3.1 Introduction to Retailing:

The word 'Retail' is derived from a French word with the prefix re and the verb tailer meaning "to cut again". Evidently, retail trade is one that cuts off smaller portions from large lumps of goods. It is a process through which goods are transported to final consumers. Retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. The distribution of consumer products begins with the producer and ends at the ultimate consumer. Between the producer and the consumer, there is a middleman-the retailer, who links the producers and the ultimate consumers. Often people think of retailing only as sale of products in stores. But retailing also involves the sale of services, medical facilities, boarding, lodging, services of food, after-sales service for repair, etc. Retailers attempt to satisfy customers by selling right product/service/merchandise mix at the right price, at the right place when the consumer wants it. Retailers provide an assortment of products and services, break the bulk produce by holding adequate inventory with additional services.

The retailer is an intermediary in the marketing channel because he is both marketer and customer, who sells to the last man to consume. He is a specialist who maintains contact with the consumer and the producer; and is an important connecting link in a complex mechanism of marketing. Though producers may sell directly to consumers, such method of distributing goods to ultimate users is inconvenient, expensive and time consuming as compared to the job performed by a specialist in the line. Therefore, frequently the manufacturers depend on the retailers to sell their products to the ultimate consumers. The retailer, who is able to provide appropriate amenities without an excessive advance in prices of goods, is rewarded by larger or more loyal patronage.

3.2 Global Retail Scenario:

A.T. Kearney's annual Global Retail Development Index (GRDI) 2015 outlines some important changes in the global retail environment. The report states that despite significant regional challenges, international retailers are taking the long term view on investments in developing markets and are persisting in finding solutions. The report also states that the retailer's increased understanding of developing countries is more important today than ever before, as these markets
Table-3.1: 2015 Global Retail Development Index™ (GRDI)

<table>
<thead>
<tr>
<th>2015 rank</th>
<th>Country</th>
<th>Market attractiveness (25%)</th>
<th>Country risk (25%)</th>
<th>Market saturation (25%)</th>
<th>Time pressure (25%)</th>
<th>GRDI score</th>
<th>Change in rank</th>
<th>Population (million)</th>
<th>GDP per capita, PPP (thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>66.7</td>
<td>55.7</td>
<td>42.3</td>
<td>96.6</td>
<td>65.3</td>
<td>+1</td>
<td>1364</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>Uruguay</td>
<td>93.3</td>
<td>60.4</td>
<td>68.0</td>
<td>38.9</td>
<td>65.1</td>
<td>+1</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>Chile</td>
<td>98.2</td>
<td>100.0</td>
<td>13.0</td>
<td>37.9</td>
<td>62.3</td>
<td>-2</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>4</td>
<td>Qatar</td>
<td>100.0</td>
<td>89.4</td>
<td>34.3</td>
<td>12.8</td>
<td>59.1</td>
<td>N/A</td>
<td>2</td>
<td>144</td>
</tr>
<tr>
<td>5</td>
<td>Mongolia</td>
<td>22.4</td>
<td>19.9</td>
<td>93.1</td>
<td>100.0</td>
<td>58.8</td>
<td>N/A</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>Georgia</td>
<td>36.5</td>
<td>39.1</td>
<td>78.8</td>
<td>79.2</td>
<td>58.4</td>
<td>+1</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>United Arab Emirates</td>
<td>97.6</td>
<td>84.0</td>
<td>16.5</td>
<td>33.9</td>
<td>58.0</td>
<td>-3</td>
<td>9</td>
<td>65</td>
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<tr>
<td>8</td>
<td>Brazil</td>
<td>98.0</td>
<td>60.4</td>
<td>45.2</td>
<td>28.0</td>
<td>57.9</td>
<td>-3</td>
<td>203</td>
<td>15</td>
</tr>
<tr>
<td>9</td>
<td>Malaysia</td>
<td>75.6</td>
<td>68.8</td>
<td>29.3</td>
<td>52.7</td>
<td>56.6</td>
<td>-</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>10</td>
<td>Armenia</td>
<td>35.4</td>
<td>37.1</td>
<td>82.1</td>
<td>66.3</td>
<td>55.2</td>
<td>-4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>11</td>
<td>Turkey</td>
<td>83.1</td>
<td>48.1</td>
<td>40.2</td>
<td>44.8</td>
<td>54.1</td>
<td>-</td>
<td>77</td>
<td>20</td>
</tr>
<tr>
<td>12</td>
<td>Indonesia</td>
<td>50.6</td>
<td>55.5</td>
<td>55.1</td>
<td>65.9</td>
<td>51.8</td>
<td>+3</td>
<td>251</td>
<td>10</td>
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<tr>
<td>13</td>
<td>Kazakhstan</td>
<td>49.6</td>
<td>34.2</td>
<td>72.5</td>
<td>50.7</td>
<td>51.8</td>
<td>-3</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td>14</td>
<td>Sri Lanka</td>
<td>15.8</td>
<td>34.4</td>
<td>77.8</td>
<td>78.8</td>
<td>51.7</td>
<td>+4</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>15</td>
<td>India</td>
<td>30.5</td>
<td>39.8</td>
<td>75.7</td>
<td>58.5</td>
<td>51.1</td>
<td>+5</td>
<td>1,296</td>
<td>6</td>
</tr>
<tr>
<td>16</td>
<td>Peru</td>
<td>48.9</td>
<td>43.9</td>
<td>58.6</td>
<td>51.8</td>
<td>50.8</td>
<td>-3</td>
<td>31</td>
<td>12</td>
</tr>
<tr>
<td>17</td>
<td>Saudi Arabia</td>
<td>78.6</td>
<td>64.4</td>
<td>30.4</td>
<td>27.0</td>
<td>50.1</td>
<td>-1</td>
<td>31</td>
<td>54</td>
</tr>
<tr>
<td>18</td>
<td>Botswana</td>
<td>49.2</td>
<td>62.5</td>
<td>33.3</td>
<td>54.2</td>
<td>49.8</td>
<td>+8</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>19</td>
<td>Panama</td>
<td>62.3</td>
<td>46.8</td>
<td>49.7</td>
<td>37.6</td>
<td>49.1</td>
<td>-5</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>20</td>
<td>Colombia</td>
<td>55.6</td>
<td>49.3</td>
<td>52.0</td>
<td>39.1</td>
<td>49.0</td>
<td>+1</td>
<td>48</td>
<td>13</td>
</tr>
<tr>
<td>21</td>
<td>Russia</td>
<td>94.9</td>
<td>28.4</td>
<td>24.5</td>
<td>46.6</td>
<td>48.6</td>
<td>-9</td>
<td>144</td>
<td>25</td>
</tr>
<tr>
<td>22</td>
<td>Azerbaijan</td>
<td>33.9</td>
<td>26.9</td>
<td>82.4</td>
<td>46.8</td>
<td>47.5</td>
<td>+8</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>23</td>
<td>Nigeria</td>
<td>19.6</td>
<td>8.3</td>
<td>94.0</td>
<td>66.5</td>
<td>47.1</td>
<td>-4</td>
<td>178</td>
<td>6</td>
</tr>
<tr>
<td>24</td>
<td>Philippines</td>
<td>39.6</td>
<td>36.0</td>
<td>51.6</td>
<td>60.7</td>
<td>47.0</td>
<td>-1</td>
<td>100</td>
<td>7</td>
</tr>
<tr>
<td>25</td>
<td>Jordan</td>
<td>51.1</td>
<td>35.5</td>
<td>64.2</td>
<td>36.8</td>
<td>46.9</td>
<td>-3</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>26</td>
<td>Oman</td>
<td>75.0</td>
<td>77.3</td>
<td>24.9</td>
<td>9.8</td>
<td>46.7</td>
<td>-9</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>27</td>
<td>Kuwait</td>
<td>81.0</td>
<td>68.1</td>
<td>33.2</td>
<td>0.0</td>
<td>45.6</td>
<td>-19*</td>
<td>4</td>
<td>71</td>
</tr>
<tr>
<td>28</td>
<td>Costa Rica</td>
<td>66.9</td>
<td>49.2</td>
<td>38.7</td>
<td>25.1</td>
<td>45.0</td>
<td>-4</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>29</td>
<td>Mexico</td>
<td>82.5</td>
<td>56.1</td>
<td>0.2</td>
<td>38.8</td>
<td>44.4</td>
<td>-4</td>
<td>120</td>
<td>18</td>
</tr>
<tr>
<td>30</td>
<td>Angola</td>
<td>22.4</td>
<td>9.2</td>
<td>99.4</td>
<td>45.0</td>
<td>44.0</td>
<td>N/A</td>
<td>22</td>
<td>8</td>
</tr>
</tbody>
</table>

*The significant decline in Kuwait’s position in the GRDI is partially due to a change in country-specific data sources*

Source: A.T. Kearney’s annual Global Retail Development Index (GRDI) 2015

The struggle with shifting economic and political trends—sometimes in an extremely short timeframe. The GRDI ranks the top 30 developing countries for retail investment as shown in table-3.1. Using more than 20 macroeconomic and retail
specific variables, it has not only identified the markets that are most successful today, but also those that offer future potential.

The relative instability in the developing world is reflected in the 2015 rankings. In the Middle East and Latin America, for example, retailers took a more cautious approach to international expansion, but at the same time few made significant market exits. Russia is an exception. There, the heightened political risk has prompted sizeable closures or complete exits from players such as Adidas, franchisee Maratex, and Mexx, among others. Regional winners that year included Asia, which outpaced other regions, despite a slowdown in growth. China is GRDI’s top country for the first time since 2010, and its retail market is expected to grow to $8 trillion by 2020. Sub-Saharan Africa continues to make inroads into the rankings, with three countries (Botswana, Nigeria, and Angola) in the top 30 and several more on the verge of entering soon. And across the world “small gems” such as Uruguay, Qatar (ranked for the first time), and Mongolia provides pockets of untapped potential in less populated markets.

One of the GRDI’s recurring themes is the “Window of opportunity” for investing in physical retail in developing markets as shown in figure 3.1.

Source: A.T. Kearney’s annual Global Retail Development Index (GRDI) 2015
The concept is based on the reality that markets pass through four stages of retail development (opening, peaking, maturing, and closing) as they evolve from informal trading to more mature, organised markets, in a process that typically spans 10 to 15 years. The chart shows that India is in the maturation stage. It also shows that the typical path and time frame can vary. For example, Russia’s development has taken a non-linear path as the country took a step back in 2014 due to increased risk.

Table 3.2 Top 10 retailers worldwide

<table>
<thead>
<tr>
<th>Top 250 rank</th>
<th>Name of company</th>
<th>Country of origin</th>
<th>2013 Retail revenue (US$ m)</th>
<th>2013 Retail growth</th>
<th>2013 Net profit margin</th>
<th>2013 Return on assets</th>
<th>CAGR Retail revenue 2008-2013</th>
<th># countries of operation</th>
<th>% retail revenue from foreign operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart Stores, Inc.</td>
<td>U.S.</td>
<td>476,294</td>
<td>1.5%</td>
<td>3.5%</td>
<td>8.2%</td>
<td>3.3%</td>
<td>28</td>
<td>28.9%</td>
</tr>
<tr>
<td>2</td>
<td>Costco Wholesale Corporation</td>
<td>U.S.</td>
<td>105,156</td>
<td>6.1%</td>
<td>2.0%</td>
<td>6.8%</td>
<td>7.7%</td>
<td>9</td>
<td>28.2%</td>
</tr>
<tr>
<td>3</td>
<td>Carrefour S.A.</td>
<td>France</td>
<td>98,688</td>
<td>-2.4%</td>
<td>1.8%</td>
<td>3.1%</td>
<td>-</td>
<td>33</td>
<td>52.7%</td>
</tr>
<tr>
<td>4</td>
<td>Schwarz Unternehmens Treuhand KG</td>
<td>Germany</td>
<td>98,662</td>
<td>9.5%</td>
<td>n/a</td>
<td>n/a</td>
<td>6.5%</td>
<td>26</td>
<td>58.2%</td>
</tr>
<tr>
<td>5</td>
<td>Tesco PLC</td>
<td>U.K.</td>
<td>98,631</td>
<td>-2.0%</td>
<td>1.5%</td>
<td>1.9%</td>
<td>2.9%</td>
<td>13</td>
<td>32.3%</td>
</tr>
<tr>
<td>6</td>
<td>The Kroger Co</td>
<td>U.S.</td>
<td>98,375</td>
<td>1.7%</td>
<td>1.6%</td>
<td>5.2%</td>
<td>5.3%</td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td>7</td>
<td>Metro Ag</td>
<td>Germany</td>
<td>86,393</td>
<td>-2.5%</td>
<td>0.7%</td>
<td>1.4%</td>
<td>-</td>
<td>32</td>
<td>62.3%</td>
</tr>
<tr>
<td>8</td>
<td>Aldi Einkauf GmbH &amp; Co.oHG</td>
<td>Germany</td>
<td>81,090</td>
<td>4.7%</td>
<td>n/a</td>
<td>n/a</td>
<td>5.5%</td>
<td>17</td>
<td>59.2%</td>
</tr>
<tr>
<td>9</td>
<td>The Home Depot Inc.</td>
<td>U.S.</td>
<td>78,812</td>
<td>5.4%</td>
<td>6.8%</td>
<td>13.3%</td>
<td>2.0%</td>
<td>4</td>
<td>10.8%</td>
</tr>
<tr>
<td>10</td>
<td>Target Corporation</td>
<td>U.S.</td>
<td>72,596</td>
<td>0.9%</td>
<td>2.7%</td>
<td>4.4%</td>
<td>2.9%</td>
<td>2</td>
<td>1.8%</td>
</tr>
<tr>
<td>Top 10†</td>
<td></td>
<td></td>
<td>$1,294,698</td>
<td>2.0%</td>
<td>2.8%</td>
<td>6.0%</td>
<td>3.0%</td>
<td>32.5%</td>
<td>24.2%</td>
</tr>
<tr>
<td>Top 250‡</td>
<td></td>
<td></td>
<td>$4,354,562</td>
<td>4.1%</td>
<td>3.4%</td>
<td>5.3%</td>
<td>4.2%</td>
<td>24.2%</td>
<td></td>
</tr>
</tbody>
</table>

Top 10 share of Top 250 retail revenue 29.7%

†-Sales-weighted, currency-adjusted composites, 2-Average, e-estimate, n/a -not available
Source: Global powers of Retailing, Deloitte report, 2015

According to the Deloitte report (2015) the Top 250 Global Powers of Retailing generated retail revenue approaching $ 4.4 trillion in 2013, with an average size of more than $ 17.4 billion. To earn a spot on the list required fiscal
2013 retail revenue of $3.7 billion, down from 2012’s $3.8 billion. Compared with Top 250 overall, the 10 largest retailers have a much bigger global footprint. On average, the top 10 had retail operations in 16.5 countries compared with 10.2 countries in the Top 250. Of the total sales of top 250 Global powers of Retailing, the top 10 largest retailers contribute 29.7 percent at combined sales of US$1.29 trillion in 2013 as shown in table-3.2.

As per IMF (2015) report, global growth in 2014 was a modest 3.4 percent, reflecting a pickup in growth in advanced economies relative to the previous year and a slowdown in emerging market and developing economies. Despite the slowdown, emerging market and developing economies still accounted for three-fourths of global growth in 2014. Overall, global growth is projected to reach 3.5 percent, 3.8 percent and 4.0 percent in 2015, 2016, and 2020 respectively, in line with the projections in the January 2015 World Economic Outlook (WEO) Update as shown in table-3.3. Growth is projected to be stronger in 2015 relative to 2014 in advanced economies, but weaker in emerging markets, reflecting more subdued prospects for some large emerging market economies and oil exporters.

**Table-3.3: GDP Growth Projections** (Annual percent change)

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual</th>
<th></th>
<th>Projections</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>World</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
<td>3.5</td>
<td>3.8</td>
</tr>
<tr>
<td>United States</td>
<td>2.3</td>
<td>2.2</td>
<td>2.4</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-0.8</td>
<td>-0.5</td>
<td>0.9</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Japan</td>
<td>1.8</td>
<td>1.6</td>
<td>-0.1</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>China</td>
<td>7.8</td>
<td>7.8</td>
<td>7.4</td>
<td>6.8</td>
<td>6.3</td>
</tr>
<tr>
<td>India</td>
<td>5.1</td>
<td>6.9</td>
<td>7.2</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.8</td>
<td>2.7</td>
<td>0.1</td>
<td>-1.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, 2015

Table-3.4 shows the forecast for global retail sales growth from 2008 to 2018. In 2016, global retail sales are expected to grow by 3.2 percent and eventually grow to 3.4 percent by 2018.
Table 3.4: Forecast for global retail sales growth from 2008 to 2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales growth (%)</td>
<td>1.9</td>
<td>-0.6</td>
<td>4.2</td>
<td>3.4</td>
<td>2.2</td>
<td>2.4</td>
<td>2.3</td>
<td>2.9</td>
<td>3.2</td>
<td>3.3</td>
<td>3.4</td>
</tr>
</tbody>
</table>

*Source: PwC; Survey by Economist Intelligence Unit

3.3 Indian Retail Industry:

The retail industry is becoming more complex and changing at an ever-increasing speed. Shifting demographics, household downsizing, more educated consumers, new channel formats—among other trends—require that the industry quickly adjust and modify existent models, approaches and processes to satisfy the needs of future customers in order to be successful and profitable. Retailing will become an industry that realizes, more and more, that it must tailor its offerings to select customers, as opposed to the mass appeal approach of the 1980s, in order to win over customers and foster greater customer loyalty.

The Indian retail industry has experienced high growth over the last decade, with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. From a small penetration level of about 2-3% in 2005-06, organised retail today has a penetration of about 8-10%. Many factors are driving this growth.

A strong and growing economy presents numerous opportunities for organised retail players:

Almost 10 million people are migrating to urban areas each year in search of employment and opportunities. A country with a USD 2 trillion economy, India will soon be home to the largest and the youngest workforce in the world. In spite of some slowdown in GDP growth over the last couple of years, a strong basic economy and a population of 1.2 billion provide enormous opportunities for the growth of domestic and international companies in organised retailing. Although India largely remains an agricultural economy, growth of the services industry will continue to create a class of consumers who have higher spending levels.
Retail spend in India is likely to increase by a CAGR of about 12.4% over the next four to five years:

Total retail spend is forecast to reach 63 trillion INR by 2019, nearly double that in 2014. According to Conlumino research, food and grocery, electrical and electronics and clothing which account for the top three categories according to consumer spending, will continue to be major product categories contributing to retail sales in 2019, thereby also offering retailers the biggest opportunities to expand. In the future, categories like health and beauty, electrical and electronics, and luggage and leather goods is likely to witness faster growth rates than traditional categories like food and grocery, and book, news and stationery. This can be attributed to the rising aspirations of young Indian consumers and their strong interest in self grooming and being trendy.

The smartphone revolution in India has empowered consumers and opened up alternative retail channels:

Along with consumers, retail shopping is also turning smarter as the smartphone revolution in India has given more power to consumers. Overall affordability has significantly increased the penetration of smartphones. The ability to shop on the go, growing availability of various apps to shop and overall convenience offered to consumers seem to be the primary factors driving retail sales through this channel.

India’s retail sector has seen many changes in the last decade and is regarded as one of the pillars of the economy. It is going through the phase of tremendous transformation. It accounts for 14-15 per cent of the GDP and employs about 40 million people. The retail industry has been significantly contributing to the GDP, employment and the economy. In fact, it is considered one of the largest employers in India and is growing at a tremendous pace. Employment is also expected from the 'Make in India' campaign and this will provide a huge scope for investment in the retail sector supported by new policies that can push hiring.

India remains an appealing, long-term retail destination for several reasons, starting with its demography – half of India’s population is less than 30 years of age and roughly one-third of the population lives in cities. The disposable income of Indians is increasing – allowing them to spend more and try new products, brands,
According to A.T. Kearney’s annual Global Retail Development Index (2015) India rises to 15th behind solid growth in sales and strong prospects for future GDP growth. India’s retail market is expected to grow to $1.3 trillion by 2020, and GDP is expected to grow at 8% over the next three years, making India the world’s fastest growing major developing market. The International Monetary Fund (IMF, 2015) expects India’s GDP to cross $3 trillion by 2019, surpassing Brazil, Russia and Italy to become the seventh largest economy in the world. According to KPMG’s 2015 report the Indian economy seems to be going strong, with India’s GDP growing faster than China’s in January-March 2015. India’s rapid GDP growth, growing urbanisation, changing consumption pattern and rising disposable income, make it an attractive market on the world map. In the past year, the government has announced many pro-growth policy initiatives; the significant ones being ‘Make in India’, ‘Skill India’, ‘Digital India’ and ‘Clean India’, as well as a ‘Smart Cities’ programme. Multiple initiatives announced by the government, with the aim of reviving manufacturing and improving infrastructure, have helped foster consumer, business and investor confidence. Consumer and investor sentiment have seen an uptick, as the pro-reform government under Narendra Modi sets out on an

<table>
<thead>
<tr>
<th>Current market size</th>
<th>600 billion USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR for next 5 years</td>
<td>12.5%</td>
</tr>
<tr>
<td>Unorganised retail</td>
<td>~12-14 million kirana stores</td>
</tr>
<tr>
<td>Organised retail penetration</td>
<td>~8-10%</td>
</tr>
<tr>
<td>Online retail</td>
<td>~0.6%</td>
</tr>
<tr>
<td>Retail density</td>
<td>~6-8%</td>
</tr>
<tr>
<td>Contribution to GDP</td>
<td>~14-15%</td>
</tr>
</tbody>
</table>

Source: PwC research

### 3.3.1 Global Positioning of Indian Retail Sector:

According to A.T. Kearney’s annual Global Retail Development Index (2015) India rises to 15th behind solid growth in sales and strong prospects for future GDP growth. India’s retail market is expected to grow to $1.3 trillion by 2020, and GDP is expected to grow at 8% over the next three years, making India the world’s fastest growing major developing market. The International Monetary Fund (IMF, 2015) expects India’s GDP to cross $3 trillion by 2019, surpassing Brazil, Russia and Italy to become the seventh largest economy in the world. According to KPMG’s 2015 report the Indian economy seems to be going strong, with India’s GDP growing faster than China’s in January-March 2015. India’s rapid GDP growth, growing urbanisation, changing consumption pattern and rising disposable income, make it an attractive market on the world map. In the past year, the government has announced many pro-growth policy initiatives; the significant ones being ‘Make in India’, ‘Skill India’, ‘Digital India’ and ‘Clean India’, as well as a ‘Smart Cities’ programme. Multiple initiatives announced by the government, with the aim of reviving manufacturing and improving infrastructure, have helped foster consumer, business and investor confidence. Consumer and investor sentiment have seen an uptick, as the pro-reform government under Narendra Modi sets out on an
ambitious goal of improving its Ease of Doing Business ranking from 142\textsuperscript{nd} to 50\textsuperscript{th} in the next two years (GRDI, 2015).

India had the highest number of retail outlets in the world at over 13 million retail outlets in 2014. It also has the highest number of outlets (11,903) per million inhabitants. India is among the highest in the world in terms of per capita retail store availability. India has occupied a remarkable position in global retail rankings; the country has high market potential, low economic risk, and moderate political risk. In market potential, India ranks eleventh (after the United States, China, Canada, UK, Brazil, Germany, Austria and Mexico) as shown in figure-3.2 which also indicates FDI Confidence Index which assesses the impact of political, economic and regulatory changes on FDI preferences. India’s net retail sales are quite significant among emerging and developed nations; the country is ranked third (after China and Brazil). Overall, given its high growth potential, India compares favourably with global peers among foreign investors (IBEF, 2015).

\textbf{Figure-3.2: FDI Confidence Index 2015}

\begin{center}
\begin{tabular}{|c|c|}
\hline
United State & 2.1 \\
China & 2 \\
United Kingdom & 1.95 \\
Canada & 1.54 \\
Germany & 1.89 \\
Brazil & 1.87 \\
India & 1.79 \\
Australia & 1.79 \\
Singapore & 1.73 \\
\hline
\end{tabular}
\end{center}

Source: AT Kearney 2015 FDI Confidence Index, TechSci. Analysis

\subsection*{3.3.2 FDI Environment in Retail:
Government as a facilitator:}

Recent initiatives, such as the FDI retail policy and state level policies, are a step in the right direction. The government is taking the role of a facilitator to create an environment conducive to the retail business.
In 2006, the Indian government allowed a 51% FDI in single-brand retail, with the aim to attract investments. This was subject to prior government approval and the guidelines issued by the DIPP, as follows:

- Products to be sold should be of a single brand only
- Products should be sold under the same brand internationally
- Single-brand product retailing would cover only products branded during manufacturing

In 2012, the government relaxed the 51% cap and allowed up to 100% FDI in single-brand product retailing, under the government approval route, subject to specified conditions. Apart from the conditions set in 2006, the government stipulated certain other conditions, as follows:

- Only one non-resident entity, whether the owner of the brand or otherwise, shall be permitted to undertake single-brand product retail trading in the country for the specific brand through a legally-tenable agreement with the brand owner for undertaking single-brand product retail trading in respect of the specific brand for which approval is sought.
- In respect of proposals involving an FDI beyond 51%, sourcing of 30% of the value of the goods purchased (taking an average of a five-year total value of the goods purchased), will be done from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors.

In 2012, the government went a step further and also allowed a 51% FDI in multi-brand retailing, subject to certain conditions as follows:

- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded
- The minimum amount to be brought in as FDI by the foreign investor would be $100 mn
- At least 50% of the total FDI brought in shall be invested in ‘backend infrastructure’ within three years of the first tranche of the FDI
- At least 30% of the value of the procurement of manufactured/processed products purchased shall be sourced from the Indian ‘small industries’
• Retail sales outlets may be set up only in cities with a population of more than 10 lakh as per the 2011 Census and may also cover an area of 10 km around the municipal/urban agglomeration limits of such cities. In states/union territories that do not have cities with a population of more than 10 lakh as per the census. Retail sales outlets may be set up in the cities of their choice, preferably the largest city, and may also cover an area of 10km around the municipal/urban agglomeration limits of such cities

• The government will have the first right of procurement of agricultural products

In 2013, the government relaxed the FDI conditions in single-brand product retail even further. FDI in single-brand product retail trading has been allowed up to 100%, wherein 49% would be through an automatic route and the rest, through the government route. Until then, the entire 100% FDI in single-brand retail was allowed only through the government route. In the case of multi-brand retail, an FDI cap has been retained at 51%.

In November 2015, the Department of Industrial Policy and Promotion (DIPP) announced a string of FDI reforms across 15 sectors, including retail. It states that a manufacturer is permitted to sell their products manufactured in India through wholesale and/or retail, including e-commerce, without government approval.

Thus, single-brand retail companies with stores will be allowed to sell online, using the e-commerce platform with certain conditions. Where a retailer is allowed to trade online, an Indian manufacturer would be the investee company and the owner of Indian brand manufacturing in India, with at least 70% of its products in-house, and sourcing not more than 30% from Indian manufacturers. The government may relax sourcing norms in the case of companies engaged in single-brand retail trading and having state-of-the-art, cutting-edge technology and where local sourcing is not possible. State governments are also introducing state-specific retail policies to improve the ease of conducting business in the retail sector. Andhra Pradesh and Maharashtra are the first states to create a draft retail policy.
In a nutshell, these reforms are a welcome move and will enhance India’s attractiveness in the global market. The recent relaxation in the FDI policy to sell products manufactured in India through e-commerce platforms without government approval will give a great impetus to online retailing in the country. This initiative is in line with the recent transformation in the country’s retail market, wherein brands are either already using or considering multiple channels for sales. Among the various channels, e-commerce is the biggest change maker (Knight Frank research report, 2016).

As per the IBEF and TechScience research report (2015), the passage of 100% FDI in single brand retail and the latest acceptance of 51% FDI in multi-brand retail heralds a new era for the retail industry in India. Looking at the past, in line with the liberalisation policy, the government of India had allowed 51% FDI under the automatic route in the select priority sectors. Moving ahead in this direction, a breakthrough was achieved when the government announced 100% FDI under the automatic route in cash and carry wholesale. Post which, there was intense uproar for and against the FDI. Critics cited different explanation to contain it, but all baying voices fell on deaf ear as the gains from it were more than the loss. A major vicious circle broke in 2006 when the govt. allowed up to 51% FDI in single brand retail, but with the prior approval of the govt.. Just two years after in, 2008, the UPA proposed the introduction of FDI in multi brand and finally it approved 51% FDI in multi brand retail and increased FDI limit to 100% from 51% in single brand retail. With a view to improve ease of doing business, the govt. has aligned the FDI policy with NIC code as shown in figure-3.3.

Now, the Indian retail industry is set to garner the benefits of FDI policy initiative by government in the pursuit of making India's retail sector in line with the world. The foreign investment in retail will benefit across the board segment such as increasing employment to a major chunk of unemployed people to making the infrastructure more stable and healthy.
Figure-3.3: Favourable FDI Policy Encouraging Investment

Source: TechSciResearch

Figure-3.4: Benefits of FDI Policy in Indian Retail

Source: IBEF, Retail Report, August 2015
The manufacturer is bound to gain from it as the government has set a cap of 30% procurement mandatory from SMEs and not at arbitrary price. The removal of middlemen is likely to bring transparency in the sector. The figure-3.4 suggests the FDI limit in different sectors of the retail industry and the entry route to which the foreign retailers have to take recourse. The FDI Policy details on Single and Multi-Brand Retail in India are shown in figure-3.5.

As per GRDI (2015) report, India represents a good opportunity for international retailers in single-brand retail, cash-and-carry, e-commerce, as the country appears to be on the cusp of a strong growth phase over the next five years. The tipping point for brick-and-mortar retail continues to be the opening up of FDI norms in multi-brand retail, a move that is not expected in the near-term. For now, international retailers continue to focus on the cash-and-carry and single-brand formats, where 100% FDI is allowed. After two years of dormancy, Walmart will

**Figure-3.5: FDI Policy details on Single and Multi-Brand Retail in India**

- 51% FDI in multi-brand retail status: Policy passed
- 100% FDI in single-brand retail status: Policy passed

- Minimum investment cap is USD100 million
- 30% procurement of manufactured or processed products must be from SMEs
- Minimum 20% of total FDI must be invested in back-end infrastructure (logistics, cold-storage, soil testing labs, seed farming and agro-processing units)
- Removed the middleman and provides a better price to farmers
- Development in the supply chain system
- 50% of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be procured from poor farmers
- To ensure the Public Distribution System (PDS) and Food Security System (FSS), government reserves the right to procure a certain amount of food grains
- Multi-brand retail would keep food and commodity prices under control
- Will cut agriculture waste as mega retailers would develop back-end infrastructure
- Consumers will receive higher quality products at lower prices and better service

- Products to be sold under the same brand internationally
- Sale of multi-brand goods is not allowed, even if produced by the same manufacturer
- For FDI above 51%, 30% sourcing must be from SMEs
- Consumerism of the retail market
- Any additional product categories to be sold under single-brand retail must first receive additional government approval

Source: IBEF, Retail Report, August, 2015
open a new outlet in Agra in 2015 and plans to add 50 wholesale stores to its existing 20 in the next five years. Germany’s Metro will triple the number of wholesale stores to 50 by 2020. Many single brand retailers such as Japan-based Asics, Danish retailer Bestseller, and French fashion brand Sisley are breaking away from franchisee tie-ups with Indian partners to go solo. Nike, which has about 400 franchise locations in India, filed an application in September 2015 to open company-owned stores.

Meanwhile, many new entrants remain undecided between partnerships with local companies versus company-owned stores. IKEA, which also sources locally, plans to open its first solo store in Hyderabad. H&M will also enter India alone with plans to open an initial 50 shops. In contrast, Gap and The Children’s Place have chosen to partner with Arvind Lifestyle Brands.

As retailers continue to expand, real estate availability could be the biggest barrier. India has four times the population of the United States, but just one-tenth of the mall space. Many malls are also of poor design and lag behind global standards. The dearth of quality space in core areas is prompting some retailers to look online instead.

3.3.3. Technology- the game changer:

Until a few years ago, shopping meant a visit to a mall or high street. With advancement in the technology and its increasing usage by consumers and retailers, shopping options are not restricted to physical stores anymore. E-commerce, recorded impressive 27 percent growth in 2014 to reach $3.8 billion, led by online retailers such as Amazon, Flipkart, and Snapdeal. However, this market still has a long way to go as online remains just 0.5 percent of the total retail market, internet penetration is just 20 percent of the population, and infrastructure needs to improve significantly. Indeed, the Associated Chambers of Commerce and Industry of India estimates that companies will spend between $1 billion and $2 billion on e-commerce-related infrastructure over the next five years (GRDI, 2015).
E-tailing is not only a reality, it is evolving constantly to create synergies with other retail channels. According to the latest report by the Internet and Mobile Association of India (IAMAI) and IMRB International, India has the world’s second largest Internet user base, overtaking the US. High-speed Internet connections have become better and more affordable. Interestingly, India is the second largest smartphone market globally, and is expected to witness fast-track growth in the next five years. More consumers are connected and socially active with the use of such technology. E-tailing is much more convenient through smartphones, and is accessible to all age groups across all geographies.

Although it may seem like e-tailing is the new way of shopping, brick-and-mortar is also here to stay. Indian consumers continue to find physical stores appealing, and shopping is a form of recreational activity for them. Brick-and-mortar stores provide consumers with a physical experience that allows them to touch and feel the products. Retail stores also employ personnel to attend to customer requirements and suggest options, which is important to a high percentage of consumers even today. So, an integrated approach of brick-and-mortar and digital (Omni channel retail) is the need of the hour. Malls and stores will have to adapt to the changing consumer requirements. Shopping at a mall will not be a necessary in the coming years. Purchases can be made anywhere and at any time with the ease and at the consumer’s convenience. Hence, malls have to provide much more than shopping to be able to attract the customers. Shopping malls will have to be remodelled or rearranged into recreation centres and offering more spaces to socialise. Retailers need to innovate in order to cater to the shopping needs of the new-age consumer who has limited time and a plethora of options to choose from.

3.4 Evolution of Retail in India:

Traditionally, retail sector comprised of small retailers (kirana stores), with their shops being in the front and the house at the back, where they would run their retail business to earn the family’s livelihood. The emergence of organized retail in India dates back to the pre-independence era when the country’s established business houses, mostly textile majors, ventured into the retail arena through
As such the on-going journey of organized retail in India can be broadly classified into four main phases as shown in figure-3.6

- Initiation (Pre 1990s)
- Conceptualization (1990-2005)
- Expansion (2005-2010)
- Consolidation (2010 onwards)

**Retail Initiation:** The initial evolution of modern retail in India primarily transpired through established textile majors’ forward integration in retail. The key players during this era include Bombay Dyeing, the Raymond Group, the S Kumars Group and Bata to name a few. Central and State Government departments and co-operative bodies such as the Public Distribution System, Mother Dairy, Kendriya Bhandar, Super Bazaar, etc., played a key role as prominent retailers in the Indian Market. These early years also saw the emergence of regional chains, like Nilgiri’s and Foodworld, primarily in the southern region and some of these chains later established a nationwide presence. These remained the only organized retailers in the country for quite a long period, till the post 1990 period saw a fresh wave of entrants in the retailing business.

**Retail Conceptualization**

This phase saw the entry of pure-play retailers, and not the manufacturers, expanding pan-India rather than operate regionally. It is interesting to note that most new retailers like Pantaloons, Shoppers’ Stop and Lifestyle, of this era focused mainly on apparel and other related fashion categories. With the opening of the Indian economy during this phase, first generation international brands like Nike, Reebok, Adidas, Li Struass and McDonald’s to name a few, made the Indian entry.
Retail Expansion

As the name suggests, this is perhaps the most active phase in the Indian retail industry, in terms of growth, entry of new players and development of new entrants. A growing middle class, increasing disposable incomes as well as a large and young consumer market led to rapid growth in the Indian retail industry. Having realized the vast potential of the relatively untapped domestic market, large industrial conglomerates like Mahindra and Mahindra, Reliance, Tata, Aditya Birla and Essar entered the pan-India retail arena during this period. Their success brought in global retailers such as Metro AG, Max Retail, Hypercity, etc. The period saw the emergence of new formats like cash and carry, large format discounters, food courts, multiplexes, children’s play zones and gaming zones. On the real estate front there was frenetic activity with a large number of malls were proposed/developed across major metros and upcoming tier-II cities. The size of the malls also went through rapid transformation from an average size of 150,000-200,000 sq. ft. to 500,000-1,000,000 sq. ft.
The rapid growth soon attracted the luxury product segment in an environment of the economic liberalization along with rising purchasing power parity (PPP) index of domestic consumers. With the FDI policy 2005-2006 allowing single brand foreign retailers to take up to 51 per cent stake in joint venture with a local firm, the intervening years saw the entry of several premium brands (Giogio Armani, Versace, Gucci, etc.) mostly through joint ventures.

**Retail consolidation**

Considering the challenges faced by the industry at present, retail chains are likely to focus on consolidations to cut costs and survive in the market. In the present scenario, companies are increasingly concentrating on strengthening existing operations while assessing growth options through consolidation.

### 3.5 Retail Formats in India:

The following kinds of retail formats are found in India:

**Mom-and-pop stores:** These are generally family-owned businesses catering to small sections of society. They are small, individually run and handled retail outlets.

**Category killers:** Small specialty stores have expanded to offer a range of categories. They have widened their vision in terms of the number of categories. They are called category killers as they specialize in their fields, such as electronics (Best Buy) and sporting goods (Sport Authority).

**Departmental stores:** These are the general merchandise retailers offering various kinds of quality products and services. These do not offer full service category products and some carry a select product line. K Raheja’s Shoppers Stop is a good example of department stores. Other examples are the Lifestyle and Westside. These stores have further categories, such as home and décor, clothing, groceries, toys, etc.

**Malls:** These are the largest form of retail formats. They provide an ideal shopping experience by providing a mix of all kinds of products and services, food and entertainment under one roof. Examples are Sahara Mall, TDI Mall in Delhi.
**Specialty Stores:** The retail chains, which deal with specific categories and provide a deep assortment in them are specialty stores. Examples are RPG’s Music World, Mumbai’s bookstore Crossword, etc.

**Discount stores:** These are the stores or factory outlets that provide discounts on the MRP items. They focus on mass selling and reaching economies of scale or selling the stock left after the season is over.

**Hypermarkets/ Supermarkets:** These are generally large self-service outlets, offering a variety of categories with deep assortments. These stores contribute 30% of all food and grocery organized retail sales. Example: Big Bazaar.

**Convenience stores:** They are comparatively smaller stores located near residential areas. They are open for an extended period of the day and have a limited variety of stock and convenience products. Prices are slightly higher due to the convenience given to the customers.

**E-tailers:** These are retailers that provide online facility of buying and selling products and services via Internet. They provide a picture and description of the product. A lot of such retailers are booming in the industry, as this method provides convenience and a wide variety for customers. But it does not provide a feel of the product and is sometimes not authentic. Examples are Amazon.com, Ebay.com, etc.

**Vending:** This kind of retailing is making incursions into the industry. Smaller products such as beverages, snacks are some the items that can be bought through vending machines. At present, it is not very common in India.

### 3.6 Emerging Trends in Indian Retail Industry:

**Large number of retail outlets:** According to KPMG (2014) report, India is the fifth largest preferred retail destination globally. The sector is experiencing exponential growth; with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. The CAGR expected for retail (in value term) is 13% (2013-19). The number of modern trade stores is expected to increase from 11,192 in 2006 to 67,100 by 2016. The number of supermarkets is expected to
increase from 500 in 2006 to about 8,500 by 2016. Total retail space supply in India is projected to grow from 5.3 million sq.ft. to 6.6 million sq.ft. over 2013-15.

**Rural markets offer significant growth potential:** As per IBEF (2015) report, FMCG players are focusing on rural market as it constitutes over 33 percent of FMCG consumer base in India. With increasing investment in infrastructure, retailers would be able to increase their access to high-growth potential rural markets.

**The increasing acceptance of private labels in India:** The trend of private labelling is fast catching up among the Indian retailers as it poses a win-win solution for retailers and customers in the current retail environment. Since rapid technological and socioeconomic changes over the last decade have affected the shopping habits of the Indian consumers, many retailers are now forced to innovate and build categories (private labels) across various price points to attract more buyers. They have not only created new labels, but have also customised and localised the products to suit the Indian tastes, especially in the food and beverage category. In the coming years, there is great scope for development for private labels as their share in India is only 6 per cent currently as compared to 19 per cent and 39 per cent in the US and UK, respectively.

**Sourcing base:** India is poised to emerge as a sourcing hub for several international retail chains, given the abundant supply of raw materials and cost competitiveness. Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices.

**Fast-growing luxury market:** Luxury retailing is gaining importance in India. This includes fragrances, gourmet retailing, accessories, and jewellery among many others. The Indian consumer is ready to splurge on luxury items and is increasingly doing so. The Indian luxury market is expected to grow at a CAGR of 25 percent. This will make India the 12th largest luxury retail market in the world by 2020. Factors driving its growth are the growing number of HNIs (millionaires) and working women in India with rising disposable income levels. According to the
World Wealth Report 2014, the total number of millionaires in India (with investible assets, excluding main residence and consumer durables, of more than USD1 million) grew by ~51 per cent, the second fastest in the Asia-Pacific region.

**The rise of e-commerce:** E-commerce, as a retail channel, has seen phenomenal growth over the last couple of years. It is driven by demand factors such as a substantial rise in internet penetration, increasing speed of broadband connections, increasing use of smart phones, etc. in the urban areas, and by supply factors such as increased proliferation of venture capitalists/ private equity-funded e-commerce startups. India has about one million online traders - small and large that sell their products through various e-commerce portals. The online retail industry in the country was worth INR32 billion (USD 552 million) in 2012, and is expected to witness 45-48 per cent CAGR over the next three years, thereby making it worth INR100 billion (USD 1,724 million) by 2015.

**Demographic dividend:** Potential consumer segments are:

**Rural consumers:** Rural markets constitute ~70 per cent of the total population base, but currently account for only 40 per cent of the total consumption in India, due to minimal penetration of organised retailing. Several national and international retail and FMCG players have been planning to explore these untapped markets and are localising their products for this market with regard to price points, packaging, stock-keeping units (SKU) size, promotions, etc.

**Working population:** The population in the working age group of 15 to 54 years is the largest spender on retail. As per the census of 2011, more than 50 per cent of India’s total population falls under this group, indicating the significant influence wielded by this segment on consumer spending.

**Youth:** As per the census of 2011, India also has about 500 million Indians under the age of 25. Young Indians are driving purchases in categories such as mobile phones, fashion, accessories, food and beverages, quick service restaurants, etc., and are willing to experiment and change habits. Young Indians have access to more money than before, driving independence, aspirations and demand for products.
**Middle income households:** India has a large and aspirational middle-class of 75 million households or 300 million individuals. Over the years, the disposable income of middle-class Indian consumers has increased significantly, which is leading to a substantial change in their spending habits.

### 3.7 Classification of Retail sector:

The Indian retail industry is categorized into two segments namely organised and unorganised retailing:

**Organised retailing:** Organised retailing refers to trading activities undertaken by licensed retailers, those who have registered for sales tax, income tax, etc. These include corporate-backed hypermarkets and retail chains, and also privately-owned large retail businesses. Various estimates put the share of organised retail to go up to 20 per cent by 2020.

**Unorganised retailing:** Unorganised retailing refers to traditional forms of low-cost retailing, for example, local Kirana shops, owner-operated general stores, paan/beedi shops, convenience stores, hand cart and street vendors, etc. The growth of the unorganised retail sector is pegged at 6 percent.

#### 3.7.1 Organised Retail in India:

Organized retailing in India is witnessing a radical transformation. The increase in the number of retail chains across the country is an indication that organized retailing is emerging as an industry and will boom in a big way in the near future (Srivastava, 2008). The organised sector, though growing steadily only constitutes about 0.08 of the total retail sector in India (Srivastava, 2008; Sengupta, 2008). Though organised retailing makes 70-80 per cent of the total trade in developed countries, its share in the Indian market is still low (Mishra, 2009). The organised retail penetration and key trends across various categories is shown in table-3.6.
Table-3.6: Organised retail penetration and key trends across categories

<table>
<thead>
<tr>
<th>Retail category</th>
<th>Category share as a % of total market 2014-2015</th>
<th>ORP (%)</th>
<th>Approx. gross margin (%)</th>
<th>Key trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverage</td>
<td>69-70</td>
<td>2-3</td>
<td>3-14</td>
<td>Large market and low ORP present robust opportunities</td>
</tr>
<tr>
<td>Clothing and textile</td>
<td>11-13</td>
<td>17-20</td>
<td>35-50</td>
<td>High margins, increased preference for branded apparel</td>
</tr>
<tr>
<td>Consumer durables</td>
<td>4-5</td>
<td>15-20</td>
<td>10-20</td>
<td>Wide range of price points and good after sales service are key differentiators</td>
</tr>
<tr>
<td>Home décor and furnishing</td>
<td>3</td>
<td>5-6</td>
<td>40-50</td>
<td>Housing boom and increasing aspiration levels are driving demand</td>
</tr>
<tr>
<td>Beauty and personal care</td>
<td>8-11</td>
<td>6-10</td>
<td>20-40</td>
<td>Growth driven by new product launches, consumers’ aspirations and expansion plans of organized players</td>
</tr>
<tr>
<td>Footwear</td>
<td>2</td>
<td>16-17</td>
<td>25-35</td>
<td>Lifestyle brands are increasing their product offerings and formats</td>
</tr>
<tr>
<td>Others</td>
<td>3-4</td>
<td>9-30</td>
<td>10-15</td>
<td>Pharmacy retail, stationery retailers, etc</td>
</tr>
</tbody>
</table>

Source: Ministry of Statistics and Programme Implementation, A Report on ‘Retail reforms in India’ by PwC, TechSciResearch

3.7.2 Scope for Expansion in Organised Retail:

According to IBEF (2015) report, the Indian retail market is in its nascent stage; unorganised players accounted for 92 percent of the market during 2013. There are over 15 million mom-and-pop stores. Between FY09-13, organised retail in India witnessed a CAGR of 19-20 percent. Organised retail is expected to account for 24 percent of the overall retail market by 2020 as shown in figure-3.7.

A strong and growing economy presents numerous opportunities for organised retail players. Almost 10 million people are migrating to urban areas each year in search of employment and opportunities. A country with a $2 trillion economy, India will soon be home to the largest and the youngest workforce in the world. In spite of some slowdown in GDP growth over the last couple of years, a strong basic economy and a population of 1.2 billion provide enormous opportunities for the growth of domestic and international companies in organised retailing. Although India largely remains an agricultural economy, growth of the services industry will continue to create a class of consumers who have higher spending levels.
Retail spend in India is likely to increase by a CAGR of about 12.4% over the next four to five years. Total retail spend is forecast to reach 63 trillion INR by 2019, nearly double that in 2014. According to Conlumino research, food and grocery; electrical and electronics and clothing which account for the top three categories according to consumer, contribute to retail sales in 2019, thereby also offering retailers the biggest opportunities to expand. In the future, categories like health and beauty, electrical and electronics, and luggage and leather goods is likely to witness faster growth rates than traditional categories like food and grocery, and book, news and stationery. This can be attributed to the rising aspirations of young Indian consumers and their strong interest in self-grooming and being trendy.

The smartphone revolution in India has empowered consumers and opened up alternative retail channels. Along with consumers, retail shopping is also turning smarter as the smartphone revolution in India has given more power to consumers. Overall affordability has significantly increased the penetration of smartphones. The ability to shop on the go, growing availability of various apps to shop and overall convenience offered to consumers seem to be the primary factors driving retail sales through this channel.

Given the growth in organised retail in the last ten years, rising pressure on pricing, increasing consumer preference for online shopping and continued
structural challenges for cost efficiency, we set out to understand the focus of retail businesses over the next few years.

### 3.7.3 Drivers of organised retail:

Many factors are driving this growth as mentioned below:

**Demand drivers:**

- Rising income levels
- Increased urbanisation
- Growing aspiration levels and appetite to experiment
- Credit availability
- Higher brand consciousness
- Rising internet penetration

**Supply drivers:**

- New entrants
- Rapid real estate infrastructure development
- Increased efficiency due to development in the supply chain
- Easy availability of credit
- Expansion plans of existing players
- R&D, innovation and new product development
- Conducive regulatory environment due to expected reforms

### Income growth to drive demand for Organised Retail:

Multiple drivers are leading to strong growth in Indian retail through a consumption boom. Significant growth in discretionary income and changing lifestyles are among the major growth drivers of Indian retail as shown in figure-3.8. Easy availability of credit and use of ‘plastic money’ have contributed to a strong and growing consumer culture in India. Acceptance and usage of e-retailers by consumers are increasing due to convenience and secured financial transactions. Expansion in the size of the upper middle class and the advertisement has led to greater spending on luxury products and high brand consciousness.
3.8 Challenges for retail profitability:

PwC India’s Retail and Consumer practice conducted a survey to understand what retailers are doing to drive profitable growth. The survey asked retailers, what they were doing differently to win in today’s times, with regard to the overall value proposition and efficiency across the value chain. Some of the top findings of the survey are listed below:

Creating differentiation is the top issue retailers face today

Creating differentiation in the value proposition has proven to be a game changer. Given the onslaught of ‘discount’ based business models, differentiation through other means such as product, service, brand, etc., becomes a critical imperative for retailers focussed on a profitable growth as opposed to only top-line growth.

Profitability is the foremost objective, followed closely by expansion into new geographies

While retailers continue to harbour ambitions of entering newer regional markets, enhancing profitability and increasing efficiency through process optimisation and through integration of technological solutions have emerged as top priorities. Retailers across categories, have announced plans of opening new stores in otherwise untapped markets in the country for this fiscal year.
Changing consumer behaviour is the single biggest driver of changes in retail models across categories

The evolving customer behaviour, a result of disruptive technological changes and the megatrends mind set, has made retailers reconsider their operating models. As rightly pointed out by the PwC report titled ‘Retailing 2015: New Frontiers’, we anticipate that retailers will define themselves by the customers they serve, rather than by the products they sell. Retailers will grow by positioning themselves not only as more than just purveyors of ‘stuff’ but also as one-stop purveyors of lifestyles or need states. Customers’ shopping habits today are increasingly being driven by experiences rather than by the product itself. Services which are hyper-personalised to serve even daily needs of customers have gained prominence.

Indian consumers still shop less than their global counterparts; the average ticket size in India is smaller across categories

Today, with the increasing acceptance given to online shopping and social media, the trend towards impulse shopping is more apparent than before. Consumers are not only spending more time browsing through the limitless range of products, but are also initiating social media conversations, which are indirectly driving the marketing efforts of e-tailers. Indian consumers are now willing to spend more on higher quality products. At the same time, their average ticket size still remains low compared to western markets. Frugality and value consciousness is firmly-rooted in the Indian psyche, and Indian e-commerce companies have offered discount shopping to this extent. Furthermore, although the concept of fast fashion is catching up in India, the majority of consumers still has a utilitarian perception about shopping, and hence impulse shopping is still not such a common phenomenon.

Supply chain in India is underdeveloped

Supply chain in India is still underdeveloped, but is still a core competency even if it’s outsourced and is a critical element of a retailer’s mission to get the right amount of products on the shelves in a cost-effective manner. Some of the retailers manage their supply chain in-house while others outsource secondary distribution
(warehouse to store) to specialised third-party logistics (3PL) service providers. Irrespective of the model deployed, the supply chain is a core competency for any successful retailer and can make or break the business.

In comparison to the rest of the world, the Indian retail supply chain is underdeveloped and is one of the major obstacles in achieving profitable growth as shown in table-3.7. PwC’s 2015 Retail Profitability survey revealed that almost 25% of respondents considered supply chain costs and inefficiencies as a major deterrent to their profitability.

**Table-3.7: Comparison of Global and Indian Supply Chain trends**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Indian retail</th>
<th>Global retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics cost as a % of price</td>
<td>~ 10%</td>
<td>~ 5%</td>
</tr>
<tr>
<td>Inventory turns</td>
<td>3 to 14</td>
<td>18%, average</td>
</tr>
<tr>
<td>Stock-out</td>
<td>% 5 to 15</td>
<td>Below 5%</td>
</tr>
<tr>
<td>Shrinkage</td>
<td>% 2.2 to 2.7%</td>
<td>1.3%, average</td>
</tr>
</tbody>
</table>

Source: PwC, 2015

Unlike global retailers like Walmart, which drives profitability based on supply chain allowances, the scenario is very different in India. With time-to-market fast reducing and customer experience determining business objectives, there is a pressing need for organised retail to improve supply chain efficiency and productivity across channels. Supply chain needs to be part of the overall retail strategy. Focussed and smart investments, and appropriate IT solutions, will help in achieving long-term success in this area.

**High lease rentals make retail in India a tough business to operate**

High lease rentals are not only affecting existing players but are also impacting new players, especially in the luxury retail segment. In India, real estate costs account for 5 to 9% of the net revenue of the retailer as compared to 3 to 4% of global retailers. Availability of quality retail space at the right price has been holding the expansion plans of retailers. This has resulted in retailers moving out from prominent malls of Tier I cities. An analysis of retail rents across major cities of
southeast Asia reveals that both Mumbai and Delhi rank quite high. The average retail rent across Mumbai and Delhi is around 1,360 USD per sq. m. per annum. In addition, even the average retail rent per sq. m. per annum across the seven major cities in India, which are considered as hubs for organised retail, exceed some of the major cities in regions such as Bangkok, Manila and Jakarta. With such a scenario coupled with the increasing competition from e-commerce players who do not have the additional burden of real estate rentals, brick-and-mortar retailers will be compelled to rethink the roles of their stores in the coming years.

Workforce management is a key challenge as it directly impacts store productivity and profitability

Workforce is the largest category of controllable non-product cost for retailers. Major retailers across the world have invested heavily in workforce planning software to ensure that appropriate hours are allotted to support planned sales.

Improving value proposition as a key revenue enhancer

Customers’ buying habits have undergone a drastic change due to round-the-year discounts across product categories. Consumers today have become wiser and ensure that they have researched all their options before shopping. Retailers, however, do not view pricing strategies as a major cause for concern. In the apparel and fashion, which is among the best selling categories in online retail, premium brands have refrained from heavy discounting in order to maintain their overall image. Maintaining exclusivity in the product portfolio and creating differentiation in the overall retail value proposition is seen as a bigger concern. Online pilot launches of products which have seen tremendous success in international markets, have instantly become major crowd-pullers in India. From an offline retailer’s perspective, this has been a disturbing trend. A second launch in physical stores might or might not garner as much attention. Retailers therefore have to look at ways and means to package and price their products right. While analytics is being used by some Indian retailers to determine the prices across product categories, others are busy relooking at their product portfolios and localising their offers. It is
time to gain insight into consumer patterns and curate retail offers that cannot be ignored.

3.9 Six pillars of profitable growth in the retail industry:

*Constantly strive to understand your consumers:*

As consumers vary by region, state, city and street, it is critical to understand local market dynamics and ensure that product assortments at the store level or on your e-commerce portal can meet their diverse needs. Creating localised products will help drive sales.

*Define your value proposition and ensure it stays relevant:*

Retailers who design a value proposition that differentiates them from others are the only ones who will survive. Today’s consumer is smart and value positive peer reviews instead of being swayed by fancy ad campaigns. To develop a consumer-centric retail value proposition you need to harness the collective intelligence of your consumers and find out what they are saying about you, your products and stores, and online platforms. This will help you determine how to serve them better. The pace of change is faster than ever before and the balance of power has shifted from what the retailer wants to sell, to what the consumer wants to buy. For you to make your value proposition relevant, consumers need to be willing to share their personal experiences and information. This can only happen once they start trusting you. Innovation is another significant driver of growth. Innovative ideas will add to the definition of your value proposition. Quality, though very important, cannot be the sole focus of businesses anymore. They need to start diversifying to add more product ranges and create a better user experience. New ways to gauge what your customers are thinking and doing in order to customise their experience need to be sought and implemented. The fact that today’s customer is willing to give feedback bodes in the retailer’s favour as long as the latter makes sure that due action is taken.

*Make the experience seamless, fast and efficient across your channels:*

Retailers need to merge the experience of shopping online and in-store so that each touch point is consistent, cumulative, and compelling. In a wireless world,
retailers need to leverage digital connectivity as the bridge between the online and offline parts of their business.

**Driving decisions through continuous analytics:**

Data analysis has been the not-so-secret weapon of the big supermarkets. Retailers, however, need to bear in mind that analytics is not a ‘one-time process’. It needs to constantly evolve with the changing consumer preferences and deliver upon your continuously changing strategies.

**Accelerate investments in new technology:**

The retail sector has to realise that the only way they can gain an edge over their completion is by accelerating investment in digital technology. They need to be bold and take risks, and ensure that they have sufficient back-up to recover from a potential failure. While the life cycle of new technologies is reducing year-on year, it does not mean that the return-on investment (ROI) has to reduce as well. Direct communication with customers is more effective than blanket marketing, so over time, money spent on the first should save money on the second. Cloud-based technology is nowhere as expensive as conventional data centres and considerably reduces the upfront risk. However, Indian retailers need to find and train people who can use these new-age technologies and apply them to solve problems and address challenges.

**Protect your customer, image and brand in the digital world:**

The digital world represents a whole new set of risks across various dimensions—people, processes and public perception. With your customer, image and brand at stake, the recent hacking of Sony Pictures Entertainment just proved how vulnerable businesses are in today’s digital world. Social media, for instance, has become increasingly important for the brand. Retailers will need to have clear and robust policies around what their staff can and cannot post on social media, whether in the company’s name or in their own individual capacity while being associated with the company. An increasing number of organisations from HMV to Associated Press (AP) have had their Twitter accounts hacked. Such breach of security can be potentially disastrous. For instance, a fake tweet from AP claiming that the US President had been injured in an explosion at the White House, caused panic on
Wall Street. Such hacking doesn’t just pose a reputational risk, but a financial and governance one and needs to be assessed, managed and monitored at the board level, along with all those other hazards that can bring your business down.

3.10 Indian Retail Market Analysis - Porter’s Five Forces Model:

**Competitive Rivalry:** Entry of foreign players in the market and e-retailers have intensified competition. Customers’ low switching cost increases competition. The Indian retail sector is highly fragmented, which increases competition.

**Threat of New Entrants:** Entry as a retailer is quite simple. However, players need to establish strong distribution channels and achieve economies of scale to compete.

**Substitute Products:** Threat of substitute products is low. However, customers may purchase products from a local store instead of purchasing from a retailer.

**Bargaining Power of Suppliers:** Retailers have low switching costs, which make the supplier power low. Larger retailers can easily switch to different suppliers.

**Bargaining Power of Customers:** The consumers are price sensitive, and have information about the product and its price. Low switching cost gives customers high bargaining power. The figure-3.9 shows the five forces Model for Indian Retail Market Analysis

Figure-3.9: Indian Retail Market Analysis - Five Forces Model

*Source: TechSciResearch*
3.11 Global Apparel Market:

According to Wazir’s Textile and Apparel Sector Report (2012), the global apparel market is estimated at US$ 1.1 trillion, which forms nearly 1.8% of the world GDP. Almost 75% of this market is concentrated in EU-27, USA, China and Japan. In terms of population, these regions are home to only one-third of the global population, signifying high per capita spend on apparel in these developed markets. The next largest markets are Brazil, India, Russia, Canada and Australia, in descending order. The rest of the world with a population share of ~44% has a miniscule share of ~7% in the global apparel market. An analysis of “per capita spend on apparel” (PCA) reveals a clear demarcation between the developed and developing economies. The PCA of India is the lowest among these developing markets - only 3% of the highest one viz. Australia. Very often, comparisons are drawn between the markets of China and India; but it is interesting to note that PCA of India is only one-third of that of China. The gigantic population base of China and India has led to their inclusion among the top apparel markets, even ahead of several developed economies. Despite having the highest expected PCA growth; the actual PCA in India will remain at less than 40% of China and only 8% of Australia (having the highest PCA). The projected growth in the PCA and population will cause the world apparel market to grow at a CAGR of ~5% during 2012 to 2025 to attain a size of ~US$ 2.1 trillion by 2025.

Emerging Trends and Projections for 2025:

There is a positive correlation between consumer’s spending on various categories and the economic stature of each country. In lesser developed economies, consumer’s spending is highest on food followed by clothing, housing and other items. In developed economies, as the consumer’s disposable income increases, the share of basic categories such as apparel reduces, whereas the share of new categories like entertainment, recreation, consumer durables, travel, etc. increases. Though in absolute value terms, the spend on clothing will not go down, but the increase will be slower than the overall increase in disposable income. This consumption behaviour in an aggregate form, at country level causes the spend on clothing to initially rise at a faster rate than the economic growth of the country. In developed economies, the growth of PCA slows down or stagnates, while in value
terms the spending on apparel continues to grow. In line with this, it is expected that by 2025, the PCA will grow at a faster rate than the economy in Brazil, Russia, India and China; whereas it will be slower or at par with the economic growth in developed markets.

**Figure-3.10: Annualized GDP and PCA Growth Rates in Major Markets from 2012 to 2025**

**Figure-3.11: Change in Per Capita Spend on Apparel from 2012 to 2025 (In US$)**
Table-3.8: Apparel Market Size Projections from 2012 to 2025 (In US$ bn.)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Region</th>
<th>Apparel Market Size 2012 (Actual)</th>
<th>Apparel Market Size 2025 (Projections)</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>150</td>
<td>540</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>EU-27</td>
<td>350</td>
<td>440</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>United States</td>
<td>225</td>
<td>285</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>45</td>
<td>200</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>Japan</td>
<td>110</td>
<td>150</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Brazil</td>
<td>55</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Russia</td>
<td>40</td>
<td>105</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Canada</td>
<td>30</td>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td>9</td>
<td>Australia</td>
<td>25</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>10</td>
<td>Rest of the world</td>
<td>75</td>
<td>195</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td><strong>Global</strong></td>
<td><strong>1,105</strong></td>
<td><strong>2,110</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

3.12 Indian Apparel Market:

The Indian market with its huge population base and growing economy has received much attention from international companies in recent times. The macroeconomic projections over the next few years show a continuation of growth in the market. From 2007 to 2012, the per capita apparel spend in India grew at CAGR of 12% and reached US$ 45 by 2012 (Fig-3.12).

In India, menswear is the largest category. In fact, India is the only major apparel market where women’s wear is not the largest category in value terms (Fig 3.13). The reason behind this anomaly is the fact that women’s wear in India is largely dominated by traditional, unbranded dresses which in value terms are lower than menswear products, despite having larger volumes overall.
3.12.1 Emerging trends and projections to 2025:

The evolution of the market by 2025 in India will be determined by the following key trends:

a. Growth of economy and consumer income will lead to continuous market growth:

The Indian economy has been the best performing large economy in the last decade. Over the next 10-15 years, it is expected to maintain high growth rates and is expected to grow at a CAGR of 8% to reach a level of US$ 4.8 trillion by 2025 from US$ 1.8 trillion in 2012 (Fig-3.14). Studies show that countries achieving a per
capita GDP of more than US$ 2,500 experiences a spur in economic growth led by consumer spending. The Indian economy is expected to reach this target by 2020. Such high economic growth will be the major driver for an increase in consumer spending on apparel in the country.

**Figure-3.14: India’s GDP and GDP per Capita Projections:**

![Graph showing India's GDP and GDP per Capita projections.]

**b. Changing consumer preferences:**

Indian consumers are shifting to organized retailers and looking for brands. Organized retail in India currently stands only 8% of the overall retail market of US$ 518 billion. Within this, apparel is the single largest category with a share of ~ 33%. The vast population base and growing economy have caused global retailers and brands to actively seek Indian market participation, either on their own, or in partnership with a local player. The recent Government decision of allowing up to 51% FDI in multi-brand retail is expected to provide a boost to organized retail in India over the next few years. India’s middle class, the biggest consumer class, is also waking up to the concept of large format stores where they have the option to evaluate competing products in all categories and choose a value-for-money merchandise. In fact, trips to such stores have become a sort of family outing where the entire family participates in the shopping experience. With the growth in disposable incomes, favourable demographics, changing lifestyles and a high potential for penetration into urban and rural markets; the share of organized retail in India is expected to reach 15% by 2025, within which ~ 29% would be apparel (Fig-
3.15). The apparel brand growth in India is already a success story. The advent of brands in India around a decade ago has captured the fancy of most young and aspiring consumers. After developing a strong network in urban areas, apparel brands are now making inroads to tier II and tier III cities to achieve the next level of growth in India. From a level of ~27% share in total apparel sales today, brands will be seen capturing close to 50% share by 2025.

Figure-3.15: Projected Growth of Organized Apparel Retail Market in India from 2012 to 2025

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Retail Market</th>
<th>Organised Retail Market</th>
<th>Organized Apparel Retail Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>US$ 518 bn.</td>
<td>US$ 41 bn. (8% of total retail market)</td>
<td>US$ 13.5 bn. (33% of organised retail market)</td>
</tr>
<tr>
<td>CAGR</td>
<td>11%</td>
<td>17%</td>
<td>16%</td>
</tr>
<tr>
<td>2025 (P)</td>
<td>US$ 2,100 bn.</td>
<td>US$ 215 bn. (15% of total retail market)</td>
<td>US$ 90 bn. (29% of organised retail market)</td>
</tr>
</tbody>
</table>

Source: Wazir’s Textile and Apparel Sector Report (The Road to 2025)

Figure-3.16: Projected Growth of Branded Apparel in Indian Market from 2012 to 2025 (In US$ bn.)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2025 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Menswear</td>
<td>6 (33%)</td>
<td>45 (50%)</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Womenwear</td>
<td>5 (31%)</td>
<td>45 (55%)</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>38</td>
</tr>
<tr>
<td>Childrenwear</td>
<td>1 (9%)</td>
<td>10 (25%)</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Total Branded</td>
<td>27</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Wazir’s Textile and Apparel Sector Report (The Road to 2025)
c. Domestic brands will play an important role in market development:

Domestic brands dominate the mass market in India and they are strengthening their presence and are investing aggressively in opening their Exclusive Brand Outlets (EBOs). Domestic players generally have more extensive sales channels, especially in tier II and tier III cities (Table-3.9).

Table-3.9: Major Domestic Apparel Brands in China and India

<table>
<thead>
<tr>
<th>Indian Brand</th>
<th>Stores</th>
<th>2011 Revenue Est.(US$ mn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Van Heusen(licensed)</td>
<td>~190</td>
<td>160</td>
</tr>
<tr>
<td>Louis Philippe</td>
<td>~150</td>
<td>170</td>
</tr>
<tr>
<td>Allen Solly</td>
<td>~150</td>
<td>100</td>
</tr>
<tr>
<td>Raymond</td>
<td>~650</td>
<td>200+</td>
</tr>
</tbody>
</table>

Source: Wazir’s Textile and Apparel Sector Report (The Road to 2025)

d. Online retailing to grow faster and emerge as a profitable business model:

In the year 2012, online retail constituted a small share in the overall Indian retail market ~ 0.2%. In comparison, online sales had a share of 12% and 9% of the total retail market in the UK and USA, respectively. Within the online sales, apparel retail accounted for only 4% in India; while globally this figure was 18%. Electronics is the major category sold online, but categories like apparel, accessories and shoes are gaining prominence. With an increase in internet penetration, smartphone users and credit card usage, along with online retailers offering deep discounts and developing innovative models to tap rural markets (e.g. cash on delivery), online retailing, specifically for apparel is poised for an unprecedented growth.

Table-3.10: Major Online Retailers in India

<table>
<thead>
<tr>
<th>Indian Online Retailer</th>
<th>2011 Revenue Est.(US$ mn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jabong</td>
<td>150</td>
</tr>
<tr>
<td>Myntra</td>
<td>100</td>
</tr>
<tr>
<td>Yepme</td>
<td>30</td>
</tr>
<tr>
<td>Yebhi</td>
<td>20</td>
</tr>
<tr>
<td>Fashion &amp; You</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Wazir’s Textile and Apparel Sector Report (The Road to 2025)
Table-3.11: Projected Indian Online Apparel Market

<table>
<thead>
<tr>
<th></th>
<th>In US$ bn.</th>
<th>2012</th>
<th>2025(P)</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel market size</td>
<td>45</td>
<td>200</td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>Online apparel sales</td>
<td>0.4</td>
<td>8</td>
<td></td>
<td>26%</td>
</tr>
<tr>
<td>Share of online apparel sales</td>
<td>1%</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Wazir’s Textile and Apparel Sector Report (The Road to 2025)

**Market growth:**

By 2025, the Indian domestic apparel consumption is expected to touch US$ 200 billion, surpassing that of several large consumers like Japan, Brazil and Russia. The market in 2025 will be more than 4 times of its 2012 value of US$ 45 billion, adding US$ 155 billion in the process, making it one of the most attractive destinations for brands and retailers. This attractiveness will bring major changes in the manufacturing and retail landscape in India:

- For international brands and retailers, India will become a high priority market. With slower growth in their home countries, retailers looking to expand globally will vie for share in Indian market.
- The market opportunity will enable the emergence of strong domestic brands which will stand a chance to benefit from their indigenous supply chains and understanding of local trade dynamics.
- In order to increase their market share, retailers and brands will have to focus beyond Tier I Indian cities - to smaller cities and towns where a larger proportion of India’s population exists. The price sensitivity of this population will cause brands and retailers to develop low cost business models in which e-commerce will play a major role.
- On the manufacturing side, focus on domestic market over the next decade can bring unparalleled growth, provided the business model of manufacturers is geared to tap the opportunities which will appear in various market segments. The key will be to develop a supply chain which can cater to international as well as emerging Indian buyers.
- Manufacturers will be required to enhance their customer focus through value added services, which may include inventory management, product development and IT enabled tracking.
• As the brands and retailers will grow large within the country, they will look for manufacturers with economies of scale who can cater to large orders timely. Strategic tie-ups between such manufacturers and buyers will happen which will enhance stability and efficiency in the overall sector.

**Trade growth:**

The trend that China’s share in global exports will reduce over the next few years will provide an opportunity for Indian exporters to take up the available share. They need to be ready to undertake suitable investments for product and infrastructure expansion to meet the demand, which China may no longer cater exclusively.

In order to capture the opportunity provided by the rise of Asia as a strong trade bloc for textile and apparel exports, it will be important for Indian textile exporters to have business tie-ups in countries like Bangladesh, Vietnam, Myanmar, etc. On one hand, these countries will be attractive export destinations for Indian fibre manufacturers, spinners and fabric manufacturers as their import values will rise significantly over time. Whereas on the other hand, they will also be good investment destinations for Indian companies to take advantage of lower manufacturing costs. From such countries Indian players will not only get preferential access to larger markets, but FTAs with India will enable them to cater Indian markets as well.

**Investment growth:**

India’s emergence as a credible alternate to China for manufacturing and exports will enhance the inflow of FDI into India by large global manufacturers. Indian companies will thus be provided with an opportunity to partner with international companies preferring partnerships as the entry mode. Till date European and US based companies have been the major international investors in Indian textile and apparel sector. In the near future, the sector is expected to attract investments from Chinese companies as well, to tap India’s domestic market and export potential. Since the Indian production (for domestic and exports) is poised for a growth faster than the global average; a significant share of this investment will
happen in India. The opportunity will be across the value chain and in multiple product segments. This would also translate into a major business opportunity for machinery suppliers and supporting businesses (chemicals, consumables, logistics, etc.). Continuous investments will result in improvement of operational efficiencies, thereby enhancing the profitability level. On a macro level this will create a positive sentiment in the overall industry boosting the sector image.

A report by Images Retail estimated the number of operational malls to grow more than twofold to cross 412 by 2015 which is happening very fast. It also has predicted a further 715 malls to be added by 2017, with major retail developments even in tier-II and tier-III cities in India.

- Marks & Spencer Reliance India is planning to open 35 more stores over the next five years, according to Mark Ashman, CEO of the company. The 51:49 joint ventures between UK’s Marks and Spencer and Reliance Retail Ltd already have 15 stores in India.

- The Future Group plans to bring in up to US$ 148.7 million in foreign investment. Although Foreign Direct Investment (FDI) is permitted only in single-brand retail and not permitted in multi-brand retail businesses like Future Group's. The conglomerate has created two layers of operations to take advantage of incentives given by the government, which allow Foreign Direct Investment (FDI) up to 49 percent in operating-cum-investment companies as long as they are owned and controlled by Indians.

- Jewelry manufacturer and retailer, Gitanjali Group and MMTC are jointly setting up a chain of exclusive retail outlets called Shuddi-SampurnaVishwas. The joint venture, which plans to open around 60 stores across India by the end of this year, will retail hall-marked gold and diamond jewelry (IMaCS VIRTUS).

- Number of shopping malls is expected to increase at a CAGR of more than 18.9 percent from 2007 to 2015.

- The rural market is projected to dominate the retail industry landscape in India by 2015 with total market share of above 50 percent.

- The third party logistics market (driven by the expanding retail market) is forecasted to reach US$ 20 billion by the end of 2015.
3.12.2 The top 10 apparel retailers in India:

GLOBUS:
Globus has emerged as a fashion hub for urban Indian men and women. Known for its affordable range of garments and accessories, the brand is the first large format fashion retailer that allows emerging designers to contribute without working within the company’s professional set up.

LIFESTYLE STORES:
Lifestyle started its journey in India in the year 1999, with its first Chennai store. It has expanded into a trendy, youthful and vibrant brand, popular for its updated clothing collections season after season. Other than apparel, the multi-brand retailer also brings together several concepts under one roof. Footwear, accessories, beauty products and home furnishings are just to name a few.

FABINDIA:
A highly recognized Indian retailer, Fabindia stands out because of its focus on national roots. All fabrics, furnishings and apparel at the brand have a very raw, ethnic trait. The products are distinguished because they are handmade, reflect Indian traditions and are high in quality. The retailer has been working towards the promotion of hand woven products for 50 years now. Fabindia was founded in 1960 by John Bissell with an aim to uplift the crafts of India.

SHOPPERS STOP:
This multi-brand retailer has given a new dimension to apparel retail in India. With its innovative philosophies and strategies, Shoppers Stop provides a truly international shopping experience. The brand deals with an unparalleled assortment of global brands in clothing, accessories, fragrances, etc. for men, women as well as kids.

PROVOGUE:
Provogue India Ltd. is one of the pioneering fashion brands of the country. The retailer is the ultimate portal for shoppers as it offers a diverse range of branded apparels to choose from. It is also one of the highly valued names when it comes to lifestyle products and footwear.
MADURA FASHION AND LIFESTYLE:

Madura Fashion & Lifestyle is a division of Aditya Birla Nuvo Ltd. A premium lifestyle player in the retail sector, Madura is one of India’s fastest growing branded apparel companies. The retailer caters to every segment of the market through a diverse portfolio that includes affordable and mass-market product lines as well as luxurious, high-end style.

Madura is defined by brands like Louis Philippe, Van Heusen, Allen Solly, Peter England and People. In addition, it has its own multi-brand apparel retailing platform Planet Fashion. Madura offers a unique blend of global fashions, international trends and innovative customer services through The Collective, its exclusive lifestyle store.

KALYAN SILKS:

This Kerala based company is the largest textile retailing chain in India. Headquartered in the city of Thrissur, Kalyan Silks specialize solely in Indian ethnic wear, particularly sarees in silk.

PANTALOONS RETAIL LIMITED:

A registered trademark under the Aditya Birla Group, Pantaloons is another leading fashion retailer from India. The brand has received prestigious honors and awards for its product quality, service, design innovation and customer satisfaction. Recently, the brand has also launched “Lakshya”, its very own quality assurance lab, to ensure the finest retail experience to every customer.

RELIANCE RETAIL LTD.:

A subsidiary of the Indian giant Reliance Industries, Reliance Retail was established in 2006. Within a short span of time, the retailer has grown as one of the largest in the field when it comes to revenue. It has been further split into Reliance Trends, Reliance Jewels, Reliance Footprint and Reliance Living to better categories its offerings.
ARVIND MILLS:

Established as a textile manufacturing unit of the Arvind Group, Arvind Mills has grown to become a highly respected name in the Indian apparel scene. The retailer is credited with shaping and redefining the collections of established designers. Not only that, Arvind is also the most trusted name when it comes to supplying the finest knit fabrics, wovens, denims and ready garments to quality conscious brands.

3.12.3 The changing nature of the Indian consumer and consequent opportunities:

India has witnessed an average GDP growth of approximately 7% in the past decade and forms one of the largest emerging economies of the world. The majority stakeholder in this growth is the mass consuming population of the country. Consumers today are much more evolved and their demands and needs are very different from those of consumers a decade ago. Apart from the demographic and economic changes, there have been many other transformational changes that lead to a growth in the aspirations and wants of an average consumer:

- **Young population:** The median age of the Indian consumer is 26 years with maximum population lying in the age bracket of 15-60 years. It is expected that India will add another 140 million people in this consuming age group by 2020. This is one of the lowest median ages among the developing countries. This population has more aspiration, is more aware and has a higher spending power and will consume a greater number of categories than their parents.

- **Higher disposable income:** According to the Indian census report, the number of households with an annual income of USD 7000 or more is going to treble from about 30 million today to 100 million by 2020. There will be approximately 400 million individuals in the middle to high income bracket by 2020.

- **Growing media influence/exposure:** The role of technology has changed the way people receive/share information. From social networking sites to electronic channels, information travels at the speed of light. The changing lifestyle and “western” culture has also influenced consumer demands and
aspirations. People are willing to consume and develop a lifestyle akin to a
developed world’s consumer.

- **Rising Eve power:** With the growing importance given to a girl’s education
  and financial independence, there has been a rise in the total number of
  working women. An estimated 40-50 million working women, in the age
  group of 20-40 years, will be part of urban India by 2016. This financial
  independence leads to higher decision making power in household and
  personal purchasing matters. There has thus been a surge in women spending
  in categories such as apparel, grooming, personal care, eating out and
  electronic gadgets.

- **Increasing time poverty:** People are spending more time in office,
  commuting to the workplace, on leisure and recreation, vacations, grooming
  and well-being, socializing etc. leading to limited time available for shopping
  and other activities. An increasing emphasis on reducing stress and time for
  routine activities (household chores, shopping, etc.) and maximizing time
  with families and friends has led to them looking out for alternate channels
  of shopping. Convenience is thus the key for consumers who prefer such
  shopping destinations as ‘all under one roof’ and/or non-store retail formats.

- The willingness of consumers to spend more and have a more modern and
  evolved lifestyle has opened a lot of doors for the domestic as well as
  international players to tap into this growing consuming class. Within the
  apparel category, there has been an even more elaborate classification of
  segments based on needs and occasions. Brands and retailers are catching up
  with the latest trends in no time and customizing their product offerings to
  match specific demands.

### 3.12.4 Online Apparel Retail:

Online retail is the next growing phenomenon in the Indian retail growth
story. Changing lifestyles, increasing time poverty and the convenience to buy
things online has paved the way for Indian consumers to have a ‘consumer friendly
& hassle-free online shopping experience’. The current market for non-store
retailing in India is estimated at USD 3.2 billion and is growing at a rate of over
23%.
Apart from services, the online platform is fast catching up in other product categories, including the touch-and-feel experience categories such as ‘apparel’. Platforms such as Myntra.com, Fashion & You, Zovi.com, etc. offer a lot of ease and convenience to customers in terms of variety of apparel, display, choice, discounts and ease of delivery. Retailers and brands such as Pantaloons, Shoppers Stop, FabIndia, Madame, etc. also operate a very active online sales channel and have seen a tremendous increase in the number of orders placed online. Customers can browse through more variety and can easily compare price and quality of merchandise online. The schemes and discounts offered to the customers are also an additional advantage. From the retailer’s point of view, this sales channel offers no or very low real estate cost. The reach of the target group is much larger, accessible across multiple locations and no staff trainings are required. The most important investment required is in software technology, which can give the audience a comfortable virtual experience, equivalent or better than an in-store experience.