDI, by the foreign investor, would be USD 100 million.**

The foreign investor has to bring in a minimum investment of USD 100 million in an
entity engaged in MBRT. Retail sector being a capital intensive sector, the requirement for minimum capitalisation appears logical. This will attract serious investors and allow the government to study the benefit such investment will have on the Indian economy.

➢ **50% of the total FDI brought in to be invested in ‘backend infrastructure’ within three years**

Considering the need for investment in back-end infrastructure, at least 50% of the total FDI brought in shall be invested in ‘back-end infrastructure’ within three years of the first tranche of FDI. Investment in ‘back-end infrastructure’ will include capital expenditure on all activities such as investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse, agriculture market, produce, infrastructure etc. Expenditure incurred on front-end units, land cost and rentals will not be reckoned for the purposes of backend investment. The Indian retail sector is lacking adequate infrastructure and immersed in increased cost and wastage due to disrupted supply chains and middlemen. To address this problem, the requirement for investment in back end infrastructure within a three year timeframe has been introduced.

➢ **30 per cent mandatory local sourcing requirement**

Similar to the requirement of mandatory local sourcing as applicable in SBPRT (prior to press note 4 of 2012), at least 30% of the value of procurement of manufactured / processed products purchased shall be sourced from Indian ‘small industries’. Compliance with this condition will have to be self-certified by the company and then cross-checked as and when required. This procurement requirement would have to be met, in the first instance, as an average of five years’ total value of the manufactured/processed products purchased, beginning April 1 of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis. In case of MBRT, the 30% sourcing requirement is to be calculated on the purchase of manufactured and processed products. Therefore, non-processed agricultural products would not be included. The mandatory local sourcing requirement in case of MBRT is aimed to provide a boost to small industries. It may be easier for multi brand
retailers to meet this condition since they have a large spectrum of goods to offer.

➢ **Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of MBRT.**

A company which is the recipient of FDI has to ensure compliance of the conditions relating to minimum USD 100 million investment, investment in back-end infrastructure and mandatory local procurement requirement which could be verified, as and when required. Further, the investors shall maintain accounts, duly certified by statutory auditors. Applications for MBRT would have to be made to DIPP. DIPP will determine whether the proposed investment satisfies the notified guidelines and after being satisfied will forward the application to be considered by the FIPB for approval.  

1.8.4.2 FDI in Single Brand Retail

The Government has not categorically defined the meaning of “Single Brand” anywhere neither in any of its circulars nor in any notifications.

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 that (a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed), (b) products should be sold under the same brand internationally, (c) single-brand product retail would only cover products which are branded during manufacturing and (d) any addition to product categories to be sold under “single-brand” would require fresh approval from the government.

While the phrase ‘single brand’ has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a ‘single brand’, viz., Reebok, Nokia, Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

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61 Destination India: Welcome Retail, Legal, Tax & Regulatory Primer With Industry Insight, October 2012, Nishith Desai Associates, LEGAL & TAX COUNSELING WORLDWIDE
Going a step further, we examine the concept of ‘single brand’ and the associated conditions:

FDI in ‘Single brand’ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

1.8.4.3 FDI in Multi Brand Retail

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail. The paper doesn’t suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‘kirana’ store.62

1.8.4.4 FOREIGN INVESTOR’S CONCERN

For those brands which adopt the franchising route as a matter of policy, the current FDI Policy will not make any difference. They would have preferred that the Government liberalize rules for maximizing their royalty and franchise fees. They must still rely on innovative structuring of franchise arrangements to maximize their returns. Consumer durable majors such as LG and Samsung, which have exclusive franchisee owned stores, are unlikely to shift from the preferred route right away.

62 http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis, Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis
For those companies which choose to adopt the route of 51% partnership, they must tie up with a local partner. The key is finding a partner which is reliable and who can also teach a trick or two about the domestic market and the Indian consumer. Currently, the organized retail sector is dominated by the likes of large business groups which decided to diversify into retail to cash in on the boom in the sector – corporates such as Tata through its brand Westside, RPG Group through Foodworld, Pantaloon of the Raheja Group and Shopper’s Stop. Do foreign investors look to tie up with an existing retailer or look to others not necessarily in the business but looking to diversify, as many business groups are doing?

An arrangement in the short to medium term may work wonders but what happens if the Government decides to further liberalize the regulations as it is currently contemplating? Will the foreign investor terminate the agreement with Indian partner and trade in market without him? Either way, the foreign investor must negotiate its joint venture agreements carefully, with an option for a buy-out of the Indian partner’s share if and when regulations so permit. They must also be aware of the regulation which states that once a foreign company enters into a technical or financial collaboration with an Indian partner, it cannot enter into another joint venture with another Indian company or set up its own subsidiary in the ‘same’ field without the first partner’s consent if the joint venture agreement does not provide for a ‘conflict of interest’ clause. In effect, it means that foreign brand owners must be extremely careful whom they choose as partners and the brand they introduce in India. The first brand could also be their last if they do not negotiate the strategic arrangement diligently.63

1.8.5 Concerns for the Government for only Partially Allowing FDI in Retail Sector

A number of concerns were expressed with regard to partial opening of the retail sector for FDI. The Hon’ble Department Related Parliamentary Standing Committee on Commerce, in its 90th Report, on ‘Foreign and Domestic Investment in Retail

63 ibid
Sector’, laid in the Lok Sabha and the Rajya Sabha on 8 June, 2009, had made an in-depth study on the subject and identified a number of issues related to FDI in the retail sector. These included:

It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there.

Another concern is that the Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore, it is important that the domestic retail sector is allowed to grow and consolidate first, before opening this sector to foreign investors.

Antagonists of FDI in retail sector oppose the same on various grounds, like, that the entry of large global retailers such as Wal-Mart would kill local shops and millions of jobs, since the unorganized retail sector employs an enormous percentage of Indian population after the agriculture sector; secondly that the global retailers would conspire and exercise monopolistic power to raise prices and monopolistic (big buying) power to reduce the prices received by the suppliers; thirdly, it would lead to asymmetrical growth in cities, causing discontent and social tension elsewhere. Hence, both the consumers and the suppliers would lose, while the profit margins of such retail chains would go up.64

1.8.6 Prerequisites before allowing FDI in Multi Brand Retail and Lifting Cap of Single Brand Retail

FDI in multi-brand retailing must be dealt cautiously as it has direct impact on a large chunk of population. Left alone foreign capital will seek ways through which it can only multiply itself, and unthinking application of capital for profit, given our peculiar socio-economic conditions, may spell doom and deepen the gap between the

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64 ibid
rich and the poor. Thus the proliferation of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation for India. This can be done by integrating into the rules and regulations for FDI in multi-brand retailing certain inbuilt safety valves. For example FDI in multi-brand retailing can be allowed in a calibrated manner with social safeguards so that the effect of possible labor dislocation can be analyzed and policy fine-tuned accordingly. To ensure that the foreign investors make a genuine contribution to the development of infrastructure and logistics, it can be stipulated that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units. Reconstituting the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere can be one of the justifications for introducing FDI in multi-brand retailing. To actualize this goal it can be stipulated that at least 50% of the jobs in the retail outlet should be reserved for rural youth and that a certain amount of farm produce is procured from the poor farmers. Similarly to develop our small and medium enterprise (SME), it can also be stipulated that a minimum percentage of manufactured products be sourced from the SME sector in India. PDS is still in many ways the life line of the people living below the poverty line. To ensure that the system is not weakened the government may reserve the right to procure a certain amount of food grains for replenishing the buffer. To protect the interest of small retailers the government may also put in place an exclusive regulatory framework. It will ensure that the retailing giants do resort to predatory pricing or acquire monopolistic tendencies. Besides, the government and RBI need to evolve suitable policies to enable the retailers in the unorganized sector to expand and improve their efficiencies. If Government is allowing FDI, it must do it in a calibrated fashion because it is politically sensitive and link it (with) up some caveat from creating some back-end infrastructure.

Further, To take care of the concerns of the Government before allowing 100% FDI in Single Brand Retail and Multi-Brand Retail, the following recommendations are being proposed :-

- Preparation of a legal and regulatory framework and enforcement mechanism to ensure that large retailers are not able to dislocate small retailers by unfair means.
• Extension of institutional credit, at lower rates, by public sector banks, to help improve efficiencies of small retailers; undertaking of proactive programme for assisting small retailers to upgrade themselves.

• Enactment of a National Shopping Mall Regulation Act to regulate the fiscal and social aspects of the entire retail sector.

• Formulation of a Model Central Law regarding FDI of Retail Sector.\textsuperscript{65}

1.8.7 PERMISSIBLE MODELS FOR ENTRY OF FOREIGN PLAYERS

While there is no proven model for India as yet, in addition to direct foreign investment in companies engaged in retail trading in compliance with the sectoral cap and conditionalities as may be applicable, the following are some permissible models for entry into the Indian retail sector.

• \textbf{FRANCHISE AGREEMENTS}

Franchising is the easiest and most widely used route by international retailers to enter India. While, Indian law does not define franchising, it simply means a method of distributing products or services. The Blacks Law Dictionary defines a franchise as a license from the owner of a trademark or trade name permitting another to sell a product or service under that name or mark. Though there is no specific law pertaining to franchising in India, franchising as a business deals with various general commercial laws and industry specific laws. It would be important to understand how these different laws can affect a franchising business in India and what issues could arise. There are various forms of entering into franchising arrangements. Some of the popular franchise models are reproduced below:

Under the master franchise structure, a multinational company i.e. franchisor will typically enter into a master franchise agreement for a particular territory with the counterpart in effect allowing the master franchisee to sub-franchise the rights to the local franchisee in that particular jurisdiction.
Under this structure, the franchisor directly enters into franchise agreement with the local area franchisee unlike the master franchise structure. While the concept of franchising seems simple, there are several issues that must be dealt with before entering into a franchising arrangement. For example: in a franchising arrangement, the issues with respect to enforceability of franchise agreement, protection of intellectual property rights of the franchisor/owner, constitution of agency and issues under applicable anti-trust laws must be kept in mind. Further, from an exchange control perspective, in an international franchise arrangement between an Indian resident and a non-resident, remittance for purchase / use of trademark/franchise is freely permitted. Further, withdrawal of foreign exchange by persons for payment of royalty and lump-sum payment under technical collaboration agreements can be made without the approval of the Ministry of Commerce and Industry, Government of India.66

It is an easiest track to come in the Indian market. In franchising and commission agents’ services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.67

- **STRATEGIC LICENSING AGREEMENTS**

Under the strategic licensing arrangement, an international retailer licenses distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees.68 Some foreign brands give exclusive licences and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered

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66 Destination India: Welcome Retail, Legal, Tax & Regulatory Primer With Industry Insight, October 2012, Nishith Desai Associates, LEGAL & TAX COUNSELING WORLDWIDE
67 [http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%e2%80%93-an-analysis, Pulkit Agarwal And Esha Tyagi, foreign direct investment in indian retail sector – an analysis](http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%e2%80%93-an-analysis)
68 Destination India: Welcome Retail, Legal, Tax & Regulatory Primer With Industry Insight, October 2012, Nishith Desai Associates, Legal & Tax Counseling Worldwide
India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd.⁶⁹

The diagrammatic representation of the structure is given below⁷⁰:

- **MANUFACTURING AND WHOLLY OWNED SUBSIDIARIES**
  
  From an exchange control perspective, conditionalities in retail trading are applicable to companies engaged in trading (whether SBPRT or MBRT or wholesale cash and carry). Therefore, international brands that have set up wholly owned subsidiaries engaged in manufacturing of products are allowed to do retail trading. Further, these manufacturing companies can sell their products in India under franchising, distribution arrangements or through their own outlets.⁷¹ The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorised to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered

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⁶⁹ [http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis, Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis](http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis, Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis)


⁷¹ ibid
through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.\textsuperscript{72}

The diagrammatic representation of the structure is given below\textsuperscript{73}:

\begin{itemize}
  \item **INVESTMENT INTO AN INDIAN OWNED AND CONTROLLED COMPANY**
  
  According to the FDI Policy, an Indian company which is owned and controlled by an Indian resident directly or through Indian companies, will be considered as an Indian company. Thus, any downstream investments made by such a company (which has foreign investment of less than 50\%) would not be taken as having any indirect foreign investment. However, this methodology for computation of foreign investment will not apply to sectors that are governed specifically by separate statutes, such as the insurance sector. In light of the above and based on the interpretation of the provisions of the FDI Policy, if an Indian operating and holding company is owned and controlled by Indian promoters/ shareholders, the downstream investment in a company (carrying on retail trading) should not be regarded as FDI

\textsuperscript{72} http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%88%93-an-analysis, Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis

\textsuperscript{73} Destination India: Welcome Retail, Legal, Tax & Regulatory Primer With Industry Insight, October 2012, Nishith Desai Associates, LEGAL & TAX COUNSELING WORLDWIDE
even though there is foreign investment in an Indian operating and holding company, provided the investment of foreign investor in Indian operating and holding company is below 50% and the foreign investor does not exercise control in an Indian operating and holding company. The diagrammatic representation of the structure is given below:\(^{74}\):

![Diagram](image)

However, it is possible, that the regulator may take a different view on this structure. This is because the downstream investment is in a subsidiary that is engaged in business falling in a restricted sector and the regulator may view the proposed structure as not aligned with the sectoral caps on retail trading. One must keep this in mind when discussing investment structures.

- **INVESTMENT THROUGH THE NON-CONVERTIBLE DEBENTURE STRUCTURE**

Investment in a retail Indian company can be structured by the issuance of non-convertible debentures (NCDs) proposed to be listed on the wholesale debt market segment of the stock exchange as per the debt listing agreement and the SEBI (Issue
of Debt Instruments) Regulations, 2009. However, investment in debt securities will be purely financial investment as it may not confer control rights on the debenture holder.

**INVESTMENT IN BACK END STRUCTURE**

Investment in the retail sector can be made in wholesale trading company (“WTC” or “back end company”) in which 100% FDI is permissible under the automatic route also engaged in back-end activities. Such a WTC can undertake transactions with a front end company (“Retail Co.”) engaged in retail trading. However, such wholesale trade made to Retail Co. of a group company cannot exceed 25 % of the TOTAL TURNOVER OF WTC.

Further, WTC may enter into a licensing agreement for use of brands as well as a services agreement whereby WTC may provide certain services to Retail Co. Given the sensitivity surrounding the retail sector in India, any transaction structure that is proposed must be mindful of the overall policy perspective of the Government and to that extent may be exposed to a degree of regulatory scrutiny.\(^5\)

**Cash And Carry Wholesale Trading**

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.\(^6\)

**1.8.9 LIMITATIONS OF THE PRESENT SETUP**

**Infrastructure**

There has been a lack of investment in the logistics of the retail chain, leading to an inefficient market mechanism. Though India is the second largest producer of fruits and vegetables (about 180 million MT), it has a very limited integrated cold-chain

\(^5\) ibid

\(^6\) [http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis](http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis), Pulkit Agarwal and Esha Tyagi, *Foreign Direct Investment in Indian Retail Sector – An Analysis*
infrastructure, with only 5386 stand-alone cold storages, having a total capacity of 23.6 million MT., 80% of this is used only for potatoes. The chain is highly fragmented and hence, perishable horticultural commodities find it difficult to link to distant markets, including overseas markets, round the year. Storage infrastructure is necessary for carrying over the agricultural produce from production periods to the rest of the year and to prevent distress sales. Though FDI is permitted in cold-chain to the extent of 100%, through the automatic route, in the absence of FDI in retailing; FDI flow to the sector has not been significant.

**Intermediaries dominate the value chain**

Intermediaries often flout mandi norms and their pricing lacks transparency. Wholesale regulated markets, governed by State APMC Acts, have developed a monopolistic and non-transparent character. According to some reports, Indian farmers realize only 1/3rd of the total price paid by the final consumer, as against 2/3rd by farmers in nations with a higher share of organized retail.

**Improper Public Distribution System (“PDS”)**

There is a big question mark on the efficacy of the public procurement and PDS set-up and the bill on food subsidies is rising. In spite of such heavy subsidies, overall food based inflation has been a matter of great concern. The absence of a ‘farm-to-fork’ retail supply system has led to the ultimate customers paying a premium for shortages and a charge for wastages.

**No Global Reach**

The Micro Small & Medium Enterprises (“MSME”) sector has also suffered due to lack of branding and lack of avenues to reach out to the vast world markets. While India has continued to provide emphasis on the development of MSME sector, the share of unorganised sector in overall manufacturing has declined from 34.5% in
1999-2000 to 30.3% in 2007-08. This has largely been due to the inability of this sector to access latest technology and improve its marketing interface.\textsuperscript{77}

1.8.10 CHALLENGES MOVING FORWARD

While the policy framework in relation to FDI in MBRT is now put in place, the implementation of this policy framework is bound to have certain challenges. Some of which include:

**Implementation at State level**

It is the first time that FDI policy is introduced as an enabling policy and implementation is left to the discretion of the State Governments / Union Territories and draws support from the fact that ‘trade and commerce within the State’ is a State subject under the Constitution of India. Such a policy may give unrestricted powers to the State Government / Union Territories to impose conditions in addition to those prescribed by the DIPP. State level regulations could also lead to an inconsistent policy framework which will need to be carefully understood and followed by potential investors. There is also the risk of a State Government changing its policy on MBRT and reversing earlier decisions, especially in the event of a change in political power as this scenario has not been construed by the DIPP in the relevant press note. In effect, a foreign investor will have to be mindful of the local rules and regulations of each State before finalizing the transaction structure / business model, especially when the investor intends to set up outlets in all the States. Further, for the existing entities operating across India, it would be difficult to get FDI into an entity without a restructurings of its operations.

**India’s commitments under international investment agreements/treaties**

India is a signatory to various international trade agreements/ treaties like the General Agreement on Trade in Services, Trade Related Investment Measures, bilateral investment protection agreements, comprehensive economic cooperation agreements in the field of trade and economic affairs signed to promote investment inflow. While

\textsuperscript{77} ibid
the Government in its press release has categorically concluded that the policy framework does not violate any commitments or obligations arising out of India’s international agreements, the introduction of FDI in SBPRT and MBRT with conditions such as domestic sourcing and state wise implementation has raised a few questions with respect to India’s commitments under these treaties and agreements. Options available with investors if the Government retroactively changes its policy in the future While the Government has the right to enact, modify or repeal a law/policy at its own discretion in its sovereign capacity existing at the time, an investor made its investment, a foreign investor expects the host country to act in a consistent manner, so that it may know, beforehand any and all rules and regulations that will govern its investments and to be able to plan its investment and comply with such regulations accordingly. The foreign investor also expects the host country to act consistently, without arbitrarily revoking any pre-existing decisions or permits issued by the country that were relied upon by the investor to assume its commitments as well as plan and launch its commercial and business activities. Stability and predictability of legal and business framework is an essential element to ensure fair and equitable treatment towards the foreign investor. Evisceration of regulations in the future with regards to foreign investment in multi-brand retail by Government, in reliance upon which the foreign investor invests into India could be regarded as a breach of international obligations taken up by Indian under bilateral investment protection agreements and may also attract scrutiny as to the constitutional validity of such actions.

**Regulatory overlap and dealing with multiple authorities**

The retail sector cuts across various industries and business models. As a consequence, there is higher scope for regulatory overlap. While general corporate, tax, commercial laws and laws related to intellectual property, trade and employment laws are uniform across industries, state level laws and regulations like the Agricultural Produce Market Committee Act, local zoning regulations differ from each other and foreign investors will have to deal with multiple regulations and authorities.
E-Commerce

Currently, 100% FDI is allowed under automatic route (no approval required) in companies engaged in Business to Business (B2B) e-commerce and erstwhile restrictions on FDI in domestic trading were also applicable to e-commerce as well. The DIPP Press Notes 4 and 5 (2012 Series) categorically state that retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in SBPRT or MBRT

With the opening of FDI in SBPRT and MBRT, the restriction of FDI in domestic trading through e-commerce was also expected to be relaxed. However, such an express restriction will certainly impact global and local e-commerce retailers intending to offer Indian consumers wide range of products via e-commerce. One of the reasons for such an express restriction being imposed could be the difficulty in monitoring the trading via e-commerce in the States who have not allowed MBRT. Also, a similar restriction in SBPRT has now been categorically put in place to bring it in parity with policy on MBRT. Interestingly, e-commerce has not been defined and one will need to ascertain whether it will be construed broadly or narrowly. For instance: would any form of interaction (such as information sharing or advance booking) with a brick and mortar store, via its website, be considered e-commerce? Further, whether any trading (i.e. buying or selling of products) through any mobile phone application or through tele-booking mode would be considered as e-commerce?

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78 Destination India: Welcome Retail, Legal, Tax & Regulatory Primer With Industry Insight, October 2012, Nishith Desai Associates, Legal & Tax Counseling Worldwide
1.8.11 PROS and CONS of FDI IN RETAIL

1.8.11.1 PROS OF FDI IN RETAIL

1. More investments in the end to end supply chain and world class cold storage facilities.
2. Low spillage and wastage of farm produce during the transportation.
3. Increase in economic growth by dealing in various international products.
4. It will cut intermediaries between farmers and the retailers, thereby helping them get more money for their produce.
5. Small and medium enterprises will have a bigger market, along with better technology and branding.
6. It will bring much-needed foreign investment into the country, along with technology and global best-practices.
7. It will actually create employment than displace people engaged in small stores.
8. It will induce better competition in the market, thus benefitting both producers and consumers (With IANS inputs).
9. Economy will get the benefit with capital inflows from global giants that will develop the front-end and backend infrastructure in different segments.
10. The consumer will get access to some of the major global brands. Entry of foreign brands would also improve the quality and variety of products, increase competition and expand manufacturing.
11. One of the reasons as to why a vast swath of India’s population is suffering poverty and deprivation is that Agricultural sector of the country has not developed appropriately, and the main stumbling block in this regard has been that of inadequate logistics and direct access for farmers to vast markets. FDI in retailing can to a large extent ameliorate these deficiencies. If FDI in front end retailing is allowed, the international retailing giants will be motivated to invest capital, bring in knowhow and global capacity on a colossal scale and as a result a world class back end infrastructure would be built the like of which may take the government years to make (Though FDI is permitted in backend infrastructure to the extent of 100%)

through the automatic route, in the absence of FDI in retailing, investment in backend infrastructure has not been so forthcoming). The foremost beneficiary of such a development would be the farmers, especially those engaged in Horticulture.

11. Though India is the second largest producer of fruits and vegetables, lack of storage facilities cause heavy losses to farmers. Availability of adequate post-harvest and cold chain infrastructure would enable the farmers to avoid wastage and distress sales. The retailers would engage the farmers directly through the contract farming programmes as also resort to direct buying from the farmers which will dilute the role of profit siphoning intermediaries, enhance the income of the farmers and give them direct access to markets. The resultant rural prosperity may open up market for other industrial goods and help bring about a more balanced regional development.

12. The Medium and Small Enterprise that plays a critical role in country’s overall manufacturing scenario has lagged and suffered due to lack of branding and avenues to reach out to the vast world market. The international retailers can buy from them not only for the domestic market but for their stores outside the country also and in the process provide the small and medium enterprises of the country a brand name and a window to the international market. In fact, it is estimated that FDI in retailing can significantly increase export from the country. If the domestic organized retailers are allowed to grow to the exclusion of FDI, it may bring about other above mentioned developments but not increase the exports.

13. FDI can, in fact, spur competition among the organized retailers. The ultimate beneficiary of these competitions would be the consumers. An example of how the consumer benefit from the competition is the automobile industry in India. The intense competition among the automobile industries has resulted in a situation where the consumer has been able to purchase cars for as low a price as rupees one lakh. CRIER in its research has found that all income groups save through organized retail purchase, but the lower income groups save more. Thus, organized retail is relatively more beneficial to the less well-off consumers. A growing and mushrooming retail sector means that its contribution to GDP would grow. It would thus help in expanding the economy, generate employment and result in more tax income. 

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82 Impact Of Foreign Direct Investment In Indian Retail Sector ; Dr. Richa Garg And Renu Arora, International Journal Of Research In IT & Management, IJRIM, Volume 3, Issue 1 (March 2013) (ISSN 2231-4334)
1.8.11.2 CONS OF FDI IN RETAIL

1. It may bring down prices initially, but fuel inflation once multinational companies get a stronghold in the retail market.

2. Farmers may be given remunerative prices initially, but eventually they will be at the mercy of big retailers.

3. Small and medium enterprises will become victims of predatory pricing policies of multinational retailers.

4. It will disintegrate established supply chains by encouraging monopolies of global retailers.\(^\text{83}\)

5. The antagonists express that the entry of MNC giants like Wal-Mart, Tesco and Carrefour will throw the hundreds of thousands of the neighborhood kirana store owners out of business, leading to millions of job losses. It would destroy the livelihood of crores of small retailers. It is said that more than 5 crore traders and 20 crore people are directly dependent on retail trade for their livelihood. The move will hit the domestic retail sector hard. There are 22 crore hawkers and street vendors in the country. This step will be disastrous. The foreign retail majors will hurt domestic players with the practice of predatory pricing and become monopolies. These stores will be focused in major cities and big towns resulting in a skewed urban development. The dismal picture is that, in UK, it was reported that 3 retail chains controlled 65% of the entire retail market. Similarly in Thailand, over 30% of the local shops were forced to shut within 10 years of the entry of foreign retailers. This signals the alarming situation of FDI in retail sector. Another notable fact is that a total of 58.8 million of small and marginalized farming families, that is over 32 crore rural people, live on farming in India. Their farm size is 5 acres or less. In contrast, the farm sizes of Canada, USA, Australia, France and UK are 1798, 1089, 17,975, 274 and 432 in terms of acres respectively. This meagre farm size of India cautions us not to allow FDI in retail sector.\(^\text{84}\)

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\(^\text{83}\) BT Online Bureau, New Delhi, Last Updated: November 25, 2011, 15:29 IST, http://businesss.today.intoday.in/story/fdi-in-retail/1/20408.html

\(^\text{84}\) Paul Uttam and Roy Swapan Kumar, The Indian Government and FDI in Retail Sector in India, Advances In Management, Vol. 6 (1), Jan. (2013)
1.8.12 SUGGESTIONS

On the backdrop of permission to FDI in multinational retail the scenario of Indian retail industry is going to change drastically. It is likely to impact not only the unorganized sector but also the domestic organized sector considerably under these circumstances the following suggestions are made for the benefit of Kirana stores, farmers, employees and other stakeholders of retail industry.

1. The traditional the Mom and Pop Kirana stores should change their appearance, attitude and affairs. They should modernized their shops, store, more branded goods, provide home delivery service.

Source: Development of Modern Retailing in India: It’s Impacts on Distribution and Procurement Networks and Changing Consumption Pattern, Piyush Kumar Sinha, Srikant Gokhale & Sujo Thomas, W.P. No. 2012-12-04, December 2012
2. These traditional Kirana stores should form a consortium and make bulk purchases. This measure will help to procure the goods at lower price

3. The banks in the country and the state government should formulate a scheme of modernization loan. Under this scheme credit should be made available at of concessional rate and all priority bases to the small unorganized kirana stores.

4. The small farming community should undertake joint supply of fruits and vegetables directly to the small retailers and / or customers. This will benefit all of them.

5. There should be a monitoring agency established at the state level to keep watch on the operations of foreign players in retail sector. This agency should see that necessary investment is made by the foreign players in cold storages, transportation & logistics. It should also ensure that the foreign player's required quota of goods from SME sector.

6. The possibility of starting malls of small retailers should be explored & a group of small retailers in a locality should came together & open such mall.

7. The educational institutions should constitute degree, diploma coerces in detailing management where both the theoretical & practical aspects of retail trade are taught to the candidates. The wholesalers will be affected by the entry of foreign player & the organizational domestic players, because they will purchase the goods directly for the manufactures dispensing the need of wholesalers. Hence, the wholesalers should also go in together to make collective purchases.

8. There is also a need to strengthen small farmer organizations and provide them with technical assistance to increase productivity for the cost competitive market, provide help to improve the quality of produce, and encourage them to participate more actively in marketing their produce in order to capture value added in the supply chain.

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1.8.13 CONCLUSION

A Start Has Been Made

Walmart has a joint venture with Bharti Enterprises for cash-and-carry (wholesale) business, which runs the ‘Best Price’ stores. It plans to have 15 stores by March and enter new states like Andhra Pradesh, Rajasthan, Madhya Pradesh and Karnataka. Duke, Wallmart’s CEO opined that FDI in retail would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer. “In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer,” Duke said, adding, that a similar trend was noticed when organized retail became popular in the US.

Back-end logistics must for FDI in multi-brand retail

The government has added an element of social benefit to its latest plan for calibrated opening of the multi-brand retail sector to foreign direct investment (FDI). Only those foreign retailers who first invest in the back-end supply chain and infrastructure would be allowed to set up multi brand retail outlets in the country. The idea is that the firms must have already created jobs for rural India before they venture into multi-brand retailing.

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China; where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economic decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country’s GDP.

Moreover, in the fierce battle between the advocators and antagonist of unrestrained FDI flows in the Indian retail sector, the interests of the consumers have been blatantly and utterly disregarded. Therefore, one of the arguments which inevitably
needs to be considered and addressed while deliberating upon the captioned issue is the interests of consumers at large in relation to the interests of retailers.

It is also pertinent to note here that it can be safely contended that with the possible advent of unrestrained FDI flows in retail market, the interests of the retailers constituting the unorganized retail sector will not be gravely undermined, since nobody can force a consumer to visit a mega shopping complex or a small retailer/sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience.

The Industrial policy 1991 had crafted a trajectory of change whereby every sectors of Indian economy at one point of time or the other would be embraced by liberalization, privatization and globalization. FDI in multi-brand retailing and lifting the current cap of 51% on single brand retail is in that sense a steady progression of that trajectory. But the government has by far cushioned the adverse impact of the change that has ensued in the wake of the implementation of Industrial Policy 1991 through safety nets and social safeguards. But the change that the movement of retailing sector into the FDI regime would bring about will require more involved and informed support from the government. One hopes that the government would stand up to its responsibility, because what is at stake is the stability of the vital pillars of the economy- retailing, agriculture, and manufacturing.86

In the light of all that have been discussed above it can be said without any dispute that the time for allowing FDI in Multi –Brand Retailing has come and as Victor Hugo has said “Nothing can stop an idea whose time has come”. FDI in Retailing started with FDI in cash and carry wholesale trading first permitted in 1997 to the extent of 100% under the Government approval route and thereafter in 2006 brought under the automatic route. In 2006 again FDI in Single Brand Retailing was permitted to the extent of 51%. From here it is but natural and logical that FDI would now

86 http://www.legalindia.in/foreign-direct-investment-in-indian-retail-sector-%E2%80%93-an-analysis, Pulkit Agarwal and Esha Tyagi, Foreign Direct Investment in Indian Retail Sector – An Analysis
proliferate to multi-brand retailing. But the progression to FDI in multi-brand retailing cannot take place at the cost of vital concerns raised in connection with this possible change by different groups; viz., the question of adaptability of the retailers in the unorganized sector, the question as to how the FDI in retailing can be harnessed for the benefits of Indian agriculture and Medium and Small Enterprise and above all how to impart into the economy a degree of resilience to withstand the changes that would be ushered in the wake of introduction of FDI in retailing. All these concerns have to be addressed not because the Left wing political parties and the media through their campaign have necessitated such attention but because we are constitutionally bound to do so.

Unlike FDI in single brand retailing which pertains to brand loyal and a relatively small high income clientele, FDI in multi-brand retailing would have direct impact on a vast spectrum of population and thus a sensitive issue. Left alone foreign capital will seek ways through which it can only multiply itself, and unthinking application of capital for profit, given our peculiar socio-economic conditions, may spell doom and deepen the hiatus between the rich and the poor. Thus the proliferation of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation for India. This can be done by integrating into the rules and regulations for FDI in multi-brand retailing certain inbuilt safety valves.

For example FDI in multi-brand retailing can be allowed in a calibrated manner with social safeguards so that the effect of possible labor dislocation can be analyzed and policy fine-tuned accordingly. To ensure that the foreign investors make a genuine contribution to the development of infrastructure and logistics, it can be stipulated that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units. One of the justifications for introducing FDI in multi-brand retailing is to transform the poverty stricken and stagnating rural sphere into a forward moving and prosperous rural sphere. To actualize this goal it can be stipulated that at least 50% of the jobs in the retail outlet should be reserved for rural youth and that a certain amount of farm produce be procured from the poor farmers.

Similarly to develop our small and medium enterprise, it can also be stipulated that a minimum percentage of manufactured products be sourced from the SME sector in
India. Public Distribution System is still in many ways the life line of the people living below the poverty line. To ensure that the system is not weakened the government may reserve the right to procure a certain amount of food grains for replenishing the buffer. The government may also put in place an exclusive regulatory framework to protect the interest of small retailers. It will ensure that the retailing giants do resort to predatory pricing or acquire monopolistic tendencies. Besides, the government and RBI need to evolve suitable policies to enable the retailers in the unorganized sector to expand and improve their efficiencies.\textsuperscript{87}

1.9 MAJOR RETAILERS IN INDIA

1.9.1 Pantaloon Retail:

It is headquartered in Mumbai with 450 stores across the country employing more than 18,000 people. It can boast of launching the first hypermarket Big Bazaar in India in 2001. It is not only the largest retailer in India with a turnover of over Rs. 20 billion but is present across most retail segments - Food & grocery (Big bazaar, Food bazaar), Home solutions (Hometown, furniture bazaar, collection-i), consumer electronics (e-zone), shoes (shoe factory), Books: music & gifts (Depot), Health & Beauty care services (Star, Sitara and Health village in the pipeline), e-tailing (Futurbazaar.com), entertainment (Bowling co.).\textsuperscript{88}

One of their recent innovations include e-commerce’ hybrid format of ‘small’ shops, the area for these stores will be 150 sq. ft. fitted with 40 digital screens. Customers will be encouraged to browse through the entire range of products on digital screen. They will be able to place the order, the delivery of which will be arranged by the shop to their homes within a few hours.

Pantaloon is one of the biggest retailers in India with more than 450 stores across the country. Headquartered in Mumbai, it has more than 5 million sq. ft retail space located across the country. It’s growing at an enviable pace and is expected to reach

\textsuperscript{87} Impact Of Foreign Direct Investment In Indian Retail Sector ; Dr. Richa Garg And Renu Arora, International Journal Of Research In IT & Management, IJRIM, Volume 3, Issue 1 (March 2013) (ISSN 2231-4334)

\textsuperscript{88} http://www.chillibreeze.com/articles_various/iop-10-retailers.asp

71
30 million sq. ft by the year 2010. In 2001, Pantaloon launched country's first hypermarket ‘Big Bazaar’.  

**Big Bazaar** is a chain of hypermarket in India. As of June 2, 2012 there are 214 stores across 90 cities and towns in India covering 16 million sq.ft. of retail space. Big Bazaar is designed as an agglomeration of bazaars or Indian markets with clusters offering a wide range of merchandise including fashion and apparels, food products, general merchandise, furniture, electronics, books, fast food and leisure and entertainment sections.

Big Bazaar is part of Future Group, which also owns the Central Hypermarket, Brand Factory, Pantaloons, eZONE, HomeTown, futurebazaar.com, KB’s Fair Price to name a few and is owned through a wholly owned subsidiary of Pantaloon Retail India Limited, that is listed on Indian stock exchanges.

Big Bazaar was launched in September, 2001 with the opening of its first four stores in Calcutta, Indore, Bangalore and Hyderabad in 22 days. Within a span of ten years, there are now 161 Big Bazaar stores in 90 cities and towns across India. By September 2012 BIG BAZAAR will have two more stores in North east namely SILCHAR and JORHAT in Assam.

Big Bazaar was started by Kishore Biyani, the Group CEO and Managing Director of Pantaloon Retail India. Though Big Bazaar was launched purely as a fashion format including apparel, cosmetics, accessory and general merchandise, over the years Big Bazaar has included a wide range of products and service offerings under their retail chain. The current formats include Big Bazaar, Food Bazaar, Electronic Bazaar and Furniture Bazaar. The inspiration behind this entire retail format was from Saravana Stores, a local store in T. Nagar, Chennai

The stores are customized to provide the feel of mandis and melas while offering the modern retail features like Quality, Choice and Convenience. As the modern Indian family's favorite retail store, Big Bazaar is popularly known as the "Indian Walmart".

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89 http://business.mapsofindia.com/india-retail-industry/
On successful completion of ten years in Indian retail industry, in 2011, Big Bazaar has come up a new logo with a new tag line: 'Naye India Ka Bazaar', replacing the earlier one: 'Isse Sasta Aur Accha Kahin Nahin'.

**Strategy**

According to Kishore Biyani's 3-C theory, Change and Confidence among the entire population is leading to rise in Consumption, through better employment and income which in turn is creating value to the agricultural products across the country.

**Innovations**

**Wednesday Bazaar**

Big Bazaar introduced the Wednesday Bazaar concept and promoted it as “Hafte Ka Sabse Sasta Din”. It was mainly to draw customers to the stores on Wednesdays, when least number of customers are observed. According to the chain, the aim of the concept is "to give homemakers the power to save the most and even the stores in the city don a fresh look to make customers feel that it is their day".

**Sabse Sasta Din**

With a desire to achieve sales of Rs 26 Crore in a one single day, Big Bazaar introduced the concept of "Sabse Sasta Din". The idea was to simply create a day in a year that truly belonged to Big Bazaar. This was launched on January 26, 2006 and the result was exceptional that police had to come in to control the mammoth crowd. The concept was such a huge hit that the offer was increased from one day to three days in 2009 (24 to 26 Jan) and to five days in 2011 (22-26 Jan).

**Maha Bachat**

Maha Bachat was started off in 2006 as a single day campaign with attractive promotional offers across all Big Bazaar stores. Over the years it has grown into a 6 days biannual campaign. It has attractive offers in all its value formats such as Big Bazaar, Food Bazaar, Electronic Bazaar and Furniture Bazaar - catering to the entire needs of a consumer.
The Great Exchange Offer

On February 12, 2009 Big Bazaar launched "The Great Exchange Offer", through with the customers can exchange their old goods in for Big Bazaar coupons. Later, consumers can redeem these coupons for brand new goods across the nation.

1.9.2 K Raheja Group

They forayed into retail with Shopper’s Stop, India’s first departmental store in 2001. It is the only retailer from India to become a member of the prestigious Intercontinental Group of Departmental Stores (IGDS). They have signed a 50:50 joint venture with the Nuance Group for Airport Retailing. Shoppers Stop has 7,52,00 sq ft of retail space with a turnover of Rs 6.75 billion.

The first Hypercity opened in Mumbai in 2006 with an area of 1, 20,000 sq. ft. clocking gross sales of Rs. 1 bn in its first year.

Crossword brand of book stores, Homes stop a store for home solutions, Mothercare a concept stocking merchandise related to childcare are also owned by them. Recently, Raheja’s have signed an MoU with the Home Retail Group of UK to enter into a franchise arrangement for the Argos formats of catalogue & internet retailing.

The group has announced plans to establish a network of 55 hypermarkets across India with sales expected to cross the US$100 million mark by 2010.  

1.9.3 Tata group:

Established in 1998, Trent - one of the subsidiaries of Tata Group - operates Westside, a lifestyle retail chain and Star India Bazaar - a hypermarket with a large assortment of products at the lowest prices. In 2005, it acquired Landmark, India's largest book and music retailer. Trent has more than 4 lakh sq. ft. space across the country. Westside registered a turnover of Rs 3.58 mn in 2006.

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90 http://www.chillibreeze.com/articles_various/top-10-retailers.asp
Tata’s has also formed a subsidiary named Infiniti retail which consists of Croma, a consumer electronics chain. It is a 15000-17000 sq. ft. format with 8 stores as of September 2007.

Another subsidiary, Titan Industries, owns brands like “Titan”, the watch of India has 200 exclusive outlets the country and Tanishq, the jewellery brand, has 87 exclusive outlets. Their combined turnover is Rs 6.55 billion.

Trent plans to open 27 more stores across its retail formats adding 1.5 mn sq ft of space in the next 12 DLF malls.\(^9^1\)

### 1.9.4 RPG group:

One of the first entrants into organised food & grocery retail with Foodworld stores in 1996 and then formed an alliance with Dairy farm International and launched health & glow (pharmacy & beauty care) outlets. Now the alliance has dissolved and RPG has Spencer’s Hyper, Super, Daily and Express formats and Music World stores across the country.

RPG has 6 lakh sq. ft. of retail space and has registered a turnover of Rs 4.5 billion in 2006.

It is planning to venture into books retail, with the launch of its own bookstores “Books and Beyond” by the end of 2007. An IPO is also in the offering, with expansion to 450+ MusicWorld, 50+ Spencer's hyper outlets covering 4 million sq. ft. by 2010.

### 1.9.5 Landmark group:

It was launched in 1998 in India. Lifestyle is spread across six cities, covering 4.6 lakh sq. ft. with a turnover of Rs. 3.5 billion in 2005. A new division named Lifestyle International has emerged for their international brands business comprising Bossino, Kappa and Springfield in their portfolio.

\(^9^1\) ibid
Their retail mix includes Home solutions (Home centre), fashion (lifestyle, landmark International), value retailing (max retail), hypermarkets & supermarkets (Max), kids entertainment (Funcity).

They plan to invest Rs. 300 crores in the next two years to expand on Max chain, and Rs 100 crores on Citymax 3 star hotel chain. They have already instituted a separate company christened Citymax Hotels (India).

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1.9.6 Piramal Group

In September 1999, Piramal Enterprises announced their arrival into retail with the launch of three retail concepts: India's first true shopping mall of international standards, called Crossroads; a lifestyle department store named Piramyd Megastore; and a family entertainment centre known as Jammin. Piramyd Megastore and Jammin were anchor tenants for Crossroads (recently sold to Pantaloon for Rs 4 billion). In 2001, the group entered the business of food & grocery retail with the launch of TruMart supermarkets in Pune.

They have around 18 TruMart stores covering 1.90 lakh sq. ft. registering a turnover of Rs 37.6 mn in 2005. Piraymd Megatsore’s contributes more than 70 % to their retail mix with a turnover of Rs 112.8 mn. They plan to open 150 stores covering 75 mn sq ft of retail space in the next 5 years.
1.9.7 Bharti-Walmart

Their plans include US$ 7 bn investment in creating retail network in the country including 100 hypermarkets and several hundred small stores. They have signed a 50:50 per cent joint venture agreement with Walmart. Wal-Mart will do the cash & carry while Bharti will do the front-end.

1.9.8 Reliance

India’s most ambitious retail plans are by reliance, with investments to the tune of Rs. 30,000 cr ($ 6.67 bn) to set up multiple formats with expected sales of Rs 90,000 crores ($20 bn) by 2009-10.

There are already more than 300 Reliance Fresh stores and the first Reliance Mart Hypermart has opened in Ahmedabad. The next ones are slated to open at Jamnagar, followed by marts in Delhi / NCR, Hyderabad, Vijaywada, Pune and Ludhiana.

1.9.9 AV Birla Group

They have a strong presence in apparel retailing through Madura garments which is subsidiary of Aditya Birla Nuvo Ltd. They own brands like Louis Phillipe, Van Heusen, Allen Solly, Peter England, Trouser town.

In other segments of retail, AV Birla Group has announced investment plans of Rs 8000 - 9000 crores in the first 3 years till 2010.

The acquisition of Trinethra (food & grocery) chain in the south has moved their tally to 400 stores in the country. Their “More” range of 15 supermarkets are slated to open at Nashik, Pune and other tier II cities in Western India in 2007.

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92 http://www.chillibreeze.com/articles_various/top-10-retailers.asp
### 1.9.2 MAJOR RETAILERS AT A GLANCE

Table 7: MAJOR RETAILERS AT A GLANCE

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Stores</th>
</tr>
</thead>
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<tr>
<td>Pantaloon Retail</td>
<td>Big bazaar, Food bazaar, Hometown, furniture bazaar, collection-I, e-zone, shoe factory, Depot, Futurbazaar.com, Bowling co.</td>
</tr>
<tr>
<td>K Raheja Group</td>
<td>Shopper's Stop, Crossword, Homes stop, Mothercare.</td>
</tr>
<tr>
<td>Tata Group</td>
<td>Westside, Star India Bazaar, Croma, Titan, Tanishq.</td>
</tr>
<tr>
<td>RPG Group</td>
<td>Foodworld, Spencer's, Music World</td>
</tr>
<tr>
<td>Landmark</td>
<td>Lifestyle, Home Centre, Landmark International, Max Retail, Funcity.</td>
</tr>
<tr>
<td>Piramal Group</td>
<td>TruMart, Priamyd Megastore</td>
</tr>
<tr>
<td>Reliance</td>
<td>Reliance Hyper-mart</td>
</tr>
</tbody>
</table>

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93 [http://www.indiainbusiness.nic.in/industry-infrastructure/service-sectors/retailing3.htm](http://www.indiainbusiness.nic.in/industry-infrastructure/service-sectors/retailing3.htm)
1.10 THE GROWTH OF SUPER MARKET

A supermarket, a form of grocery store, is a self-service store offering a wide variety of food and household merchandise, organized into departments. It is larger in size and has a wider selection than a traditional grocery store and it is smaller than a hypermarket or superstore.

The traditional suburban supermarket occupies a large amount of floor space, usually on a single level, and is situated near a residential area in order to be convenient to consumers. Its basic appeal is the availability of a broad selection of goods under a single roof at relatively low prices. Other advantages include ease of parking and, frequently, the convenience of shopping hours that extend far into the evening or even 24 hours a day.

The concept of a self-service grocery store was developed by American entrepreneur Clarence Saunders and his Piggly Wiggly stores. His first store opened in Memphis, Tennessee, in 1916. Saunders was awarded a number of patents for the ideas he incorporated into his stores. The stores were a financial success and Saunders began to offer franchises. The Great Atlantic and Pacific Tea Company (A&P) was another successful early grocery store chain in Canada and the United States, and became common in North American cities in the 1920s.

Early self-service grocery stores did not sell fresh meats or produce. Combination stores that sold perishable items were developed in the 1920s.

Historically, there was debate about the origin of the supermarket, with King Kullen and Ralph's of California having strong claims. Other contenders included Weingarten's Big Food Markets and Henke & Pillot. To end the debate, the Food Marketing Institute in conjunction with the Smithsonian Institution and with funding from H.J. Heinz, researched the issue. It defined the attributes of a supermarket as "self-service, separate product departments, discount pricing, marketing and volume selling."

It determined that the first true supermarket in the United States was opened by a former Kroger employee, Michael J. Cullen, on August 4, 1930, inside a 6,000 square
foot (560 m²) former garage in Jamaica, Queens in New York City. The store, King Kullen, (inspired by the fictional character King Kong), operated under the slogan "Pile it high. Sell it low." At the time of Cullen's death in 1936, there were seventeen King Kullen stores in operation. Although Saunders had brought the world self-service, uniform stores and nationwide marketing, Cullen built on this idea by adding separate food departments, selling large volumes of food at discount prices and adding a parking lot.

Other established American grocery chains in the 1930s, such as Kroger and Safeway, at first resisted Cullen's idea, but eventually were forced to build their own supermarkets as the economy sank into the Great Depression and consumers became price-sensitive at a level never experienced before. Kroger took the idea one step further and pioneered the first supermarket surrounded on all four sides by a parking lot.

Supermarkets proliferated across Canada and the United States with the growth of automobile ownership and suburban development after World War II. Most North American supermarkets are located in suburban strip malls as an anchor store along with other, smaller retailers. They are generally regional rather than national in their company branding. Kroger is perhaps the most nationally oriented supermarket chain in the United States but it has preserved most of its regional brands, including Ralphs, City Market and King Soopers.

In Canada the largest such chain is Loblaw, which operates stores under a variety of regional names, including Fortinos, Zehrs and the largest Loblaws (named after the company itself). Sobeys is Canada's second largest supermarket with locations across the country, operating under many banners (Sobeys IGA in Quebec).

In the United Kingdom, ex-US Navy sailor Patrick Galvani, son-in-law of Express Dairies chairman, made a pitch to the board to open a chain of supermarkets across the country. The UK's first supermarket under the new Premier Supermarkets brand opened in Streatham, South London in 1951, taking 10x's as much per week as the average British general store of the time. Other chains caught on, and after Galvani lost out to Tesco's Jack Cohen in 1960 to buy the 212 Irwin's chain, the sector
underwent a large amount of consolidation, resulting in the big four dominant UK retailers of today: Tesco, Asda (owned by Wal-Mart), Sainsbury's and Morrisons.

In the 1950s supermarkets frequently issued trading stamps as incentives to customers. Today, most chains issue store-specific "membership cards," "club cards," or "loyalty cards". These typically enable the card holder to receive special members-only discounts on certain items when the credit card-like device is scanned at checkout.

Traditional supermarkets in many countries face intense competition from discount retailers such as Wal-Mart, Tesco in the UK, and Zellers in Canada, which typically are non-union and operate with better buying power. Other competition exists from warehouse clubs such as Costco that offer savings to customers buying in bulk quantities. Superstores, such as those operated by Wal-Mart and Asda, often offer a wide range of goods and services in addition to foods. The proliferation of such warehouse and superstores has contributed to the continuing disappearance of smaller, local grocery stores, increased dependence on the automobile, suburban sprawl because of the necessity for large floor plates, and increased vehicular traffic and air pollution. Some critics consider the chains' common practice of selling loss leaders to be anti-competitive. They are also wary of the negotiating power that large, often multinational, retailers have with suppliers around the world.94

1.10.1 The Spread of Supermarkets in Developing Regions

Determinants of diffusion of supermarkets
The determinants of the diffusion of supermarkets in developing regions can be conceptualized as a system of demand by consumers for supermarket services, and supply of supermarket services, hence investments by supermarket entrepreneurs.

On the demand side, several forces drive the observed increase in demand for supermarket services (and are similar to those observed in Europe and the United States in the twentieth century). The “demand incentives” side forces include

urbanization, with the consequent entry of women into the workforce outside the home, which increased the opportunity cost of women’s time and their incentive to seek shopping convenience and processed foods to save cooking time; and supermarkets, often in combination with large-scale food manufacturers, which reduced the prices of processed products.

On the “demand capacity” side, several variables were key. Real mean per capita income growth in many countries of the regions during the 1990s, along with the rapid rise of the middle class, increased demand for processed foods – the entry point for supermarkets, as they could offer greater variety and lower cost of these products than traditional retailers due to economies of scale in procurement. Rapid growth in ownership of refrigerators during the 1990s meant the ability to shift from daily shopping in traditional retail shops to weekly or monthly shopping. Growing access to cars and public transport reinforced this trend.

The supply of supermarket services was driven by several forces, only a subset of which overlap with the drivers of initial supermarket diffusion in Europe and the United States. On the “supply incentives” side, the development of supermarkets was very slow before (roughly) the early to mid-1990s, as only domestic/local capital was involved. In the 1990s and after, foreign direct investment (FDI) was crucial to the take-off of supermarkets. The incentive to undertake FDI by chains from Europe, the United States and Japan, and chains in richer countries in the regions under study (such as Hong Kong, South Africa and Costa Rica), was due to saturation and intense competition in home markets and much higher profit margins to be made by investing in developing markets. For example, Carrefour earned three times higher margins on average in its Argentine compared to its French operations in the 1990s (Gutman 2002). Moreover, initial competition in the receiving regions was weak, generally with little fight put up by traditional retailers and domestic-capital supermarkets, and there are distinct advantages to early entry, especially occupation of key retail locations.

On the “supply capacity” side, there was a deluge of FDI induced by the policy of full or partial liberalization of retail sector FDI undertaken in many countries in the three regions in the 1990s and after (e.g. partial liberalization of retail trade in China in 1992, with full liberalization of the sector scheduled for 2004; Brazil, Mexico, Argentina in 1994; various African countries via South African investment after
apartheid ended in the mid-1990s; Indonesia in 1998; India in 2000). Overall FDI grew 5 - to 10 -fold over the 1990s in these regions (UNCTAD 2001) and growth of FDI in food retailing mirrored that overall growth. In addition, retail procurement logistics technology and inventory management (such as efficient consumer response, ECR, an inventory management practice that minimizes inventories-on-hand, and use of internet and computers for inventory control and supplier–retailer coordination) were revolutionized in the 1990s. This was led by global chains and is diffusing now in developing regions through knowledge transfer and imitation and innovation by domestic supermarket chains.

These changes were in turn key to the ability to centralize procurement and consolidate distribution in order to “drive costs out of the system”, a phrase used widely in the retail industry. Substantial savings were thus possible through efficiency gains, economies of scale and coordination cost reductions. China Resources Enterprise (2002), for example, notes that it is saving 40 per cent in distribution costs by combining modern logistics with centralized distribution in its two large new distribution centers in southern China. These efficiency gains fuel profits for investment in new stores, and, through intense competition, reduce prices to consumers of essential food products.

Patterns of diffusion

The incentive and capacity determinants of demand for and supply of supermarket services vary markedly over the three regions, within individual countries, and within zones and between rural and urban areas at the country level. Several broad patterns may be observed. One pattern is from earliest to latest adopter of supermarkets; the regions range from Latin America to Asia to Africa, roughly reflecting the ordering of income, urbanization and infrastructure and policies that favour supermarket growth. The first wave of supermarket diffusion hit major cities in the larger or richer countries of Latin America. The second wave hit in East/Southeast Asia and Central Europe; the third in small or poorer countries of Latin America and Asia (including, for example, Central America) and southern, then eastern, Africa. By this time, secondary cities and towns in the areas of the “first wave” were being hit. The fourth wave, just starting now, is hitting southern Asia and western Africa.

Latin America has led the way among developing regions in the growth of the supermarket sector.
While a small number of supermarkets existed in most countries during and before the 1980s, they were primarily domestic capital firms, and tended to exist in major cities and wealthier neighbourhoods. That is, they were essentially a niche retail market comprising a maximum of 10 to 20 per cent of national food retail sales in 1990. However, by 2000 supermarkets had risen to occupy 50 to 60 per cent of national food retail among the Latin American countries, almost approaching the 70 to 80 per cent share in the United States or France. Latin America had thus seen in a single decade the same development of supermarkets that the United States experienced in five decades. The supermarket share of food retail sales for the leading six Latin American countries averages 30 to 75 per cent: Brazil has the highest share, followed by Argentina, Chile, Costa Rica, Colombia and Mexico. Those six countries account for 85 per cent of the income and 75 per cent of the population in Latin America. Other countries in the region have also experienced rapid growth of their supermarket sectors, but these started later and from a lower base. For example, supermarkets accounted for 15 per cent of national food retail in Guatemala in 1994 and by 2002 accounted for 35 per cent (Reardon and Berdegue 2002).

The development of the supermarket sector in East and Southeast Asia is generally similar to that of Latin America. The “take-off” stage of supermarkets in Asia started, on average, some five to seven years behind that of Latin America, but is registering even faster growth. The average processed/packaged food retail share over several Southeast Asian countries – Indonesia, Malaysia and Thailand – is 33 per cent, but is 63 per cent for the East Asian countries of the Republic of Korea and Taiwan (ACNielsen 2002). The supermarket sector in China is the fastest-growing in the world: it started in 1991, by 2003 had 55 billion dollars of sales and 30 per cent of urban food retail, and is growing by 30 to 40 per cent a year (Hu et al. 2004).

Supermarket diffusion is also occurring rapidly in Central and Eastern Europe (CEE). This is occurring in three waves, with the earliest (mid 1990s) take off of the sector in northern CEE (Czech Republic, Hungary, Poland and Slovakia), where the share of supermarkets in food retail now stands at 40 to 50 per cent. The second wave is in southern CEE (such as Croatia, Bulgaria, Romania and Slovenia), where the share is on average 25 to 30 per cent but growing rapidly. The third wave is in Eastern Europe, where income and urbanization conditions were present for a take-off but policy reforms lagged, so that the share in, for example, Russia is still only 10 per
cent – but identified by international retailers as the number one retail FDI destination (Dries, Reardon and Swinnen 2004). The most recent venue for supermarket take-off is in Africa, especially in eastern and southern Africa. South Africa is the front runner, with roughly a 55 per cent share of supermarkets in overall food retail and 1700 supermarkets for 35 million persons. The great majority of that spectacular rise has come since the end of apartheid in 1994. To put these figures in perspective, note that 1700 supermarkets is roughly equivalent to 350,000 mom and pop stores, or “spazas,” in sales. Moreover, South African chains have recently invested in 13 other African countries as well as India, Australia and the Philippines. Kenya is the other front-runner, with 300 supermarkets and a 20 per cent share of supermarkets in urban food retail (Neven and Reardon 2004). Other African countries are starting to experience the same trends: for example, Zimbabwe and Zambia have 50 100 supermarkets (Weatherspoon and Reardon 2003). Second, within each of the four very broad regions there are large differences over sub-regions and countries. Usually, these can be supermarket-growth-ranked according to the variables in the supply and demand model presented above. In Latin America, for example, Brazil with a 75 per cent share of supermarkets in food retail store sales can be contrasted with Bolivia with at most 10 per cent; in developing Asia, Korea with 60 per cent can be contrasted with India with 5 per cent; and in Africa, South Africa with 55 per cent can be contrasted with Nigeria with 5 per cent; Hungary or Poland with shares of 40 to 50 per cent can be contrasted with Russia with 10 per cent. Third, the take-over of food retailing in these regions has occurred much more rapidly in processed, dry, and packaged foods such as noodles, milk products and grains, for which supermarkets have an advantage over mom and pop stores due to economies of scale. The supermarkets’ progress in gaining control of fresh food markets has been slower, and there is greater variation across countries because of local habits and responses by wet markets and local shops. Usually the first fresh food categories for the supermarkets to gain a majority share include “commodities” such as potatoes, and sectors experiencing consolidation in first-stage processing and production: often chicken, beef and pork, and fish. A rough rule of thumb, applicable from Latin America, is that the share of supermarkets in fresh foods is roughly one-half of the share in packaged foods. For example, in Brazil, where the overall food retail share of supermarkets is 75 per cent, the share in Sao Paulo of fresh fruits and vegetables is only 50 per cent; in
Argentina, the shares are 60 and 25 per cent, respectively. This kind of rough “2 or 3 to 1” ratio appears to be typical in the regions. This difference is also common in developed countries: in France, supermarkets have 70 per cent of overall food retail, but only 50 per cent of fresh fruits and vegetables. The convenience and low prices of small shops and fairs, with fresh and varied produce for daily shopping, continues to be a competitive challenge to the supermarket sector, with usually steady but much slower progress for supermarkets requiring investments in procurement efficiency.

Despite the slower growth in the supermarket share of the domestic fresh produce market, it is very revealing to calculate the absolute market that supermarkets now represent, even in produce, and thus how much more in other products where supermarkets have penetrated faster and deeper. For example, Reardon and Berdegue (2002) calculate that supermarkets in Latin America buy two and a half times more fruits and vegetables from local producers than all the exports of produce from Latin America to the rest of the world. Fourth, the supermarket sector in these regions is increasingly and overwhelmingly multi-nationalized (foreign-owned) and consolidated. The multi-nationalization of the sector is illustrated in Latin America where global multinationals constitute roughly 70 to 80 per cent of the top five chains in most countries. This element of “FDI-driven” differentiates supermarket diffusion in these regions from that in the United States and Europe. The tidal wave of FDI in retail was mainly due to the global retail multinationals Ahold, Carrefour and Wal-Mart, smaller global chains such as Casino, Metro and Makro, and regional multinationals such as Dairy Farm International (Hong Kong) and Shoprite (South Africa). In some larger countries domestic chains, sometimes in joint ventures with global multinationals, have taken the fore. For example, the top chain in Brazil is Pão de Açúcar (in partnership with Casino, of France, since 1999), and the top chain in China is the giant national chain Lianhua (based in Shanghai), with some 2,500 stores, in partial joint venture with Carrefour.

The rapid consolidation of the sector in those regions mirrors what is occurring in the United States and Europe. For example, in Latin America the top five chains per country have 65 per cent of the supermarket sector (versus 40 per cent in the US and 72 per cent in France). The consolidation takes place mainly via foreign acquisition of local chains (and secondarily by larger domestic chains absorbing smaller chains and independents). This is done via large amounts of FDI: for example, in the first eight
months of 2002, five global retailers (British Tesco, French Carrefour and Casino, Dutch Ahold and Makro, and Belgian Food Lion) spent 6 billion bhat, or US$120 million in Thailand (Jitpleechep 2002). Wal-Mart spent US$660 million during 2002 in Mexico to build new stores. These trends of multi-nationalization and consolidation fit the supply function of our supermarket diffusion model. Global and retail multinationals have access to investment funds from their own liquidity and to international credit that is much cheaper than the credit accessible by their domestic rivals. The multinationals also have access to best practices in retail and logistics, some of which they developed as proprietary innovations. Global retailers adopt retailing and procurement technology generated by their own firms or, increasingly, via joint ventures with global logistics multinationals, such as Carrefour (France) does with Penske Logistics (United States) in Brazil. Where domestic firms have competed, they have had to make similar investments; these firms either had to enter joint ventures with global multinationals, or had to get low-cost loans from their governments (e.g. the Shanghai-based national chain) or national bank loans. Fifth, again as predictable from the diffusion model above, the inter-spatial and inter socioeconomic group patterns of diffusion have differed over large and small cities and towns, and over richer, middle and poor consumer segments. In general, there has been a trend from supermarkets occupying only a small niche in capital cities serving only the rich and middle class, to supermarkets spreading well beyond the middle class in order to penetrate deeply into the food markets of the poor. They have also spread from big cities to intermediate towns, and in some countries, already to small towns in rural areas. About 40 per cent of Chile’s smaller towns now have supermarkets, as do many small-to-medium sized towns even in low-income countries like Kenya. And supermarkets are now spreading rapidly beyond the top-60 cities of China in the coastal area and are moving to smaller cities and to the poorer and more remote northwest and southwest and interior.95

1.11 THE FUTURE OF RETAILING IN INDIA

Retail industry has been on a growth trajectory over the past few years. With the economy back on track, retailers are executing their expansion plans. The retail industry in India is currently growing at a great pace and is expected to go up to US $833 billion by the year 2013. It is further expected to reach US $1.3 trillion by the year 2018 at a CAGR of 10%. As the country has got a high growth rates, the consumer spending has also gone up and is also expected to go up further in the future. In the last four years, the consumer spending in India climbed up to 75%.\(^96\)

The Global Retail Development Index developed by A.T. Kearney has ranked India first among the top 30 emerging markets in the world. A look at the landscape of most of the cities in India shows the rapid phase of change. This changes in reflection of the changes in the Indian consumers’ lifestyle and his habits. Goldman Sachs has estimated that the Indian economic growth could actually exceed that of China by year 2015. It is believed that the country has the potential to deliver the fast growth over the next 50 years. It took 10 years for the first 2500 organized retail stores to emerge in India; the next 2500 could easily get added in the next 5 years. Formats new to the India marketplace have emerged rapidly over the past ten years. There is little doubt that retail in India is reveling up for an exciting phase ahead.\(^97\)

India has been ranked as the third most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A.T. Kearney’s study on Global Retailing Trends. Found that India is the least competitive as well as least saturated of all major global markets. This implies that there are significantly low entry barriers for players trying to setup base in India, in terms of competitive landscape. The report further stated that Global Retailer such as Walmart, Carrefour, Tesco and Casino would take advantage of more favorable FDI rules that are likely to be introduced in India. A good talent pool, unlimited opportunities, huge markets and availability of quality raw material at cheaper cost is expected to make India overtake the world best retail economies by 2042. The sector is expected to see an investment of over $30 billion within next 5 years and putting modern retail


\(^97\) Dr. Mandeep Singh, Retail In India: Historical Perspective, Spectrum: A Journal of Multidisciplinary Research, Vol.1, Issue 6, September 2012, ISSN 2278-0637
in the country to $175-200 billion, according to Technopark estimates. International retailers see India as the last retailing frontier left as the Chinas retail sector is becoming as saturated. Domestic players are selectively growing in India-postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities. While India is a difficult market to enter, the potential payoff is huge. India’s population of nearly 1.2 billion – forecast eventually to overtake China’s – also is an attractive target.98

There is increased sophistication in the shopping pattern of customers, which has resulted to the emergence of big retail chains in most metros; mini metros and towns being the next target. Customer taste and preferences are changing leading to radical transformation in lifestyles and spending patterns which in turn is giving rise to new business opportunities. The generic growth is likely to be driven by changing lifestyles and by strong surge in income, which in turn will be supported by favorable demographic patterns. Development of mega malls in India is adding new dimensions to the booming retail sector. There is significant development in retail landscape not only in the metros but also in the smaller cities but in spite of so many changes there is still a long way ahead of us, which means that there is a lot of potential in the market and a lot of scope for all the companies in retailing sector as the potential is yet to be explored.99

1.11.1 INDIAN RETAIL OUTLOOK

Deteriorating Domestic Consumption to Squeeze Retailers

Negative Outlook for 2013: India Ratings has maintained a negative outlook on the retail sector for 2013. This is because of the protracted weakness in consumer's discretionary spending due to higher inflation, marginal real wage growth and low level of macroeconomic activity. Rapid credit squeeze, high operating costs and falling margins may also impact the credit profile of retailers.

99 Retailing In India-Future Perspective, Hemant Syal, JRFM, Volume 1, Issue 8 (December 2011), ISSN 2231-5985
**Ratings Partly Reflect Risk:** The rating levels of India Ratings-rated retail companies have already factored in pressures on margin and revenue; this contributes to the high proportion of Stable Outlooks. Some companies with deteriorated credit metrics also have Stable Outlooks as India Ratings has already taken sufficient action to accommodate foreseeable stress. While in some cases, expectation of significant deleveraging is the driver for stable ratings despite pressure on operating metrics.

**Deteriorating Private Consumption Growth:** Private Final Consumption Expenditure (PFCE) is at an eight-year low. The trend is even more worrisome since out of the last six quarters, four quarters had the lowest PFCE growth rate in the last 34 quarters. While PFCE tends to bounce back in response to government spending, a sustained recovery in consumption spending would depend on robust corporate earnings followed by a significant real wage hike and low consumer inflation. As such, these are less likely to happen in 2013.

**Muted Revenue Growth:** The sector experienced overall single digit revenue growth in 2012 the first time in its history and is likely to grow at 3.0%-8.0% in 2013. An exception is Shoppers Stop Limited (SSL, ‘IND A1’) which is likely to exhibit double digit revenue growth at a slowing rate due to a fall in same-store-sales growth (SSSG). Most retailers witnessed a decline in YOY SSSG, becoming negative for major retailers from March 2012-September 2012. Retailers focused on the luxury or premium segment may be worst hit with an expectation of flat-to-negative growth in overall revenues.

**Pressure on Margins:** Median EBITDA margins of major players are likely to contract by 50bps-75bps in 2013. To combat slower SSSG, retailers are offering deep discounts which may generate volumes at the cost of margins. Retailers are also adopting cost-rationalisation measures such as closure of unprofitable stores, enhancing employee productivity and moderating new store addition. An increase in lease rentals (20bps-80bps as a percentage of revenue) and manpower costs (50bps-140bps) in FY12 over the FY11 levels further aggravated margin pressure. **Deteriorating Credit Metrics:** In 2013, working capital requirements may increase due to lower inventory turnover and need to support new stores. With cash flow from operations of retailers’ already negative and expected pressure on margins, the credit metrics of retailers would remain under pressure. The industry’s working capital cycle shortened in FY12 as inventory levels reduced due to heavy discount driven sales adopted by most retailers. However, the need to support new stores led to an increase in overall debt levels in 2012. **Push towards Deleveraging:**

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Retailers’ inability to boost cash flows immediately and their high leverage levels may compel them to look for equity funding. Historically, most capital needs were met through debt. The proposed demerger of Pantaloon Retail India Limited (PRIL, 'IND A-'/Stable) and the proposed acquisition of a controlling stake of the newly formed entity by Aditya Birla Nuvo Limited (ABNL) is a case in point. At present foreign direct investment (FDI) based equity infusion is a theoretical possibility given the complex government requirements, the existing retailers may have to significantly restructure their businesses before receiving such investments.

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100 2013 Outlook: Indian Retail, January 2013, India Ratings & Research, A Fitch Group Company