Chapter III

DEPARTMENTAL STORES - IN INDIA
A REVIEW
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DEPARTMENTAL STORES - IN INDIA – A REVIEW

In its nature, the Indian retail market is in sharp contrast to the global situation. Like the rest of the world, it is large, with sales amounting to $180 billion and accounting for 10-11 per cent of the GDE\textsuperscript{56}. However, it is also exceptionally fragmented and unorganized. With close to 12 million outlets today\textsuperscript{57}, India has the largest retail outlet density in the world. However, most of these outlets are with very basic offerings, fixed prices, zero usage of technology, and little or no ambience. These are highly competitive outlets, with cheap labour. Many of them also leverage the low or no cost of family labour to provide services like home delivery that would be uneconomic for any organised retailer.

There are multiple causes for this low level of modernisation in Indian retail. Primary among them are the stifling restrictions on consumer goods and consumerism that existed till the 1990s. As citizens of the world’s largest democracy, people were entrusted with the right to elect their government but were denied, as consumers, the right to choose their products. The consumer industry was suffocated by controls, production was paralysed by a license system, and companies were either forbidden entry or denied manufacturing scale.

Investment in product development withered from a lack of incentives while the import of foreign goods was throttled by tariffs that often rose above 150 per cent. This was as true of fast-moving consumer goods as of consumer durables and apparel.

\textsuperscript{56 - 57} Retailers of the World The Mckinsey Quarterly, 2003 No.3.
The inability to offer a wide range of products was further worsened by the marketers' inability to create economies of scale in sourcing. The high fragmentation in suppliers and the supply chain, the restrictions on inter-state movement and on stocking prevented development of scale. Further, the limited set of organised options prevented retailers from negotiating better terms with their suppliers.

The lack of a consumer culture, along with low incomes, prevented the development of formats such as department stores that work on superior ambience and design to capture consumers. Limited products put consumers perpetually on the back foot. They were reduced to a state where they almost felt rewarded if they were allowed to buy a product. Further, the country was effectively isolated from the world through a tightly controlled television and radio media, and did not share in the growing consumer-oriented culture sweeping the West and other parts of Asia, very few banks were willing to invest in retail, while real estate restrictions made it impossible to access land of reasonable size. The lack of retail-oriented education courses made it difficult to get trained people. Constraints on foreign direct investment prevented the entry of most of the world's leading retailers. Further, organised retailers were cost-disadvantaged against their non-organised competitors. All of this resulted in India having the most basic form of retailing.
### Exhibit: 3.1

**Labour Productivity Comparison Between Traditional and Modern Formats in India**

Indexed USA = 100

<table>
<thead>
<tr>
<th></th>
<th>Food</th>
<th>Non-food</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets/</td>
<td>7 - 18</td>
<td>52</td>
</tr>
<tr>
<td>convenience stores</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Traditional</td>
<td>10</td>
<td>44</td>
</tr>
<tr>
<td>counter stores</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Street markets</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

**Drivers of further growth**
- High scale
- Access to merchandising and marketing skills
- Category management
- Better organisation of labour - more multi-tasking, part-time, standardisation
- Superior sourcing

Source: McKinsey & Company, Inc

### Exhibit: 3.2

**Retailer Brands Have Significant Leverage Across Industries**

Percentage expecting retailer to be at least as good as incumbents

<table>
<thead>
<tr>
<th></th>
<th>Financial services</th>
<th>Telephone services</th>
<th>Car sales</th>
<th>Electricity to home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany Otto Versand</td>
<td>75</td>
<td>70</td>
<td>50</td>
<td>63</td>
</tr>
<tr>
<td>Germany Quelle</td>
<td>73</td>
<td>66</td>
<td>48</td>
<td>56</td>
</tr>
<tr>
<td>Germany Bertelsmann Online</td>
<td>72</td>
<td>70</td>
<td>40</td>
<td>63</td>
</tr>
<tr>
<td>UK Tesco</td>
<td>72</td>
<td>51</td>
<td>55</td>
<td>43</td>
</tr>
<tr>
<td>UK John Lewis</td>
<td>71</td>
<td>48</td>
<td>37</td>
<td>30</td>
</tr>
<tr>
<td>UK Sainsbury’s</td>
<td>70</td>
<td>47</td>
<td>48</td>
<td>43</td>
</tr>
<tr>
<td>France Carrefour</td>
<td>61</td>
<td>57</td>
<td>49</td>
<td>30</td>
</tr>
<tr>
<td>France Leclerc</td>
<td>57</td>
<td>51</td>
<td>46</td>
<td>24</td>
</tr>
<tr>
<td>France Auchan</td>
<td>55</td>
<td>55</td>
<td>47</td>
<td>24</td>
</tr>
<tr>
<td>US Wal-Mart</td>
<td>53</td>
<td>51</td>
<td>48</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Europe Brand Research, 2000; US Brand Leverage Research, 1998
While there were limited signs of evolution, the country lacked — and still lacks — department stores, hypermarkets, warehouse clubs, category killers, catalogue showrooms and any of the other innovative formats that have developed in other markets.

The country has witnessed a retail revolution in recent years. Significant development has taken place in urban area in the form of organized retailing — department stores or malls. Take any metro or a mini metro all of them now, have simply superb departmental stores to rule the shopper's heart. For example, in recent years Gurgaon near Delhi, has seen the mushrooming of so many swanky departmental stores that shoppers dream has come true. The city is all set to become the retail capital of the country. Actually, the corporate sector and the government, both have shown keen interest in the retail sector. This business suddenly seems promising to every one. In 2003 alone, a breathtaking 10 million sq.ft. of commercial space was picked up by the retail industry. McKinsey expects the organized sector to be around $18 billion by 2010.

Departmental stores in India have added razzmatazz to the urban shopping experience. The attitudes on shopping are changing, generally people are exposed to the worlds retailing environment where they have seen so many brands being sold under one roof. People expect convenience, a hang out place that satisfies their notion of a cool ambience. With modern lifestyles, where both men and women are working and tie is the essence, the days of leisurely shopping are fast becoming a privilege reserve for a special few.
Today most families prefer to purchase their goods at 'one stop shops', where everything is available under one roof. Therefore, departmental stores and malls in organized sector has grabbed the wonderful opportunity to offer a unique shopping experience to this new breed of consumers.

Departmental stores have witnessed drastic changes in the last few years—from a poorly stacked dirty kirana store in the by lane of the residential area, changing to an aesthetically decorated store, with properly arranged goods, offering ambience and convenience. On the other hand, instead of lanes and by lanes growing into a bazaar, planned shopping centers well connected with all main roads, freeways are emerging today in all towns and cities. These shopping centers are complete in themselves, capable of meeting all the essential requirements of the population, starting from perishables to durable goods or shopping to specialty goods.

The concept of organized retailing has gained momentum in the last few years. The large corporate houses have displayed more than a fleeting interest in this sector. Big houses like Tatas, Piramals, Rahejas, S.Kumars, Biyanis, RPG have already made their presence felt in organized retailing by investing in either of the format like-malls/big departmental stores/ chain stores. Though the present scenario is ahead of those predictions as organized retailing has reached to semi-urban/rural areas also.
CONSUMERS ARE ALSO CHANGING THEIR PERSONAL SHOPPING PATTERNS

Key driver of change
- per cent of respondents
- New products
- Modern formats
- Better quality goods
- Credit cards
- Greater spending power

Source: Euromonitor

CHANGE IN THE INDIAN CONSUMER: HOUSEWIVES

<table>
<thead>
<tr>
<th>Syndrome in urban women</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>'I have no time'... because I do much more (e.g., go to bank, teach children, earn)</td>
<td>Demand for more convenience</td>
</tr>
<tr>
<td>'I do not know'... about all the details of food purchase household management</td>
<td>Demand for simplified decision making</td>
</tr>
<tr>
<td>'I need time for myself'...</td>
<td>Demand for 'time-pass' activities</td>
</tr>
<tr>
<td>'I am willing to indulge, affordably'</td>
<td>Demand for more products and more aspirational ranges</td>
</tr>
<tr>
<td></td>
<td>Demand for better shopping ambience</td>
</tr>
</tbody>
</table>

Source: IMRB FICCI: Consumer Markets in India: Mckinsey research
THE CHANGING INDIAN WOMAN WILL DRIVE THE DEMAND FOR CONVENIENCE

Women are better educated...
Women's enrolment in professional courses (Engineers) (000) 0.80 16.90

...seeking more employment...
Female employment (lakhs) 13.18 48.24

...and more exposed to media
Exposure to TV (HH) (mil) 6.80 69.10

TV is exposing the housewife to international brands and consumption habits

Source: IMRB, Directorate General of Employment and Training, News report

RETAIL IN INDIA IS LARGE, BUT LACKS LARGE PLAYERS

Country | Retail sales, 1998 | Size of largest company (USD million)
--- | --- | ---
USA | 2325 | 165,000
France | 365 | 24,500
UK | 337 | 25,505
China | 325 | 737
India | 180 | 140
Taiwan | 52 | 1600
S.Korea | 47 | 810
Thailand | 30 | 935

Source: McKinsey & Company, Inc
FDI HAS PLAYED A KEY ROLE IN THE EVOLUTION OF RETAIL IN OTHER DEVELOPING ECONOMIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Salience of FDI presence in retail</th>
<th>Examples</th>
<th>Attitude towards FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>7 of top 10 retailers have significant foreign involvement</td>
<td>Makro, 7-Eleven, Carrefour, Royal Ahold, Jusco, Carrefour, Wal-mart, 7-Eleven</td>
<td>* Majority foreign ownership in retail permitted limited to be raised to 100% under WTO</td>
</tr>
<tr>
<td>China</td>
<td>3 of top 10 retailers have foreign equity</td>
<td>Carrefour, Brazil</td>
<td>* Permitted since 1992 Constraints - Only through JV, With local partners holding majority stake - Restricted to key Clients and provincial capitals</td>
</tr>
<tr>
<td>Poland</td>
<td>Top 3 players (30% share) have foreign equity</td>
<td>Carrefour, Casino, Ahold</td>
<td>* FDI permitted since 1992</td>
</tr>
</tbody>
</table>

FDI in pure retail not permitted in India
- Local players learning a complex business
  - Sourcing
  - Merchandising
  - Inventory
  - Management
- Risk averse behavior
- We opted for supermarkets instead of hypermarkets due to the risk
- Indian retailer

Source: MGI
Malls coming up in the metros between 2004-2006

Source: Chesterton Meghraj
Waiting In The Wings
Under-exploited categories in organised retail.

Consumer durables, IT & Electronics, Communication
45,700

Furniture & Furnishing
30,000

Jewellery & Accessories
45,000

Footwear
6,500

Gifts and Handicrafts
6,000

Saree and Ethnic wear
12,000

Health & Nutrition
1,000

Children's wear, Maternity wear, Accessories
4,700

Figures are estimated market size in Rs Crore

Source: KSA Tecno park estimate for 2004-2005
In recent years, large format departmental stores and centrally air-conditioned malls with departmental stores have come up in each city and will be a high growth area in coming decade. More than 50 new malls making up 1 lakh sq.ft. and above are slated to go into business 2004. Retail consultant K S A Techno Park estimated that another 200 malls will come up in 2005 and 2006. In all 40 million sq.ft. of retail space will enter the market in next 2-3 years. The share of organized retail is likely to grow from 2% now to 5-6% by 2007.

In the recent past, the large format retailing (Departmental stores and malls) has picked-up like wild fire, thanks to neo-rich, tie starved urban dual income population. Centrally air conditioned malls like Ansal Plaza in Delhi, Crossroads in Mumbai and Spencer Plaza, Foodworld in Chennai seems to be perpetually crowded every day. The well off population, middle level executives, college goers of the city look forward to make shopping an experience in an unhurried and relaxed air conditioned atmosphere, convenience, ambience, recreation or space to hang around.

Until 90's, there were just three international style shopping malls in India-Ansal in Delhi, Spencer in Chennai, Crossroad in Mumbai. By end of 2003, that number must have jumped to 50's Currently 96% of all organized retail emanates from the top ten cities of India. Every shopping mall has a huge departmental stores in itself According to KSA Techno Park, organized retailing has grown in three folds from Rs.5000 cr. in 2000 to Rs.15,000 cr.in 2004 potential to expand Rs.35,000 cr.in 2005-06
MALLS/LARGE DEPARTMENTAL STORES

The concept of malls started with Ansal Plaza's Shoppers Stop in Delhi. It was indeed real experience of luxurious shopping under one roof, hang out space in metros with air conditioned tastefully done up décor, piped music, sophisticated lighting. Within a short span of time few more name appeared on the competitive scenario like - Pantaloon, Lifestyle, Westside, Globus even Ebony. All of these facilities the creation of a merchandising point that offers the widest range of products designed to match lifestyle of customers across all income
groups and social strata. For example lifestyle has consolidated its operations in South India as one of biggest retail chain in Chennai, Hyderabad, Bangalore. The outlet is divided in five sections of Lifestyle: Splash provides garments for whole family, Shoe-Mart offers best of footwear brands, Home center provides furniture and upholstery for the home, Lifestyle offers cosmetics, Baby shop a unique concept that provides every thing for kids below 16 years.

For North India Ebony and Shoppers Stop have became a big brand in them. These outlets cater to the requirement of entire family. From mother's need for good crystal to child's need for toys. Sort of Wal-Mart of India, these provide complete shopping experience with huge number of options to choose from Mr.H.S.Narula, chairman D.S.Group the owners of Ebony has emphasized in one of the interviews that each floor in Ebony brings out a theme to make shopping easier for the shopper.

Today it seems that management of each retail house is in a great hurry to open outlets. Shopper's Stop is opening 27 outlets in next 24 months. Lifestyle is planning to open 8 new stores in next two years. Pantaloon is planning 43 by mid 2005. RPG plans to ramp up to 12 in two years. Globus, Piramyd, Westside and Ebony have similar projections to double their current turnover in next two years. There are many regional players capable of sustaining themselves with new generation stores - Snowwhite, Diwansaheb, Shyams, Jainsons, Big Jos, Sirs & Hers, Benzer, Sheetal, Kemp Group etc. have not only plans to expand and add much larger stores but also add more attractions to existing stores.
The Key players in the Indian retail space and their future plans.

**PLAYER**

TATA

After stabilizing operations of their Westside chain of lifestyle stores, the Tatas are launching a chain of hypermarkets called Star India Bazaar. Each hypermarket will be around 50,000 sq.ft., and the first will open in Ahmedabad in the next few months.
AMBANIS  
Into telecom and broadband-driven retailing through their WebWorlds, 200 of them. Petroleum retail outlets - for which the Ambanis have licenses for 5,849 outlets - could also have food and groceries stores, Web Worlds and Java Green coffee shops.

ITC  
Embraced the rural retail model and plans to put up stores called Choupal Sagars, each catering to 100 villages. The first Choupal Sagar in Sehore (MP) is already in operations. ITC plans to have 1,000 of such Choupal Sagars, with 50 of them scheduled to be set up in the first year itself at an investment of Rs150 crore.

HLL  
In the retail space with its Lakme Beauty Salons and Ayush Therapy Centres. Currently has 65 Lakme salons and 12 Ayush Therapy Centres. Plans to expand to 100 Lakme salons and 30 Ayush Therapy Centres in one year.

HERO GROUP  
Creating a chain of 7-eleven type of convenience retail stores, for which the Munjals will tie up with companies and banks. From the current level of 700-odd stores, the group plans to have 10,000 outlets spread across the country over the next three years.
<table>
<thead>
<tr>
<th>Company</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHARTI</td>
<td>Foraying into broadband retailing, with scope to offer video-conferencing, high-speed internet, virtual gaming . . . . the works.</td>
</tr>
<tr>
<td>WADIAS SINGHANIAS GODREJ</td>
<td>In various stages of evaluation of different models. Wadias will probably set up a chain of lifestyle stores, Raymond is evaluating various models including hypermarkets, and Godrej has embarked on an environment-scanning process.</td>
</tr>
<tr>
<td>RPG GROUP</td>
<td>One of the few conglomerates to venture relatively early into retail, the group is aggressively expanding its beauty centers (Health &amp; Glow), music stores (Music World), and hypermarkets Food World and Giant (which could be renamed Spencer's). The largest organised retailer has envisaged an investment of Rs.140 crore over the next three years.</td>
</tr>
<tr>
<td>AJAY PIRAMAL</td>
<td>Another early entrant, Piramal is expanding his lifestyle stores (with super-markets), Piramyd, from three to 16 in three years, at a cost of Rs.320 crore.</td>
</tr>
</tbody>
</table>
MALLS ARE DRIVING REAL ESTATE PRICES

Opening a Mall on a piece of land, Complete with a multiplex and a hypermarket, is the best way to push up the real estate rates of a locality. Unlike in the past, where high interest rates and low degree of consumerism had made the mall business unprofitable, today malls offer the highest return on investment (RoI) in the real estate business. According to Anuj Puri, Managing Director, Chesterton Meghraj, the RoI for malls is 12 percent per annum. For corporate buildings and residential complexes, on the other hand, the RoI is 10 per cent and 5-6 per cent, respectively.

B.S. Nagesh, Managing Director and CEO, Shopper's Stop, says it's this high RoI that is driving new players into the retail business. If a mall is well run, the capital appreciation is the highest in this sector. What's more, 40-50 per cent of the retail space in a mall gets leased out even before the developer has begun to dig the ground. For instance, according to a Chesterton Meghraj report, in 2006, 26 new malls will come up in metros, adding 7.1 million sq.ft. of retail space. But as of today, over 32 per cent of that space has already been leased out. By the time the superstructure of a mall is ready, 70 per cent of the retail space is invariably leased out. "Malls, in that sense, is a low risk business," adds Puri. The moment a mall comes up in an area, residential property surrounding the mall gets a premium of Rs.50 to 60 per sq.ft. Now you know where to buy your next home.

The lure of the mall

A. Over the next 3-4 years, 300 malls* will come up across the country, translating into over 50 million sq.ft. of new retail space and every mall will have a departmental store in it.

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B. By 2010, over 600 malls are expected to come up across the country. That would be 100 million sq.ft. of new high-quality retail space and every mall will have a departmental store in it\(^58\).

(* Malls with space equivalent to 10,000 sq.ft. or more.)

As the corporates - the Piramals, the Tatas, the Rahejas, ITC, S Kumar's, RPG enterprises and mega retailers- Crosswords, Vitan, Memp's, Shoppers stop, Vivek and Akbarally's race to revolutionise the retailing industry, the retailing as an industry in India is coming alive. Most of the organised retailing has started just recently and has been concentrated in the metro cities.

The licensing era has long kept the doors of India's retail market closed for both the Indian corporations as well as foreign players. But the doors are now opening. The market liberalisation and increasingly assertive consumers are sowing the seeds of a retail transformation that will bring bigger Indian and multinational operators on the scene.

A number of Indian and international retailers are entering this nascent market. To do so they are being forced to build their supply chains from scratch and to spur consumer interest in products that are not familiar to Indian shoppers.

Retailing: a comparison with other Asian economy

'India is the last large Asian economy to liberalise its retail sector. In Thailand more than 40% of all consumer goods are sold through the super markets and departmental stores. A similar phenomenon has swept through all other Asian countries. This offers a great scope for retailing in India as it is completely dominated by the unorganised sector\(^59\).

\(^58\) KSA Technopak "Call of the Mall" – Business Today, Vol 13, No:24 October 24, 2004, PP 60.
\(^59\) Indian retailing comes of age, Mckinsey Quarterly, 2000 Number 4 Asia.
Table – 3.1

A comparison with other Asian economy

<table>
<thead>
<tr>
<th>Country</th>
<th>Total market</th>
<th>% of organised sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>$40 bn</td>
<td>81</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$20 bn</td>
<td>45</td>
</tr>
<tr>
<td>Thailand</td>
<td>$32 bn</td>
<td>40</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$75 bn</td>
<td>30</td>
</tr>
<tr>
<td>China</td>
<td>$325 bn</td>
<td>15</td>
</tr>
<tr>
<td>India</td>
<td>$180 bn</td>
<td>2</td>
</tr>
</tbody>
</table>

Retailing in India: a long way to go

According to KSA Technopak (a leading consulting firm) the organised sector will grow to almost Rs 30,000 crores by 2005 representing 6% of total retail market. The top 6 cities will account for 66% of total organised retailing. The spread of organised retailing is unlikely to be a national phenomenon yet. South India particularly Chennai, Hyderabad and Bangalore have seen emergence of large format stores but are no-where close to retailers in USA like Wal-mart, K-mart or premium departmental stores like Saks Fifth avenue or Macy’s or even speciality store like IKEA for Furniture and Circuit city for consumer electronics. The following are the factors responsible for development of retail industry in India:

- Rising income and improvement in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes.
• Liberalisation of market for consumer goods, this has helped the MNCs brand to make in roads into India markets by offering wide range of choices to Indian consumers. Kellogs, P&G, Unilever, Nestle etc
• Reduction of custom duties of CE, Personal care Dairy products etc
• Shift in consumer demand to foreign brands. MacDonald, Sony, Panasonic etc
• Internet is making consumer more accessible.
• Reach of satellite TV channels, which are helping in creating awareness about global products for local markets.
• Improvement in the quality of local manufacturing.

Challenges of Retailing

Retail management is a relatively new discipline in India; it is not marketing by another name. The most important difference is that where marketing has the classic 4 Ps(Product, Promotion, Price and place), in retailing a fifth P, people is added which is critical. They are critical to a service business like retailing both as employees who execute the business and the customers with whom retailers must interact'.

The following are the key challenges of retailing

• Large transactions: Retailers need to handle smaller transactions in large numbers and still be able to make money.
• Lowest pricing everyday: A key to success for many retailers is the ability to attract customers by offering low price guarantee.
• Creating enthusiasm among customers on continuous basis by offering attractive sales promotion and discounts.
• Handling large inventory: Retailers have to deal with products, across manufacturers. A large retailer can easily be handling 50-60k SKUs (stock keeping units).
• Consumer behaviour: Retailers have to understand how consumer behave, how they shop, what they want and when.
• Location: Retailing is all about location where sufficient parking space is available besides being close to shopping mall.
• Use of information technology (IT) in developing a supply chain and integrating all the retailing processes from procurement to after sales.
• Knowledge about private label sourcing and global markets to have lowest cost.
## Major Players

<table>
<thead>
<tr>
<th>Company's Name</th>
<th>Group's Name</th>
<th>Format</th>
<th>Number of Stores</th>
<th>Total sq ft</th>
<th>2002/01 Sales INR Cr</th>
<th>Future Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin Free Markets</td>
<td>Independent Retailer</td>
<td>Discount Grocery Chain</td>
<td>240</td>
<td>3,60,000</td>
<td>540</td>
<td>Exploring expansion outside the current state of Operation</td>
</tr>
<tr>
<td>Nilgiris</td>
<td>Bangalore-based Nilgiris group</td>
<td>Departmental stores</td>
<td>26</td>
<td>89,000</td>
<td>230</td>
<td>30 new outlets in the next two years; 50,000 sq ft in South and west India</td>
</tr>
<tr>
<td>FoodWorld</td>
<td>RPG Group (51%) Dairy Farm Ind (49%)</td>
<td>Departmental stores</td>
<td>65</td>
<td>2,60,000</td>
<td>212</td>
<td>Small stores (1000 sq. ft.); Focus on fresh fruits and vegetables, private labels</td>
</tr>
<tr>
<td>Shoppers' Stop</td>
<td>K Raheja Group-Real Estate</td>
<td>Department Store</td>
<td>9</td>
<td>3,50,000</td>
<td>212</td>
<td>20 stores in the top six cities; Rs. 500 cr. Sales target by 2005</td>
</tr>
<tr>
<td>Pantaloon</td>
<td>Pantaloon Retail</td>
<td>Own Brand Store</td>
<td>15 (own stores)</td>
<td>1,50,000</td>
<td>184</td>
<td>VFM smaller size stores; hypermarket; 6,00,000 sq ft by 2004</td>
</tr>
<tr>
<td>Subhiksha</td>
<td>Independent Retailer</td>
<td>Discount Chain</td>
<td>112</td>
<td></td>
<td>162</td>
<td>500 stores, target turnover of Rs. 1500 cr in the next three years</td>
</tr>
<tr>
<td>Big Bazaar</td>
<td>Pantaloon Retail</td>
<td>Hypermarket</td>
<td>Opened mid-2001</td>
<td>1,00,000</td>
<td>150</td>
<td>1,20,000 sq ft stores in three more top cities; Rs. 950 cr sales by 2005; Entering food retailing</td>
</tr>
</tbody>
</table>

60. Indian retailing comes of age; Mckinsey Quarterly, 200 Number 4 Asia.
<table>
<thead>
<tr>
<th>Giant</th>
<th>RPG group</th>
<th>Hypermarket (Sells to both retail and trade)</th>
<th>Opened mid-2002</th>
<th>50,000</th>
<th>50</th>
<th>Overall eight large 50,000 sq ft stores in three yens</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westside</td>
<td>TATAs TREN'T</td>
<td>Own Brand Apparel Stores</td>
<td>7</td>
<td>1,20,000</td>
<td>42</td>
<td>13 more apparel stores in five years; Plan expansion in grocery and food retail</td>
</tr>
<tr>
<td>Music World</td>
<td>100% Subsidiary of Spencer &amp; Co. (RPG Group)</td>
<td>Music Retailer</td>
<td>15</td>
<td></td>
<td>42</td>
<td>50-60 new stores and sales of Rs. 120 cr by 2004; franchisee route</td>
</tr>
<tr>
<td>Crossroads</td>
<td>Piramal Group (Pharma Business)</td>
<td>Shopping Mall</td>
<td>1</td>
<td>1,20,000</td>
<td>35-40 (from rental)</td>
<td>Add 20,000 sq ft retail space across the road to become a destination</td>
</tr>
<tr>
<td>Crossword</td>
<td></td>
<td>Book Retailer</td>
<td>12</td>
<td>60,000</td>
<td>23</td>
<td>25-30 Crossword corner stores (500 sq ft) in top six cities</td>
</tr>
<tr>
<td>Globus</td>
<td>RRaheja Group-Real Estate</td>
<td>Own Brand Store</td>
<td>4</td>
<td>1,10,000</td>
<td></td>
<td>3-4 new stores p.a; experimenting with small fashion stores</td>
</tr>
</tbody>
</table>

**CHANGING TRENDS**

- Rising incomes. Over the last decade, India's middle- and high-income population (defined as households with an annual income of over Rs 60,000) has grown at a rapid pace of over 10 per cent per annum, even as the large low-income base has shrunk. This growth is most evident in the urban markets, but has also impacted rural markets. This growing high-income population is triggering off the demand for consumer goods and will enable the penetration of higher quality/ higher priced...
products. Concurrent with rising incomes is the growth in ownership of key consumer durable assets such as two-wheelers, refrigerators and television sets.

➢ Explosion of media

Over the last decade, there has been a radical explosion in media. The rush was kick started by the cable explosion during the Gulf War, and has accelerated to a point where there are more cable connections than telephones in Indian homos today (25 m vs. 23 m), and about 70 channels being aired at all times. The media bombardment has exposed the Indian consumer to the lifestyle enjoyed in more affluent markers and raised their aspirations as well as demands from the shopping experience.

➢ Change in women and in family structures.

Multiple studies and investigations have uncovered a change in the urban woman. Today, typically, she is better educated and, in many cases, working. There has been a simultaneous shift in the family structure, with nuclear families becoming a significant component of urban markets. This is estimated to be as high as 70 per cent, according to recent market research conducted in Bangalore. Across a number of surveys carried out by research companies, the modern Indian women is seen to be being increasingly under time pressure, desirous of some time for herself, willing to indulge and aware of her shortcomings in terms of knowledge in the home/ kitchen. She is therefore more prone to convenience options, more demanding on store ambience and looking for solution providers and external guarantors of quality and usability.
Rural market waking up - The rural market is beginning to emerge as an important consumption area. For many basic products, like soap and toothpaste, it has always been an important consumption point.

New Supply chain is getting established over the last few years, the consumer goods sector has been transformed by increased liberalisation and sophistication in consumer goods manufacturing, a continuous reduction in customs duty, and a shift from quota to tariff-based systems. Auto and durables have been in the vanguard with the explosion in capacity, models and demand, and FMCG categories such as dairy, juices, biscuits and personal care products have followed suit. Entry restrictions for multinationals have been removed in nearly all.

Scale of operations changing

Subhiksha has over 50 stores in Chennai. Foodworld has 41, spread over Chennai, Bangalore and Hyderabad. This growing scale is enabling these departmental store to eliminate links in the purchasing chain and to craft deals with food processors directly. In fact, the scale of purchases has made India's largest consumer goods company, HLL, dedicate a special team to deal with these emerging power retailers.

Purchasing habits in metros shifting towards supermarkets

Shopping behaviour in urban India has evolved over the last few years. A survey of Indian women revealed that 40 per cent felt that their shopping patterns had altered in the last 5 years. The increase in variety, quality and availability of products, as well as an increase in spending power has resulted in consumers increasingly using Departmental store for their personal shopping.
More competitors are eyeing the sector

From an ignored industry barely 10 years ago, the level of interest in retail as a growth opportunity has increased visibly. Large conglomerates like Tata, ITC and the Rajan Raheja group have initiated investment, the Birlas have acquired the Madura Garments apparel business, while Reliance has publicly committed to developing a retail business along with the development of its fuel retailing network.

Foreign retailers looking for entry options.

The increasing attractiveness of the sector is raising the interest of a number of global retailers. While this is dampened by the current lack of FDI approval for the sector, a number of companies, including Tesco, Kingfisher, Metro, Carrefour and Ahold, are exploring entry options. In apparel, Benetton, Lifestyle and Zegna are already in business, and Dairy Farm has a number of joint ventures for retail in India.

OTHER DEVELOPING COUNTRIES HAVE BEEN DOWN THIS PATH

It is important to note that other developing countries in the region have already begun to move down this path. Over the last 10-15 years, organised retail has grown from 10 per cent to 40 per cent in Thailand and Brazil, and 20 per cent in Poland and China, compared to 2 per cent in India. The evidence from these countries indicates that the transition can take place quickly.

In Thailand, there has been an explosion in the growth of organised retail, with over 40 per cent of the trade moving to modern formats within 10 years. The easy entry of foreign retailers and the
geographic concentration of the retail industry facilitated this growth. In Poland, where modern retail has captured 20 per cent of the market in the last 9 years, ease of real estate access, a level playing field between modern and traditional retailers, and ease of entry for foreign retailers contributed to the growth.

CHANGE IN CONSUMER BEHAVIOUR

There has been a change in shopping behaviour in urban India over the past few years with consumers looking for convenience. That is, they want everything under one roof and a bigger choice of products. With an increase in double-income households, people do not have much leisure time and seek the convenience of one-stop shopping in order to make the best use of their time. They also look for speed and efficiency. Increased awareness has also meant that consumers now seek more information, variety, product availability, better quality and hygiene as well as increased customer service. The concept of "Value for Money" is picking up.

Traditionally, children seldom accompanied their parents while shopping for groceries. Shopping for children was confined to festivals when dresses were bought for them. But now, because they are pressed for time, working parents prefer to spend as much time as possible with their children; this includes their shopping hours also. As malls and supermarkets offer the option of entertainment along with shopping, younger couples prefer to shop there. Also driving the retail industry is impulse buying spurred on by higher brand awareness.

Consumer niches have begun propelling the market and are becoming more important, with positive and negative sub-segments of consumers gaining significance. The growth acceleration in 2002, for
example, has definitely been the workingwoman, with the money spent by her averaging 1.3 times that of a housewife.

CONSUMERISM CYCLE

The consumer cycle starts with the industry dictating the market. Eventually over time the distributor gains control over the market; at this stage the distributor becomes an important link between manufacturer and customer. When the market starts developing and expanding its horizons, retailers turn into the vital link in this supply chain. India is entering this third stage where retailers control the market. Being the closest link to the consumer in the supply chain, retailers benefit accordingly. Manufacturers spend a lot of money promoting a product, but if it's not on the shop-shelf, consumers won't be able to buy it. Manufacturers have also realized that retailer recommendations matter, particularly in smaller towns where retailers are figures of authority or opinion leaders. With shopping attitudes changing, the Indian market today desires value-added products and services with good ambience and brands, which only a retailer can provide. Hence good retailer relations are a must. Manufacturers are ready to pay listing fees to get retailers to stock a product, or display charges to place it prominently.

Organized retailing in India initially began in the South. India is rapidly evolving into an exciting and competitive marketplace with potential target consumers in both the niche and middle class segments. During the past two years, there has been a tremendous amount of interest in the Indian retail trade from global majors as well. 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.
From neighborhoods grocery shops to hyper marts to discount stores to supermarkets to department stores, India’s retail topography is a composite mix of several retail formats.
Retailing is one of the fastest growing industries in India, catering to the world's second-largest consumer market. The organized sector acquires a significant share of the retail pie. It is the start of a cross-border movement, with mergers and acquisitions gaining in importance. Retailers in North America and Europe like Wal-Mart, Tesco, M & S and Carrefour are in gear four, where they are looking for cross-border movement. Furthermore, companies start adding more stores and newer markets to their portfolio. There is a fair degree of domestic consolidation as well. Sourcing gets done globally.

Thus retailing in India has a very long haul ahead. The process of getting into newer forms of purchasing has been gradual because of traditional buying habits and the manner in which traditional retailers manage relationships. There is no specific international format or an existing role model that can be easily adapted and applied in the Indian context. India is going through that phase in retailing, which the US experienced in the eighties and early nineties. In order to develop the right proposition one needs to go through the learning curve. The growth and development of organized retailing in India will be driven mainly by two factors - low price and benefits the consumers can't resist. Economies of scale will drive down the cost of the supply chain and increase the benefits offered to the customer. From product-based shopping, the emphasis will shift to experience-based shopping.

FIRST HYPERMARKET IN INDIA

Gaint: was the first hypermarket opened in Mumbai. In spite of the well known space constraint in the city, Gaint is living up to its name and opening a single level store of 50,000 sq ft of air-conditioned comfort at Inorbit Mall, Malad. Gaint is pan of the US$1.6 bn RPG Group's retail sector.
Gaint Hypermarket will stock every conceivable product that can be purchased by a household. It will have more than 25,000 products all under one roof. At Gaint you can get groceries, fresh fruit, vegetables, home appliances, white goods, luggage and anything one can imagine at discounted prices. Gaint would offer three levels of discounts across every product sold in the store, 365 days in a year. The discounts would range from 4% to 40% on the MRP. Price, comfort, convenience, quality correct quantity and service are just few advantages of what you can experience at Gaint. Apart from the wide product range, the Gaint store would also have a Bakery, Music World and a Gifts & Novelties counter.

Gaint caters to end consumers, institutional buyers and the large fraternity of small businesses like retailers, eateries, hotels and restaurants. Apart from selling all items below MRP, the store also has regular promotions and special offers 52 weeks of the year. These are price offs and are in addition to the low prices being offered. These offers are across the entire range of products and offer great savings on a number of leading brands. Based on the experience and learning from various international peers, Gaint further leveraged the benefits of large-scale operations to develop a successful range of private label products.

Customer service and convenience is a core focus area for the store team and the air-conditioned, clean, comfortable, well stocked and laid out store ensures absolute customer delight. The spacious layout allows for wide aisles within the store for moving around. "The ample space outside ensures that Gaint is the one place, where customers do not have to worry about parking. Gaint would also offer to the Mumbai consumers several customer facilities never before experienced in the city Some of the key features of the store would be ~31 cash tills, which
stretch across this store of 50,000 sq ft, a 4,000 sq ft area of fresh fruits and vegetables, an unconditional Replacement Guarantee and a Price Guarantee.

Gaint is India's first complete Hypermarket. The first store is in Hyderabad, centrally located in Musheerabad. This store is spread over a 1,20,000 sq ft area, stocking around 25,000 SKUs across a single level trading area, Gaint has pioneered the concept of Hypermarket by offering multiple pricing, wherein a customer pays less when they purchase more. The central theme of this retail format is the widest range being offered at discounted prices.

NILGIRIS

It said that the Departmental store way of shopping was introduced in India by this then fairly small south Indian family. This company known to have been called the 'Nilgiris' chain of departmental stores has been operating very successfully in Bangalore, Chennai, Coimbatore, Erode and some other south Indian towns and cities since more than the four decades. In fact the advent of Nilgiris has been a tremendous boon for consumers in these towns who have been able to do their one-stop grocery shopping here. The tremendous customer traffic at these Nilgiris stores in turn has fascinated many entrepreneurs in South India so much that a large number of retail stores of various store formats have since opened all over south India. The Nilgiris chain of stores too has grown, though rather slowly over the last four decades and presently has about 20 departmental stores some company-owned and other franchised. They also have ambitious plans of opening a large hypermarket (over 100,000 square feet) on the outskirts of Bangalore in the near future, which could become the largest single store in the entire country.
Foodworld brought it the concept of "every day low price. "Some 200 SKUs are available every day at the lowest prices in the market". With 80 outlets in the cities of Chennai, Bangalore, Hyderabad, Pune, Coimbatore, Pondicherry, Salem, Tirupur, Vellore and Trivandrum, 500 stores and around Rs.1, 500 crore revenue. The success of Foodworld brought in a paradigm change at an important global retail hypothesis.