Chapter – 3
RECENT DEVELOPMENTS IN RETAILING AND THEIR CONTRIBUTING FACTORS:

3.1 The International Experience

The global retail game is changing. While players surged into new markets in 2004, in 2005 they were more focused on rebalancing their positions. In 2004, at least 15 retailers moved into new geographic markets, while more than 10 retailers exited countries during the same period. French retail group Carrefour is withdrawing from several markets, while British company Tesco holds the record for being the fastest growing retailer outside its home market. Ahold (Netherlands) is almost out of the global game, while Wal-Mart has been busily opening new stores outside its home country every few days.

Since 2001, A.T. Kearney has published the Global Retail Development Index (GRDI), a survey to help retailers prioritize their global development strategies. The index ranks 30 emerging countries based on more than 25 macroeconomic and retail-specific variables. Each year, the world map of opportunities changes for retailers.

India has steadily risen on the GRDI and has claimed the top position in 2005(Table 1). This followed from the saturation in western retail and we find big western retailers like Wal-Mart and Tesco entering into Indian market. The country’s underserved US $330 billion retail market has grown by 10% on average per year over the past five years. As per the A.T. Kearney survey 2006, India has been able to retain the number one position also in 2006.
A.T. Kearney’s 2005 Global Retail Development Index (top 30 emerging markets)

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Rank 1 – 10: on the radar screen; 11 – 20: to consider; 21 – 30: lower priority

*Table: 1*

*(Sources: Euromoney database, World Bank Reports and A.T. Kearney analysis)*
In 2005, a quick overview of the GRDI revealed that in Europe, the hottest spots are moving ever further east. In fact, more than half the markets that fall into the index’s attractive categories—"on the radar screen" and "to be considered"—are from Eastern Europe (Figure 1). Ukraine has climbed dramatically over the past few years to reach third place; Macedonia and Bosnia-Herzegovina entered the ranking for the first time. Russia, however, lost one place as retailers begin to aggressively enter the market, thereby increasing the level of competition.

In Asia, the market mix is changing to include more countries from the south. In addition to first-ranked India, Pakistan makes its way onto the index. Others, such as Saudi Arabia, are stabilizing. Kazakhstan and the United Arab Emirates are also moving closer to entering the top 30 ranking.

*Figure 1: Most attractive developing regions for retail*

(Source: A.T.Kearney)
Several Mediterranean countries, however, have dropped out of the top two tiers of this year’s index. As retailers such as Carrefour and Casino (French retail operator) have entered or expanded in this region over the past two years, they have saturated many of the markets.

South America is gradually coming back to the global game board after several years of economic crisis. Brazil, for example, re-entered the index after four years; Mexico moved up on the rankings due to the exit of Carrefour.

Africa remained out of the index since South Africa has reached the same stage as developed retail markets.

Figure 2: Changes in ranking for Eastern European countries, 2005 versus 2004

(* Fell off top 30 list) (+ New entrants)

(Source: A.T.Kearney)
**Eastern Europe:**

Eastern Europe features two distinct areas of opportunity: Russia; the “old” or traditional Eastern Europe, which includes EU member countries; and the “new East,” which is made up of former Eastern Bloc countries, some of which are now EU members.

**Russia falls to number two:**

**Russia** remained attractive, but the steady stream of foreign players caused its market saturation score to dip from 77 in 2004 to 71 in 2005, with a lower score indicating greater saturation (Figure 2). Despite this drop, the top five grocery retailers still hold less than 9 percent of the market. This fragmentation is good for new entrants, especially discount retailers. **Spar (Netherlands)**, which was among the first international grocers to enter Russia, planned to almost double its number of supermarkets to 16 in Moscow in 2005 and build a network of up to 60 stores in central Russia by the end of 2007. Germany’s Metro expects to double its sales in Russia by 2009. “In the next five years we want to expand our store network in Southern and Western Russia and at the same time also quickly advance expansion into the east of the country,” Metro Group’s CEO Dr Hans-Joachim Koerber said. Metro currently has 26 Cash & Carry stores and several Real hypermarkets in Russia. The Russian market continues to perform well and has an impressive gross domestic product (GDP) growth rate of 7 percent. Many of its large cities remain untapped, and consumer demand is shifting from food to other retail categories, including apparel, home improvement and consumer electronics. **Dixons**, the U.K.-based consumer electronics retailer, recently tapped into Russia by agreeing to buy Eldorado, which holds 22 percent of the Russian market. However, as with most emerging markets,
Russia requires a longer outlook in terms of profitability. Relatively thin gross margins, combined with exceptionally high property prices, make it tough to turn a profit. Auchan (French retailer), for example, may not generate profits for seven or eight years.

**The traditional East slides down the rankings:**

With new players entering this region and existing players expanding, market saturation is tugging many traditional Eastern European countries down the index. The **Czech Republic**, for example, dropped and **Poland** fell out of the top 30 altogether. At the beginning of 2006, Tesco was the hypermarket leader in terms of trading area with 24.6 percent, followed by Carrefour with 16.3 percent, Auchan with 13.9 percent and Geant with 12.2 percent. French retail operator Casino, which owns Geant hypermarkets and Leader Price supermarkets is withdrawing from Poland. Casino’s Polish stores are to be sold to two other retailers operating in Poland – Metro and Tesco. The competitiveness of the Polish market is proven by the fact that the top three players on the market have over 56 percent of it.

**Slovenia** fell one place from 2004 to occupy the number five spot on 2005’s index. Still, the country remains an enticing destination. It has a per capita GDP of US$36,405, and its entry into the European Union in 2004 buttressed growth and stability. But as Slovenia’s market becomes increasingly saturated, competition is about to heat up. Italian grocer EuroSpin recently entered the market, and domestic retailer Mercator, which has more than 1,100 stores, is expanding aggressively. German hard discounters Lidl and Aldi are also interested in operating in Slovenia.
**Croatia** dropped two places to seventh. The country’s strengths include GDP growth of close to 4 percent, GDP per capita of US$38,653, a largely urban population, and total retail sales growth of close to 40 percent over 2003 and 2004. But retailers are moving in here as well: Both Spar and Lidl plan to open shop this year, with Lidl aiming to build 100 outlets over time. Croatian retailers have responded to the increase in foreign competition by founding the NTL Organization, which combines the activities of four regional players to increase buying power.

The Eastern European downslide on the index continues with **Slovakia**. Just two years ago, Slovakia came in at number 2, but in 2005 it sits at number 10. Driving the decline is its market saturation score, which dropped two points in the past year to just 33. On the positive side, GDP is pegged at a stable 4.3 percent and consumption is growing rapidly. Foreign entrants have responded to this opportunity by developing expansion and consolidation plans. Ahold’s Albert supermarket, for example, is expanding with three new stores, and Rewe (German retailer) has taken over Delhaize’s (Belgium retailer) 11 stores. However, companies are beginning to find that the limited number of available retail sites will complicate growth.

At number 13, **Bulgaria** offers a GDP growth rate just over 5 percent, and has significantly reduced the red tape involved in foreign investment. The top five grocery retailers account for only 24 percent of the food market, and food discounters are nearly nonexistent. As a result, numerous retailers, such as Schwarz Group’s Kaufland (German company), (which plans to establish 40 superstores in Bulgaria this year), along with Spar and Lidl are moving in quickly. Local retailers are also strengthening their presence: Hungarian food retailer CBA Kereskedelmi
recently joined with 24 local food producers and retailers under the name CBA Bulgaria, operating 90 stores. Overall, the country will continue to be a promising market as it continues on its growth trajectory.

Hungary continues its predicted descent on the GRDI as the market fills up and consolidates. The top five grocery retailers are foreign and control more than 60 percent of the market. Lidl, Tesco and the Schwarz Group joined the crowded marketplace in 2004, and Wal-Mart plans to follow. In fact, only one foreign retailer, Reitan (Norwegian grocery chain store), left the country in 2004. Prime retail locations are also increasingly hard to come by, underscoring that the time to enter is limited.

The new East is moving up:

One of the fastest rising stars on the index is Ukraine, which leaped eight spots to capture third place. All the retail success ingredients have converged in this market, and conditions continue to improve. The country has 50 million people—making it the second largest population in Central and Eastern Europe—and most live in urban areas. It also posted 6 percent GDP growth, and a 40 percent increase in total retail sales over the past two years. Finally, it has a fragmented retail market, with the five largest grocers holding more than 20 percent of the total. And although food sales account for two-thirds of total retail sales, as the population becomes wealthier, the balance is tipping toward non-food. Retailers have noticed Ukraine’s promise: Rewe’s Billa is already in the market. Russian Perekriostok has recently entered by acquiring Ukrainian Spar. Metro plans to expand to new cities, including Odessa, Donetsk and Khariv, while retailers such as German Lidl, Portuguese Jerónimo Martins and Turkish Migros Türk also have plans to enter by the end of next year. But challenges remain: Ukraine’s infrastructure is
underdeveloped, and spending power remains limited. However, for longer-term returns, index scores indicate the time to enter is now.

The Baltic states of Latvia and Lithuania continue to thrive and present solid opportunities, but time pressure scores are dropping, which means retailers must act quickly. **Latvia** is holding steady at sixth place. The country has a large urban population, increasing consumer spending and strong GDP growth of 6 percent. However, its time pressure score dropped 10 points to 79, reflecting continued entry by foreign retailers.

**Lithuania** comes in at number 17, with a GDP per capita of US$25,492 and GDP growth totaling 7 percent. But Lithuania’s markets are also highly consolidated: The top five grocery retailers capture 65 percent of the market, and its domestic star, VP Market, grabs half of that. A number of companies are looking to enter both markets. Casino plans to bring its Leader Price banner to Latvia through a joint venture with IKI and intends to open between 10 and 15 stores between Latvia and Lithuania. Lidl also plans to enter Estonia and Latvia, with future plans to enter Lithuania, eventually opening 50 outlets in the region.

**Romania** rounds out the players in this region, coming in at number 22 this year. Its market attractiveness score increased, thanks to a steady GDP growth rate of 5 percent, a 60 percent increase in retail sales over the past two years, and signs of greater political and economic reform in anticipation of possible EU membership in 2007. However, new players will continue to saturate the market. Kaufland plans to build 10 to 20 hypermarkets in the near future, and as many as 50 by 2010. German discounter Tengelmann’s Plus and VP Market say they will enter in 2005, and rumors suggest that Tesco may be on its way. Existing foreign
retailers also plan to expand: Louis Delhaize says it will add about 15 of its Cora hypermarkets by the end of the decade.

**Macedonia and Bosnia-Herzegovina join the ranking:**

**Macedonia** debuts on the GRDI at the number 16 spot. Much like other countries in the region, it has a highly fragmented retail environment, with the top five retailers capturing less than 15 percent of the market. Also, about 30 percent of its two million people live in the capital city of Skopje, and it has a healthy GDP growth rate of 4.5 percent. Since Macedonia set its sights on EU membership, a stable economic environment is likely. Drawbacks include a relatively difficult business environment, with corruption and bureaucracy the norm. So far, Veropoulos, a Greek retailer, has been the only foreign retailer to capture 10 percent of the food retail market. However, Migros Türk, Mercator and Intermarché (Polish retailer) all plan to test the waters.

**Bosnia-Herzegovina** which is also new to the GRDI, ranked 20th, due to the favorable market saturation and time pressure scores. Thousands of small independent stores dominate the country’s retail markets: In fact, the top five grocery retailers capture 20 percent of the market, and still only include 18 stores. However, political and economic stability aren’t yet assured, and foreign investment is impeded by complicated administrative processes. Metro AG has expressed interest in entering the market, providing political and economic stability continue.

**Croatian** retailer Konzum joined the market in 2004 with one store, further indicating the cautious nature of foreign retailers in the short term.
Asia: Moving South First to India  The focus in Asia is shifting from the east to the south, with both India and Pakistan moving up in the rankings. From a retail perspective, the continent has two areas of opportunity: the south, which is becoming increasingly attractive, and southeast, which is gradually losing its allure.

(* Fell off top 30 list)  (+ New entrant)

Figure 3: Changes in ranking for Asian countries

(Source: A.T.Kearney)

Pakistan enters the ranking, Kazakhstan may be next: Pakistan makes its first appearance on the GRDI and rounds out this year's index in the number 30 spot (Figure 3). Pakistan's high market saturation score reflects one of the least concentrated retail sectors in the world. In fact, the only identifiable chain is state-owned Utility Stores Corporation, which holds just 0.3 percent of the market. With strong GDP growth
averaging just over 6 percent for the past three years, and a government
determined to attract foreign investment, up-and-coming Pakistan is
beginning to capture retailers’ attention. SHV Makro (German company)
plans to open 30 stores, and Spinney expects to open six to eight. In
addition, Metro will open its first Cash & Carry outlet by the end of this
year, with plans to build 20 more outlets in the longer term. While
Pakistan holds significant promise, questions about political stability and
geopolitical tensions will likely make foreign entrants cautious.

Kazakhstan did not fall in the top 30 on this year’s index, but with only
two international retailers—Migros Türk and Pyaterochka (Russian
retailer)—the playing field is open and it might enter the index next year.

Fierce competition causes China to slip:

Many international retailers view China as the cardinal component in
their international expansion plans. Valued at more than US$628 billion
and growing in excess of 9 percent a year, China’s retail market is
undoubtedly the largest emerging opportunity in the world. This rapid
economic growth has helped create a large, affluent middle class. The
Chinese Academy of Social Sciences reported that in 2003, roughly one-
fifth of the population was middle class, and by 2020, this number should
double. Consumers have steadily increased their spending over the last
eight years and now buy many luxury goods, such as mobile phones and
other consumer electronics. In key consumer markets including soft
drinks and alcohol, bakery products and dairy items, the CAGR (compound average growth rate) has exceeded 10 percent – double the
rates for those products in the United Kingdom. Although the Chinese
retail market is huge, it is extremely fragmented, with no dominant
organized players. The top 10 retailers hold less than 2 percent of the
market, and the top 100 retailers have less than 6.4 percent, according to the China Business Association and research firm Access Asia. Such numbers suggest abundant room for international retailers. The Chinese regulatory environment also remains conducive to international entry. Since China's entry into the WTO in 2001, the government has consistently reduced barriers and encouraged foreign retail countries to invest in the country. As a result of these favourable conditions, China ranks fourth on A.T.Kearney's Global Retail Development Index (GRDI). International retailers have taken notice of the opportunity; several have already entered or are in the process of joining the market, with varying degrees of success. Among them are marquee names including Wal-Mart, Casino, Auchan and Metro. The opportunity may be huge but it may not last longer. Key market trends are redefining entry and business strategies for new entrants and incumbents alike.

The first trend looming is consolidation – either through government-supported initiatives or natural market-forces – which is inevitable given the fragmentation of the market. Local players have merged or grown to compete effectively with the new entrants. The Shanghai conglomerate Bailan group, for example, is the result of a merger of four state-owned enterprises. Several foreign retailers have acquired stakes in local companies to enter or consolidate with the market, among them is Tesco, which partnered with the Hymall Commercial Retail Group to enter the market. As the consolidation increases, it will present fresh opportunities for foreign companies to broach the Chinese market. New entrants, pressed to grow rapidly, to remain competitive, will have the opportunity to buy or merge with local companies.
Another trend is that intensifying competition is forcing retailers to move to China’s 16 second-tier cities, which offer more than twice the number of consumers, although with a lower per-capita disposable income. First movers are establishing a local foothold. Retailers that don’t move quickly are in danger of losing out to more established rivals. French retailer, Carrefour, is planning 22 stores in these second-tier cities. The crowded retail scene in the larger Chinese cities points to the shorter-term nature of the retail opportunity. It also suggests that any new retailer wishing to enter the country needs to identify a distinct sub-segment to serve if it wishes to make headway against existing players.

A third trend is the rising interest in the new and modern store formats as China becomes more westernized. Although specialty stores and supermarkets remain popular, formats such as discount stores, hypermarkets and chain stores are growing fast. Although China has scored well on the GRDI since its inception, its scores are beginning to slip as competition intensifies. China lost another place on the GRDI and fell to number four. Its attractions are well known: 9 percent CAGR over the past five years, a US$628 billion retail market that’s growing at more than 9 percent each year, and the largest population in the world. But competition is fierce, as reflected in China’s sliding market saturation score. In fact, 17 global food retailers are operating there. Mergers and acquisitions will increase as retail consolidation becomes a priority. For example, home-improvement chain B&Q China recently accelerated its expansion plans by acquiring OBI Asia Holding Ltd. (from Tengelmann), which is the second largest western home improvement retailer. The company hopes to expand to 50 stores within one year.
Another trend is that retailers are moving further into China’s mainland. Spar has also recently entered China, with plans to build 15 hypermarkets in the next three years. Domestic retailers are continuing to consolidate, creating strong competition for foreign players. In preparation for WTO entry, the Ministry of Commerce announced in 2004 that the country will work to boost the competitiveness of 15 to 20 selected large domestic retailers over the next five to eight years to fend off global competition. Several Chinese retailers are also expanding outside their home markets: Hong Kong-based A.S. Watson is among them. The perfumes and cosmetics manufacturer is buying Marionnaud Parfumeries as well as U.K.-based Merchant Retail to expand its European footprint. The disparity between China’s wealthy and poverty-stricken regions is growing, which could contribute to political unrest. China also faces significant pressure from abroad to allow its currency to appreciate, which would make its export market less enticing and possibly place greater pressure on its domestic market.

Other Asian countries:

Vietnam ranks in eighth place on the index. It boasts 7 percent GDP growth in 2005, and has a large and growing urban population. Additionally, the country’s commitment to liberalization through regional trading blocks and the WTO and its fragmented retail market further point to significant opportunities for entrants. Among those taking notice are Malaysia’s Parkson, a new entrant that hopes to build 10 outlets within five years, and Hong Kong’s Dairy Farm, which is also expected to join the market this year.

Thailand drops two spots to number 12. The economic effects of last year’s tsunami have been less dire than originally feared. Thailand’s GDP
remains high, topping 6 percent, and retail sales are strong. However, the
top five players control 50 percent of the market. As the government
clamps down on the growth of large format stores, some operators will
enter, such as the Berjaya Group Berhad (Malaysian company) and the
Central Group, while others exit, including Delhaize and Ahold.

At number 14, South Korea has one of the richest and most urban Asian
economies. And, in the past five years, retail sales have grown by more
than 50 percent. However, in the wake of the recent economic crisis,
South Korean consumers are more price conscious and value oriented,
encouraging the rise of discount retailers and warehouse clubs. In fact,
the number of hypermarkets may hit 500 in the next few years, close to
saturation. While A.S. Watson plans to enter South Korea in 2005, most
other foreign retailers that have already entered are fighting to expand as
quickly as possible. As this market saturation intensifies, local retailers
are also looking beyond their home markets. For example Lotte
(Indonesian retailer) has expanded into China, and is considering a move
into Eastern Europe and Southeast Asia. Similarly, Shinsegae (South
Korean company) has aggressive expansion plans in China, opening up to
40 stores by 2010.

Malaysia’s GDP growth has recovered from the 2001 economic
slowdown and stands at 6 percent. Its retail market remains fragmented,
which helped boost it up one notch to the 18th position. Retail sales have
grown 6 to 8 percent over the past two years and are expected to maintain
the same rate. Although Malaysian consumers have embraced
hypermarkets and department stores, discount retailers and convenience
stores will likely become new vehicles for growth. International retailers
already in Malaysia have committed to aggressive expansion plans: 7-
Eleven aims to triple its number of stores by 2005, Carrefour plans to open one new store annually, and Tesco says it will open as many as 20 hypermarkets over the long term. Foreign retailers should keep an eye on the country's changing regulatory environment, which is already very protective of its local industry. Foreign ownership, for example, is restricted to 30 percent and hypermarket growth is subject to geographic limitations.

Taiwan and the Philippines continue their slide while Indonesia stabilizes:

A fiercely competitive market, Taiwan drops four places to number 26 in this year's GRDI. In terms of formats, a dense population has led to maturation of the convenience store; hypermarkets will continue to be the major growth vehicle, and discount stores will follow.

The Philippines continues to fall on the GRDI, mainly due to its lower country risk and time pressure scores. However, it has a large and rapidly growing population, retail spending per capita has risen 18 percent in the past two years, and the top five grocers own just 30 percent of the market. Combined, these factors continue to attract numerous retailers, such as Wal-Mart, Casino, Carrefour and Tesco.

Indonesia holds steady at number 28. Despite last year's tsunami and the Bali terrorist attack in 2002, its GDP has held strong at 5 percent. Retailers have good reason to consider the country; its population of 233 million is the fourth largest in the world, and more than 40 percent live in urban areas. Some companies, such as Wal-Mart, have struggled for profitability here; others, such as Dairy Farm, have fared better. Dairy
Farm entered the hypermarket space in 2002 and plans five new stores a year. Tesco is also considering Indonesia as a possible destination.

**Saudi Arabia holds steady, Iran exits:**

**Saudi Arabia** debuted on the GRDI in 2004 at the twenty-first spot and remains there. It has a large population, and retail spending has increased by more than 10 percent over the past two years. Also, the top five retailers capture just 11 percent of the market. However, expansion plans by Carrefour, Panda and Casino prompted the time pressure score to drop from 30 in 2004 to 26 today.

**Iran’s** total retail sales grew by more than 150 percent over the past five years, but rising political instability pushed the country off the rankings. Retailers will likely follow recent developments, such as talks on how Iran can enter the WTO.

**In the Mediterranean, Uncertainty Is Not a Deterrent:**

**Turkey** maintains its position in the top tier by coming in at number nine. The country aspires to EU membership, and is committed to economic stability. Turkish consumers are becoming more price sensitive, thus boosting the popularity of discount stores. Local retailers BIM and Sok have been quick to capitalize on this trend by branching out into this format. Other major grocery retailers have followed. For example, Carrefour introduced Dia, which is now the third-largest discount store chain, and recently acquired Gima and Endi. As a result, Carrefour is now the largest player in Turkey’s retail market. A.S. Watson plans to add Turkey to its location list in 2005.
Tunisia holds steady at number 15. Its stable economic and political climate, its strong GDP growth of 5 to 6 percent, and the current lack of foreign or domestic retail presence make it a market to be considered. Casino and Carrefour are recent entrants but so far have only captured a small share of the market and operate a few store formats. The government’s plans to drive privatization should attract more foreign investment.

Morocco continues to slide down the rankings, dropping from the “to consider” category to “lower priority,” as a result of a lower time pressure score.

As expected, Egypt continues to drop on the GRDI to number 25, down from number 20 in 2004. The market remains attractive, but there is no urgency to enter. Indeed, the top five grocery retailers hold less than 1 percent of the retail market. The leading foreign retailer, Carrefour, is slowly expanding its hypermarket format, opening another store this year near Cairo.

Latin America Is Back in the Game:

After economic crises and recessions, Latin America is starting to get back on track. But lessons from retailers show the importance of not only making good entry decisions, but of strong execution. Mexico reverses its slide down the GRDI with a modest increase of two positions to number 24. Five international retailers, including PriceSmart and Carrefour, exited the country, pushing its market saturation score up eight points this year. Mexico’s large population of 106 million, relatively high GDP per capita of US$6,571, and proximity to the United States have made it an attractive market for foreign entry since the 1970s. Mexico’s rise in the
GRDI score will probably be short lived: The top five grocery retailers own 30 percent of the market, and that figure should rise. Wal-Mart, for instance, is expected to continue its relentless expansion under its Walmex banner. And domestic players Gigante, Soriana and Comercial Mexicana are growing as well.

**Chile** climbs one spot this year to number 11—the top of the “to be considered” category. The country’s GDP has risen steadily in the past three years, and it boasts a large, urban population. Local players dominate the market, with the top five grocery retailers capturing 60 percent. International entrants have had little impact—both Ahold and Carrefour exited in 2003.

Improving economic and political conditions bumped **Brazil** back onto the GRDI after a four-year hiatus. With the fifth-largest population in the world, the largest economy in South America, and a highly fragmented retail industry, Brazil has beckoned retailers since the 1980s. But this comeback could fizzle; further consolidation and expansion are expected in the retail sector. Casino, Carrefour and Wal-Mart account for 17 percent of the retail market.

**Uruguay** and **Argentina** are two additional markets to watch. Although they fell below the top 30 on this year’s GRDI, their size and growing GDP mean they could become more attractive candidates if their business risk scores improve.

GRDI has changed significantly in the past decade: Not one of the top 10 markets in 1995 is in the top 10 markets for 2005. In 1995, the top three markets for retailer entry were South Korea, Poland and Brazil; in **2005**, the top four markets are **India, Russia, Ukraine and China**. Poland and
Brazil are now oversaturated, and South Korea has fallen to 14. The most significant shift, however, is at the regional level. In 1995, one out of every four countries on the GRDI was located in the Americas. Today, that figure is one out of 10. Instead, Eastern Europe has become the focus of the list, capturing 40 percent of the top 30 spots. Also, many of the top-tier countries experienced significant macro-level pressures, such as Asian and Latin American currency crises and natural disasters. Despite these challenges, top-tier countries significantly outperformed the other two tiers over a period of time. Their success underscores the opportunities for retailers that take a longer-term view to entering developing markets, recognizing that return on investment won’t happen quickly and that economic or political instability could be among the costs of first-mover advantage.

Figure 4: Number of retailers exiting and entering (by region)

(Source: Planet Retail, Euromonitor and A.T.Kearney)
Today, India and Ukraine are at the peak of their attractiveness, while Russia and China are beginning to level off. Overall, poor timing is often the source of many retailers' decisions to leave emerging markets. Over the past five years, the number of companies exiting markets has risen steadily (Figure 4 and Figure 5). For example, Tesco entered the Slovakian market at the end of the 1990s, an optimal time for market entry. Today it holds a 13 percent share of the market. Other retailers, such as Ahold, Carrefour and Tengelmann, entered in late 2001, but have been unable to cross the 5 percent market-share mark. Edeka (Munich) entered the Czech Republic too late in 2000 and exited in early 2004. PriceSmart (Panama) entered Mexico in 2002 and exited in 2005.

![Figure 5: Number of retailers exiting and entering (by year)](chart)

(Source: Planet Retail, Euromonitor and A.T.Kearney)
International Expansion:

A look at the world's top retailers in terms of sales suggests that 15 of the top 20 operate globally. Among the top 10 players, 27 percent of sales come from international markets, however this number falls to just 15 percent for the next 10 retailers. Next, if we consider just the top five retailers, a full 33 percent of their sales come from outside their home markets. Looking ahead, the percentage of sales from international operations is predicted to increase in the coming years.

U.S. retailers are the furthest behind the globalization curve. Just 44 percent of the top U.S. companies step beyond their national boundaries. Early global movers are able to reap the rewards in their home markets. Wal-Mart has already succeeded in building an information feedback loop across its global operations and is implementing best practices within the U.S. market. For example, it has shelves that facilitate replenishment from Brazil, shoe and bike merchandising techniques from Canada, wine and food displays from Mexico, and approaches to apparel selling from the United Kingdom. As store saturation becomes a reality and early movers produce tangible results, retailers that are not global need to address this sizable opportunity—quickly.

Grocery retailers have already begun down the path of global expansion, but retail groups are not following in lockstep. Rather, each segment is moving across national boundaries at various speeds (Figure 6). The following is a brief rundown of how key segments are approaching the global game:
Figure 6: Sales outside home market for top 3 players per retail segment in 2004

(Source: Annual Reports and A.T.Kearney)

**Apparel retailers:** This group is more international than many other retail segments. Several major players have expanded in Europe and Asia; companies such as Spain-based fashion retailer Mango have opened shops in key Asian markets. The Gap moved into the Japanese market this year and now has more than 261 stores that bring in more than US$1.7 billion revenue. Many other large apparel manufacturers, notably Ann Taylor, Chico’s, J. Crew and Abercrombie & Fitch, operate primarily within the U.S. market.

**Hard discounters:** The discount model has proven successful across Asia, Latin America and Europe. Wal-Mart, with more than 1,500 stores globally and a joint venture in Japan recently set the goal of establishing stores in every European country. Other discounters are pursuing international opportunities as well. Target, for example, is planning to
expand into Canada and Mexico. Local competition among discounters in the destination countries is as intense as it is in the retail grocery market.

**Consumer electronics retailers:** Given rapid commoditization and cutthroat competition, consumer electronics retail lags other sectors in international retail expansion. Most consumer electronics retail companies are national or regional and have not focused on global expansion. Also, internet retailers such as Amazon, Dell and eBay already have a significant presence in a number of key foreign markets. But the pressure on margins and heightened local competition means consumer electronics retailers need to gain scale through international expansion and consolidation. In the United States, Best Buy is leading the way, with recent entries into the Canadian and Chinese retail markets. In response, Circuit City has acquired InterTRAN Inc., which operates more than 1,000 stores in Canada under the Radio Shack banner. As the consumer electronics retail market further matures, it will drive more global retailers to enter emerging markets.

**Home improvement stores:** Home-improvement retailers lag other retail groups in global retail expansion. The major players in the United States, such as Home Depot, Lowes and Menards, have focused more on expanding within their home markets. The Kingfisher group, which operates in more than 10 countries, is an exception. Home Depot is testing the international waters, illustrated by its purchase of Mexico’s Home Mart. Home Depot is also tapping into the US$50 billion Chinese home-improvement market by leveraging its strength in contractor services. Lowes recently sought bids from advertisers with experience introducing brands overseas, suggesting it may be looking to step outside of the United States. IKEA, the home furnishings retailer, is a leader in
international expansion, with operations in 30-plus countries and plans for further expansion.

**Department stores:** These seem to be lagging other retail segments with few international players. Many opportunities exist, however, for recognized brand names such as Harrods and Macy’s. Once thriving and profitable, department stores have been deeply affected by shifting market dynamics and consumer trends over the past two decades. In the past eight years, department stores lost US$2.5 billion in sales in the United States mainly to mass discount merchants and specialty stores. Department store sales dropped from 11 percent of all non-automotive retail sales in 1994 to roughly 7 percent in 2004, and continue to deliver lower sales per square footage of retail space than other formats. Department stores are product emporiums filled with too much merchandise. Consumers often see them as having high prices, not being very innovative, and offering mediocre service and product knowledge.

But as is said, if someone is losing, then someone else must be winning. In the lower end of the market, the biggest beneficiaries are **mass discounters.** In the United States, Wal-Mart and Target continue to attract value-conscious consumers, while in Europe this role is largely played by supermarket chains, such as Carrefour. In North America, from 1994 to 2004, sales at warehouses and superstores have increased from 3 to 8 percent.

**Specialty stores** are also reaping significant rewards. While people routinely shop at the discounters, they simultaneously search out a variety of products and services in specialty stores, such as Bath & Body Works and Williams-Sonoma in the United States, Zara of Spain and Hennes & Mauritz (H&M) of Sweden. Specialty stores have captured a substantial
portion of department stores’ market by targeting and tailoring offerings to well-defined customer segments and then improving operations to increase efficiency. Many specialty stores have honed their skills at procuring the latest styles and using advanced inventory management systems to get product to the floor more quickly. There are various reasons for department stores’ latest predicament, with many of the problems due to exogenous forces. For example, demographics are shifting. Aging baby boomers, with large disposable incomes, are not only increasing their savings rate but also shifting their spending toward goods and services not traditionally offered by department stores, such as health and wellness, home-improvement and entertainment products. As boomers grow older, younger generations of consumers are not lining up to take their place. There is a growing psychological disconnect among young shoppers who consider department stores to be old and outdated. Today’s youth shop at a mix of stores ranging from online to discount to niche specialty shops, such as Abercrombie & Fitch—all are able to turn product more quickly and react faster to the latest trends.

The past decade has also brought significant changes in the way consumers shop. In the United States, warehouse clubs and superstores are replacing traditional department stores as a shopping destination for general merchandise. Also, department stores remain largely anchored to shopping malls at a time when attention is being redirected to “power centers”. In power centers, space is dominated by specialty stores, discounters and category killers—Ikea for home furnishings, Best Buy for consumer electronics and Home Depot for do-it-yourself home improvement. People who shop at power centers believe they get more value for less money and time.
3.2 The Indian Experience

Retailing in India is gradually inching its way to become the next boom industry, accounting for over 10 percent of the country’s GDP and around 8 percent of the employment, with a three-year compounded annual growth rate of 46.64 percent, to reach $17 billion by 2010.

![Current Retail Space Share of Metros (in total built-up area of 22 million sq.ft.)](image)

Figure 7: Current retail space share of metros
(Source: India Retail Report 2007)

Retail industry in India is at the crossroads. It has emerged as one of the most dynamic and fast paced industries with several players entering the market. There are about 300 new malls, 1,500 supermarkets and 325 departmental stores being built in the cities so that by end-2007, an estimated 90 million square feet of quality retail space will be available across India (Figure 7 & Figure 8).
But because of the heavy initial investments required, break even is difficult to achieve and many of these players have not tasted success so far. However, the future is promising; the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations.

Traditionally, retailing in India can be traced to the emergence of the neighborhood ‘Kirana’ stores catering to the convenience of the consumers and the era of government support for rural retail where indigenous franchise model of store chains were run by Khadi & Village Industries Commission. The 1980s experienced slow change as India began to open up economy. Textiles sector with companies like Bombay Dyeing, Raymond’s, S Kumar’s and Grasim first saw the emergence of retail chains. Later Titan successfully created an organized retailing
concept and established a series of showrooms for its premium watches. The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufacturers to Pure Retailers, e.g. Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books. Post-1995 onwards saw an emergence of shopping centers mainly in urban areas, with facilities like car parking that was targeted to provide a complete destination experience for all segments of society. It also saw the emergence of hyper and super markets trying to provide customer with 3 V’s - Value, Variety and Volume. The target consumer segment was also expanded; e.g. the Sachet revolution, which helped in reaching to the bottom of the pyramid.

The retail sector is classified broadly into two: Organized retail sector and Unorganized retail sector. The unorganized sector which represents 97 percent of the total retail market is mainly characterized by typically small retailers, more prone to tax evasion and lack of labour law supervision. This market is among the most fragmented in the world; the combined market share of the top five retailers totals less than 2 percent. India is one of the largest unorganized retail markets in the world and more than 96 percent of the retailers work in less than 500 sq.ft. of area. Only 4% of India’s shops occupy a space of more than 500 sq.ft. (46 square metres). They are mostly small individually owned businesses, average size of outlets equal 50 sq.ft. Though India has the highest number of retail outlets per capita in the world, the retail space per capita at 2 sq.ft. per person is amongst the lowest. Even in Delhi, some upmarket shopping centres, such as Khan Market, are clusters of tiny shops. In grocery shops, boys perch precariously on ladders to fetch jars from remote crannies. In the bookshops, browsers brush against each
other as they squeeze past each other in crowded aisles. Some of the poshest clothes shops are reached up narrow, twisting staircases. Most Indian shops belong to the unorganized sector; small, family-owned shops surviving on unpaid labour and often, free land for a small stall. To meet the challenges of organized retailing such as large cineplexes, and malls, which are backed by the corporate house such as ‘Ansals’ and ‘PVR’ the unorganized sector is getting organized. 25 stores in Delhi under the banner of Provision Mart are joining hands to combine monthly buying.

The organized sector is not just about stocking and selling, but is more about efficient supply chain management, developing vendor relationships, quality customer service, efficient merchandising and timely promotional campaigns. It is characterized by typically large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring systems. It however constitutes a very little share of around 3 percent of the total retail market. Of that, 96 percent is in the ten biggest cities, and 86 percent in the biggest six. The Indian retail market is estimated at US$ 350 billion. But organized retail is estimated at only US$ 8 billion. However, the opportunity is huge – by 2010, organized retail is expected to grow to US$ 22 billion. Through the 1990s organized retail in India added just 1 million sq.ft. of space a year. Whereas from 2001 onwards, the pace quickened dramatically. In 2003 alone, 10 million sq.ft. was added by this fledgling industry (The Marketing Whitebook 2005). At year end of 2000 the size of the Indian organized retail industry was estimated at Rs. 13,000 crore (Industry evolution, by Mudit Sharma, Lakshmi Narayanaswamy). According to
INDIA RETAIL REPORT 2005 (An IMAGES-KSA Technopak study released at the KSA Retail Summit 2005):

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*Table 2: % share of organized retail
(Source: India Retail Report 2005)*

According to the Retailers Association of India, the share of organized sector to the overall retailing market in India is expected to grow from 3 percent to 20 percent in the next 10 years. KSA-Technopak, a retail consulting and research agency, predicts that by 2010, organized retailing in India will cross the US$ 21.5-billion mark from the current size of US$ 7.5 billion.

With increasing sophistication and modernization of the life-style of households and individuals and with increasing globalization of trade, the retail sector in India has begun to cater up rather astonishingly rapidly:

1. The retail sector has helped in giving strong impetus to *overall economic growth*.
2. It has *strong backward and forward linkages with other sectors* like agriculture and industry through stimulating demand for goods and through mass marketing, packaging, storage and transport.
3. Moreover it creates considerable *direct and indirect employment* in the economy.
4. Also, the consumers have benefited in terms of *wide range of products available in a market*. 
Organized retailing in India has been largely an urban phenomenon with affluent classes and growing number of double-income households. The Indian population is witnessing a significant change in its demographics. A large young working population between 20-34 age groups, with median age of 24 years, nuclear families in urban areas, along with increasing working-women population, emerging opportunities in the services sector and consumerism are going to be the key growth drivers of the organized retail sector in India which has boosted demand by 11.1 percent in 2004-05 to a Rs. 23,308 purchasing power. To the present generation shopping means much more than a mere necessity and malls are now fast becoming image benchmarks for communities. The IMAGES-KSA projections indicate that by 2015, India will have over 550 million people under the age of 20 – reflecting the gargantuan opportunities possible in the “kids and teens” retailing segment. In 2004, India was a country with the largest young population in the world - over 867 million people below 45 years of age. With over 600 million effective consumers by 2010, India will emerge as one of the largest consumer markets of the world by 2010. India is also a powerhouse in terms of people. In fact, forecasts indicate that the country’s population of more than one billion could overtake China’s by 2050. Although more than 30 percent of the population falls below the poverty line, increasing mobility among the middle and upper classes, coupled with greater urbanization, results in growing demand for retail goods. Combined, these factors provide a favorable backdrop for a retail market poised for growth.

The young Indian – the under-30 middle-class urbanite – is not westernised, disconnected, brand obsessed and insular. The young Indian
is socially active, doesn't care if he or she has a Haldiram or a McDonald's meal and is equally comfortable in an Armani or a FabIndia outfit. They love Hindi films as much as Hollywood films ("We are looking at the most influential youth market in Indian history" – Shuchi Bansal). At a recent convention in Mumbai organized by the Federation of Indian Chamber of Commerce and Industry (FICCI), the New Delhi based retail consultancy firm Technopak Advisors made a presentation on the changing identity of the young Indian. It argued that today's youth is less engaged with issues relating to caste and community. And a survey carried out by pollsters MODE in Mumbai and Bangalore says that about 83% of the youth polled believe that their outlook is more Indian than global. Also, 100% say that they are proud to be Indian. The young may have an Indian outlook, but are also open to western influences – and manage to blend Indian and western identities with ease. "They are equally happy watching Harry Potter and Hanuman" said Mr. Arvind Singhal, chairman, Technopak Advisors. Based on the findings of its earlier surveys on luxury brands and its annual consumer outlook survey, the Technopak paper says that the young take pride in India and among their popular role models are Mr. Mukesh Ambani and Mr. N.R. Narayan Murthy. He or she is not brand conscious as much as is aware of what he or she wants. They are not picky about the brands they buy – it could be Indian or foreign as "the difference between the two is thinning". This is the most socially networked generation," observed Mr. Srivastava. Earlier, the social circles were limited by physical proximity. Today armed with mobiles, instant messengers, online social network and blogging, this generation is part of a much wider social group where time and space are no barriers. Generation Next is being seen as a major opportunity. “Given the current demographics of the Indian population,
we are, over the next decade, looking at the most lucrative and influential youth market in Indian history". Nor will these attitudes be confined to urban India. Mr. Singhal said aspirations and lifestyle will converge and the change will not be limited to the metros. For instance, Café Coffee Day outlets are to be found in 61 Indian cities. A large number of small towns have beauty salons and gyms and a large number of contestants for Miss India come from small towns. A scenario where half the population is under 24 years of age and enjoys increasing levels of disposable income is a marketer's delight. The Technopak paper points out that people are definitely beginning to earn early. The paper also pointed out that the young men and women are more entrepreneurial in nature. They try to blend their interests with their occupation. Mr. Singhal said that the recent incidence Indian Institute of Management graduates refusing high-paying jobs to pursue their own dreams is a good example of the changing ways of the Indian youth. Clearly, the new globalized India is one of the reasons the young are proud of their nationality. "I am proud to be an Indian because I have seen first-hand the recognition that the booming software industry has won for India," said software engineer Mr. Ramesh Rao. "When I travel to the US, nobody asks those where-India, what-India questions anymore. People recognize India as a place to find technical talent.” The presentations however, spoke about the increasing social conscience of the young – an issue also highlighted by MODE. Social issues bothered 68% of those surveyed. The Technopak paper said the young are concerned about women’s issues, the environment and human rights.

Attitudes towards money are also changing. If for most families some years ago, it was to save, today young Indians would rather spend. They
are also open to taking on credit-card debt. “Spending patterns are changing and young people are relishing conspicuous consumption,” said Dr. Sharma. The signs of affluence are everywhere as young people spend more on what were considered luxuries a few years ago. “Eating out, frequenting pubs, going on holidays, watching movies and buying gifts seem to be the priorities,” said Dr. Sharma. According to him, today the young and prosperous across the country are defining themselves by a shared consumer culture. With more disposable income in hand, in some cases even parents of teenagers don’t mind their children turning into big spenders. With international players finding space on city shelves, the price tag is soaring up. There is a retail revolution running through town. It is a generation of Kolkata consumers for whom shopping is a way of life, purse power is paramount and earning is just a means of spending. The rising incidence of affluence among young consumers in India is giving impetus to the proliferation of life-style related products. Branded clothes and accessories from Benetton, Adidas and Nike are part of the dress code while Nokia, Samsung and Panasonic seem to be the preferred mobile phones. State-of-the-art malls, restaurants and pubs are the haunts that they retreat to frequently (even in relatively laid-back cities like Chandigarh, Jaipur, Ludhiana). “There is a fundamental economic change happening and young people have grown to become a huge consumer base,” said Mr. Aniruddha Deshmukh, vice-president, Raymond, the brand that has made Indian designer-wear affordable for youngsters through its label Be:. The customer profile of Be:, said Mr. Deshmukh, is ‘the working young’. “The attitude of the young generation is to enjoy life and spend money. We see youngsters in their 20s as a huge buyer base for us”. Banks have discovered that their target customer has got much younger. Citibank has introduced different programmes to attract a
new band of spenders. The bank collaborated with MTV in 2002 to launch an MTV credit card. ATMs are placed in strategic locations where the young work so that cash is always in hand. Ms. Uma Gopal Deb, corporate affairs, Citigroup, observed, “India is one of the youngest countries in the world with a large population in the age-group of 18-30. Citibank’s expertise combined with MTV’s understanding of the youth has helped this product to connect with the youth”. The card earns holder’s discounts at discos and other ‘hang-outs’, on books and CDs while allowing free entry to the pubs. The new generation is more receptive to the concept of credit, observed Mr. Puneet Chaddha, senior vice president, head of cards, Hongkong and Shanghai Banking Corporation (HSBC). According to Mr. Chaddha, young people in the age group of 18 to 25 years are a significant customer base for the bank. He explained, “In the past, parents did not encourage their children to get into the credit cards loop as they felt it encouraged them to spend more. But today, young people are very responsible and parents too have realized that credit cards are safer to carry than cash, especially when children travel away from home. Besides, it’s easier to monitor what the children are spending on while the payments on the card can also be controlled”. According to him, today’s youth spends primarily on clothes, food, books, music and gadgets such as mobile phones. A special debit card from Citibank allows youngsters to withdraw money from ATMs and to spend on what they like. The spending limit on the cards is imposed by the parents and the under-18 year olds can avail of it. Research has also revealed that while men are increasingly using the internet for their shopping needs, women still favour high street stores (What women can’t buy on the Net – James Orr). The explanation is that women see shopping as a social experience, which the Internet does not
provide, and like to see what they are buying before parting with their cash. Prof Barrie Gunter at the University of Leicester, said: “For some women, shopping is about going out and being within the retail environment. More than men, they like to have direct contact with the merchandise they are going to purchase”. Cynthia McVey, a psychologist at Glasgow Caledonia University, said: “Stereotypes are true – many men don’t like shopping on the high street. If they need something, they will go online, have a look at it, assume it will be okay and buy it. A woman however will ‘want to feel the fabric’. For them, shopping is often more of a social event. They like to go with their friends, get advice from them before buying and catch up over lunch”.

Though presently organized retailing accounts for only 2-3% of the total retail industry, it is growing at 18-20% a year and inspiring a rush of property development. The total space in the six A-Grade cities; Delhi (including Gurgaon and Noida), Mumbai, Bangalore, Hyderabad, Chennai and Kolkata was expected to increase to over 21.1 million by 2005 (Retail Real Estate – Malls in India). Most retailers are aggressively expanding operations in the large Delhi market that has been made more alluring by the upcoming suburban locations. The peripheral business district of Gurgaon currently dominates the organized retail real estate segment in the city. In the suburb of Noida 1.5 million sq.ft. of retail space will be developed in phases. National Capital Region (NCR) also has specialty malls including an auto mall and a mall dedicated to gold and jewellery retailing. Mumbai has the second highest mall space in the country with 4.8 million sq.ft. operational by 2006 in the suburbs south of Andheri and Lower Parel. Bangalore will cross the 2 million sq.ft. mark in the mall segment with the scheduled completion of major projects by
2006 and is slated to become the leader in the organized retail real estate segment in South India (Retail Real Estate Malls in India, 2005, Images).

Of the new malls coming up all over India, 40 percent are concentrated in the smaller cities. Organized retailing in small-town India is growing at a staggering 50-60 percent a year compared to 35-40 percent in the large cities. Successful development of value based concepts as well as development of retail space in smaller cities and towns is expected to drive the organized retail into the next levels of cities. Retailers have responded to this phenomenon by introducing contemporary retail formats such as hypermarkets and supermarkets in the new pockets of growth. Prominent ‘tier-II’ cities and towns which are witnessing a pick-up in activity include Surat, Lucknow, Dehra Dun, Vijaywada, Bhopal, Indore, Vadodara, Coimbatore, Nasik, Bhubaneswar, Varanasi and Ludhiana among others. On the supply side, mall development activity in the small towns is also picking up at a rapid pace, thereby creating space for retailers to fulfill their aggressive expansion plans. Thus, the ‘retail boom’, 85% of which has so far been concentrated in the metros is beginning to percolate down to smaller cities and towns. This is likely to go a long way in bringing a huge untapped population within the purview of organized retailing, thereby, increasing the size of the total market. The contribution of these tier-II cities to total organized retailing sales is expected to grow to 20-25%. When a big retailer opens outlets in a smaller city, that city is immediately on the map for other retailers, said Mr. Devangshu Dutta, chief executive of Third Eyesight. “These markets are growing faster than the industry as a whole, but this will stabilize over the next seven to ten years,” he said. “The growth rates in the smaller markets show great promise. But it cannot be this or that.
Urban markets continue to be crucial and there’s no question of saturation at all. In terms of sustainability, it is clear that consumers keep coming back, even after the initial novelty wears off. The entry of several retailers, including Indian corporates, means that real capital is coming into the business”, said a top official in Big Bazaar. Mr. Harminder P Sahni, chief operating officer of KSA Technopak, said that retailers are trying to tap growth in the smaller markets when the bigger cities are not really saturated. “It’s not unusual for consumers in the smaller markets to get aspirational or seek choices. Most retailers are trying to pan out faster in the smaller markets, worried that they may miss some great opportunities. While the smaller markets will offer the scale, retailers need to consolidate their presence in one area before moving out into the next,” he said.

Out of the total 5.23 million sq.ft. mall space being developed in the B-Grade cities (key seven being Pune, Ahmedabad, Lucknow, Ludhiana, Jaipur, Chandigarh, and Indore), over 40% is coming up in Pune. The city with the proximity to Mumbai already has the presence of a large number of organized retailers along with a growing IT/ITES sector. Mall growth is happening at a rapid pace in Jaipur as well, with the city expecting over 6,65,000 sq.ft. of space. It has long been established on tourist itineraries and the growth of retail too is mainly led by the tourism factor in the city. Most of the prime retail hubs are located at M.I. Road, Tonk Road, C Scheme and Malviya Nagar. The state of Punjab is in for a flood of malls and multiplexes. While most cities in Punjab will experience the mall phenomenon, Ludhiana, Jalandhar and Amritsar would be on top of the chart. From just two operational malls in 2005, nearly 40 malls are coming up by 2010. Punjab’s retail potential is around
Rs. 3,864 crore which would jump to Rs. 5,940 crore by 2010. This figure would further go up to Rs. 14,131 by 2020. Among the specialty malls, gold and wedding souks will make their debut. Developers like DLF Universal, Ansal Township & Projects, MGF, Silicon Construction, Advance India Projects, Parsvnath Developers, Omaxe Construction etc, are eyeing the state essentially because of its strong NRI base, high per capita income and an urban and rural population ready to spend money. The relative easing of Indo-Pak relations has also contributed to boosting the real estate market, particularly in Amritsar. Developers are anticipating the customer-base to also include visitors from across the border, up to Lahore. One factor assisting in the development of multiplexes is the entertainment tax exemption policy of the state government. Relaxations in building by-laws (with respect to height and ground coverage) and stamp duty are other factors that have attracted the developers. Punjab’s consumption and expenditure is significantly higher than the all-India average in almost every retailing category. Based on statistics provided by National Sample Survey Organization and retail market sizing parameters adapted by the Images KSA Technopak India Retail Report 2005, the average per person monthly consumption expenditure during 2004-05 in urban Punjab stood at Rs. 1182.90, which is higher than the national average of Rs. 1149.52. Punjab is one of the richest states of the country and the people are willing to spend on food, entertainment and lifestyle. Biggest project in Punjab would be Ludhiana’s largest mall, City Centre, which would have a heliport, a golf course and parking for 8,000 cars. It will provide the biggest mega shopping mall, the biggest atrium, 12 multiplexes with a seating capacity of 2,500, food courts, residential apartments, healthcare centre and library.
Most of the global powerhouses in the retailing sector such as Wal-Mart, Carrefour, Tesco, etc, have adopted multi-format and multi-product strategies in order to customize their product offering for distinct target segments. Similar trends are likely to be exhibited in India as all formats present prospects for growth, (India Retail Report, 2005). The retailing formats in India can be categorized as:

**Malls:** malls are the largest form of organized retailing today. Located mainly in metro cities, they are in proximity to urban outskirts. They range from 60,000 sq.ft. to 7,00,000 sq.ft. and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment; all under a common roof. Examples include Ansal Plaza in Delhi, Forum mall in Kolkata, Nirmal Lifestyle Mall in Mumbai.

**Specialty Stores:** specialty stores are single category focused and have individuals, group clusters of same class with high loyalty prone categories of products such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M. They have established themselves strongly in their sectors.

**Discount Stores:** discount stores or factory outlets, offer discounts on the MRP through selling in bulk thus achieving economies of scale or through selling excess stock left over at the season. The product category can range through a variety of perishable/ non perishable goods. Example: Subhiksha.
Department Stores: department stores generally have a large layout and are further classified into localized departments with a wide range of merchandise mix, usually in cohesive categories like garments, fashion accessories, gifts, toys and home furnishings. They are large stores ranging from 20,000-50,000 sq. ft, catering to a variety of consumer needs. Example: Shoppers' Stop, Piramyd, Lifestyle, Pantaloons, Westside, etc.

Supermarkets: supermarkets are large self service outlets, offering not only household products but also food as integral part of their services. The family is the typical target customer and located in or near residential high streets, these stores contribute to 30% of all food & grocery organized retail sales. Supermarkets can further be classified in to mini supermarkets typically 1,000 sq.ft. to 2,000 sq.ft. and large supermarkets ranging from of 3,500 sq.ft. to 5,000 sq.ft. Example: FoodBazaar from Pantaloon Retail, Subhiksha etc.

Hypermarket: hypermarkets are huge stores that vary between 50,000-1,00,000 sq.ft. area. They offer products ranging from grocery, fresh and processed food, beauty and household products, clothing and appliances etc. The key retailers are: Big Bazaar from Pantaloon Retail, RPG Enterprises’ Spencer’s Hypermarket - the anchor tenant of the Mani Square Bypass mall, etc.

Convenience Stores: Convenience stores are relatively small stores 400 sq.ft. to 2,000 sq.ft. located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices may be
slightly higher due to the convenience premium. Example: Fresh n’ Nice, Spencer’s Fresh etc.

**MBOs** (Multi Brand outlets) also known as **Category Killers**, focus on a particular segment and offer several brands across a single product category, usually at affordable prices due to the scale they achieve. These usually do well in busy market places and Metros.

**Shop-in-Shop:** Many retail brands are devising strategies to scale their store size in order to gain presence within the large format department or supermarket within these malls. They have limited space and have to rely on a very efficiently managed supply chain system. Example: Infinity, a retail brand selling crystalware and jewellery from Kolkata’s Magma Group has already established presence in over 36 department chains and exclusive brand stores (ex; Starmark in Kolkata) in less than five years.

According to Mr. Amitabh Taneja, Group Head, IMAGES & Director, International Council of shopping Centres (ICSC - India) and Indian Retail School, currently the fashion sector in India commands a lion’s share in the country’s organized retail pie (Figure 9). This is in line with the retail evolution in other parts of the world, where fashion led the retail development in the early stages of evolution and was followed by other categories like Food & Grocery, Durables etc. Food and apparel (the most important sectors in India presently) is the most compelling opportunity for retailers in 2005. India’s branded retail sector, estimated at about US$ 6 billion, makes up only three per cent of the total market, but is forecast to grow at 25-30 percent a year over the next four years, with plush department stores and malls springing up across the country.
Food dominates the shopping basket in India. The US$ 6.1 billion Indian foods industry, which forms 44 percent of the entire FMCG sales, is growing at 9 percent and has set the growth agenda for modern trade formats. Since nearly 60 percent of the average Indian grocery basket comprises non-branded items, the branded food industry is homing in on converting Indian consumers to branded food. Kids retailing is growing by leaps and bounds in India and those in the industry say it is likely to see 30-35 percent growth per annum. From clothes to stationery, sportswear, outerwear, tailored clothing, eyewear, watches, fragrance, footwear and accessories, the list is endless. Apparel, however, remains the key revenue driver accounting for almost 80 percent of total sales. According to industry insiders, “The total apparel market in India for kids
is around US$ 2.9 billion, out of which about US$ 668.2 –US$ 780.5 million is branded apparel.” ‘Timing’ is one of the most crucial decisions in retail, which if not tackled properly, can cause retailers to exit the market. And again, the sudden ramp up in retail real estate could create over-supply. After all, not every mall owner will find it easy to seek tenants. That, in turn, could bring down property prices. And suddenly, experts reckon, the new economics could make it attractive for a new set of players to join in, especially retail formats like furniture and consumer durables, which need a lot of space. So if apparel and grocery led Phase I of development, new categories like furniture, pharmacy and fast food could help propel growth in the near future (M. Rajshekhar).

Still, there are many obstacles to conducting business in India:

- **Inadequate infrastructure**, for example, means that 40 percent of perishable food produced in the country rots during transportation due to a lack of refrigerated distribution networks.

- India is also **not a homogeneous market**. With 28 different states, and a plethora of languages, customs and traditions, developing local market knowledge and choosing the best store locations will be critical.

- One of the key challenges for a mall developer in India today is the **lack of choice with respect to anchor retailers** that is limited to a total of less than 15 as of now and clearly presents a demand-supply imbalance, especially with more than 300 shopping mall projects coming.

- For the developer, this means **inability to create a distinctive positioning and character for the mall** and also inability to
replace a 'not-so-well performing' retailer with a better performing one.

- Modern retail practices and mall management call for expertise in various specialized fields and the country is deficient in terms of trained professionals for these tasks, in retail as well as retail real estate - this is one major challenge that the industry will need to address in right earnest.

- The biggest challenge for organized retailing is to create a 'customer-pull' environment in the store design that increases the amount of impulse shopping. Research shows that the chances of senses dictating sales are upto 10-15%. Retail chains like MusicWorld, Baristas, Piramyd and Globus are laying major emphasis & investing heavily in store design.

- Lack of differentiation among the malls that are coming up happens to be another key problem. “Otherwise the 35-40 million sq. ft. that is coming up will end up looking the same all over, and one can foresee a bloodbath in the mall business,” (Mr. Devangshu Dutta, Chief Executive of Third Eyesight, retail and fashion services firm).

- Supplier maturity, in terms of adherence to delivery schedules and delivering the quantity ordered, is also an issue. Supply chain and customer relations followed by merchandising, facilities management and vendor development are areas which have significant gaps and proactive training is a key imperative for overcoming these (A.T.Kearney report).

- The challenge for retailers, on the other hand is to develop people at all levels, from frontline sales staff to middle-rung and senior managers to run the retail business. Their skills need to be of
global-best standards, to allow indigenous retailers to not only compete with foreign retailers in India, but also to enter markets outside the country.

The scenario has been justly summed up by Mr. Andrew Levermore, CEO, HyperCITY, "The opportunities and challenges come in equally large measures. In India we are by nature very conservative and, barring a few notable exceptions, completely risk averse. We would much rather let someone else try it first than risk a new idea ourselves. However, this attitude could lead to a frustrating environment for some where the need to move, in a nascent retail industry, at pace with rapidly changing consumer aspirations is occasionally thwarted by misplaced caution."

Images Report 2005 on shopping centre development in India – II has noted the following key-points:

**Highlights of Chesterton Meghra findings:**

a. Middle-class forms 20-25% of the total population (200-250 million), and is driving demand in the retail sector.

b. Increased spending by India’s middle class is estimated to be over US$ 300 million.

c. Lifestyle orientation of people is changing: The super rich class of 17 million will increase to 35 million in 5 years.

d. Over 40 million in India have same purchasing power as Americans.

e. Overall consumer spending grew at a pace of 6% pa in last 10 yrs.
f. Around 75% of population in India is under 40 years of age.

g. Among factors that spurred the mall mania on: Dearth of organized retail for one and the demand to replicate the mall experience of shopping in foreign countries was the other reason.

h. Age of Gen X malls: Greater than 5,00,000 sq.ft. with large entertainment area, ample parking spaces.

i. Enter Discount malls: At least 5 outlets in each of the major cities this fiscal - to provide goods that are at least 25-50 percent cheaper than the retail price; manufacturers can directly sell to the end-users.

**Pricewaterhouse Coopers** has also noted the following findings in their Images Report 2005:

a. Majority of upcoming mall developments remain fragmented and sub-optimally planned.

b. In near future there is likelihood of a shake-out within shopping mall business.

c. Emergence of few large, dominant and relatively more professionally managed national/regional and a host of specialty/niche local players likely.

d. With globalization of the real estate sector, shopping malls of international scale and quality would soon emerge.

Mr. Kishore Biyani is the **largest player in the Indian market today**, as compared to Mr. B.S. Nagesh of Shoppers’ Stop or RPG Retail’s Mr. Raghu Pillai. Mr. Biyani was awarded the Ernst & Young Entrepreneur
of the Year (Services) and the CNBC First Generation Entrepreneur of the Year in 2006. Pantaloon Retail was awarded the International Retailer of the Year 2007 by the world’s largest retail trade association; the US based National Retail Federation.

<table>
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<th>Retailer</th>
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<th>Total floor space (lakh sq.ft.)</th>
<th>Total no.of outlets</th>
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<td>Shoppers' Stop</td>
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<tr>
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<td>1.5</td>
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Table 3: Top retailers in India
(Source: Ahead of the pack, “Companies”, Indian_retailers_sales.gif)

In June, when Mr. Biyani announced the 2003-04 results of his company Pantaloon Retail, his topline would be about Rs. 650 crore. A clear Rs. 100 crore more than RPG’s, the second largest player in the Indian market. Shoppers’ Stop is in third place with revenues of Rs. 400 crore.

The early birds - retail chains like Shoppers’ Stop, FoodWorld, Lifestyle and Pantaloons - are now well past the experimentation stage, and are finding ways to take their growth trajectories higher. Mr. Kishore Biyani, Managing Director, The Future Group (earlier Pantaloon Retail India Ltd), has commented, “There is a new sense of confidence in every Indian retailer. We now have formats that have been tried and tested.”
But while most of the other retailers have been largely risk averse and stuck to Western models like department stores and supermarkets, Mr. Biyani has tried innovating to discover what he calls the ‘pan-Indian model of retail’. In 2002, he developed the Big Bazaar hypermarket model. Today, the chain of seven Big Bazaar outlets contributes close to Rs. 4,000 million to Pantaloon Retail’s topline.

Mr. Biyani has three highly successful retail formats: the Big Bazaar hypermarket; Food Bazaar, the food and grocery business; and his original Pantaloons apparel stores. The property opened in Bangalore is his fourth model, a mall called Central. By the end of 2011, he plans to operate 30 million sq.ft. of retail space spread in over hundred cities across the country which translates into a turnover of Rs. 30,000 crore. “We will be worth Rs. 5,000 crore by 2007,” said Mr. Kush Medhora who looks after new store rollouts. There is a shortage of anchor tenants that can pull customers in, in this country and Mr. Biyani has a stronghold on that. Not only is he able to negotiate lower rentals, he has begun insisting that mall owners also develop the place for him. Earlier he would buy the property, do the fittings and so on. Now-a-days, he takes a fully-appointed building from them. To continue innovation, Mr. Biyani has a new businesses team. Newly constituted under the charge of former Globus manager, Mr. Anand Jadhav, it is trying to identify new businesses for the company as in 4-5 years; same store growth starts to plateau. To keep that rate of growth intact, they identify new businesses they can expand into, or use to replace less profitable ones. The team sees how each of the areas can generate a topline of Rs. 100 crore in two years. So far, with a target to launch 3-4 business ideas every year, they have zeroed in on footwear, music and car accessories. Home Solutions Retail India Ltd, a start-up of the Future Group operates in categories like
consumer durables and electronics, furniture and home improvement. Electronic Bazaar and eZONE for consumer durables, Furniture Bazaar and Collection I for furniture, a large format store called “Home Town” is being planned to become a single-stop shop for home and home improvement products. Footwear major Liberty has entered into a JV with Pantaloon for setting up FootMart Retail India.

RPG Enterprises was an early entrant into the retail sector which began by buying well-known retail outlets in Chennai. In February 2004, the group set up its second Giant Hypermarket in Goregaon, Mumbai. Mr. Raghu Pillai, CEO, RPG Retail, has highlighted that they are catering to the top 20 percent of the urban market, earning Rs. 1,00,000 per annum or more and in the main metropolitan cities of India. After setting up their first store in Hyderabad in June 2000 they have watched it for a year and after being confident that their core business model was right, had opened the second Mumbai store. Their plan has been a rapid expansion move to open 12 to 15 stores across India over the next 24 months to gain a national footprint. Their expansion plan envisages retail stores in Mumbai, Hyderabad, Kolkata, Delhi, Chennai, Vizag and Bangalore (The Rediff Interview, April 01, 2004, Mr. Pillai in an interview with Deputy Managing Editor Amberish K Diwanji).

The lifestyle store, Shoppers’ Stop Ltd, (a part of the K Raheja Group) is India’s leading large format department store company. It is also entering different retailing formats, such as Home, Food & Grocery. It was the first one to set up a nation-wide chain of large format department stores in India with a professional management. Shoppers’ Stop Services (India) Ltd., Crossword book stores, Spans Trading Ltd., and Shoppers Stop.com (India) Ltd. are its subsidiaries. Mr. Govind Shirkhande, CEO, says the
top 5 retail players in India would contribute 5% to 6% of the market in the coming five years. He also commented that Supermarkets, Hypermarkets & Department Stores are some of the segments where they had a high potential. Shoppers’ Stop has signed up to 49 stores for Shoppers’ Stop Department Store, which is 3.6 million sq.ft. F & B, Crossword, Mothercare and M.A.C brands were being brought in for the specialty retailing. Current trend looked like they would be able to complete the rollout in three years’ time. In FY07 itself, 4 more Shoppers’ Stop stores were to be opened. For Mothercare, they had signed the agreement to open 40 stores’ in the next five years’ time. As regards Crosswords, they believe that the format can be rolled anywhere between 60 to 70 stores in the next two years’ time. “We are looking at being present in about 23-24 cities by FY10, which would be in addition to the cities that we are currently present in. The new cities would include the likes of Amritsar, Jalandhar, Chandigarh, Ludhiana, Lucknow, Kanpur, Surat, Baroda, Indore, Bhopal, Nagpur, Mysore, Vizag and Vijayawada” (Mr. Shirkhande in an interview with Mr. Anil Mascarenhas of India Infoline, Nov 06, 2006).

The 1,25,000 sq.ft. Malad outlet of HyperCITY has 38,206 product lines, 32 cash tills with parking space for 1,000 cars. “We took 22 months to conceive the Malad store, and we had to prove the IWWI (It won’t Work in India) acronym wrong. We were told Indian house-wives won’t buy pre-cut vegetables from the chiller and mountain bikes won’t sell in potholed Mumbai. Myths we have shattered,” said Mr. Levemore, the chain’s South African CEO. The Mumbai outlet has recorded footfalls “in excess of 12,000 on the quietest day” clocking average sales of Rs. 38,000 per minute, and the management had to revise store timings for ‘repair and replenishment’. Commenting on the experience of
HyperCITY in a fiercely competitive market like Mumbai, Mr. Levemore said the company has learnt that it is capable of selling a lot more premium products than it initially believed and that the high income consumer is just as value conscious as the lower income. He said initially the company expected the first store in Mumbai to break even in 12 to 18 months. However, there are clear indications that it will break even long before that. This has come about from higher than anticipated sales of premium products and higher margins. “We have also learnt that the Indian consumer has a pent-up desire for quality retail outlets,” he added. After having gained such a positive experience in Mumbai, HyperCITY will continue with this format, though there will be distinctive city and regional adjustments through the K Raheja Corporation. Giving out the example of Carrefour “failing in Hong Kong” and Wal-Mart quitting Korea, Mr. Levermore underlined that Indian retailers had nothing to fear from foreign retailers, “HyperCITY exemplifies all that India should be proud of and Kolkata is set to join the buzz soon”. HyperCITY Retail (India) Pvt Ltd, part of the K Raheja Corp, has identified 28 sites where it intends to roll out this retail format. Each centre will have a minimum size of 1,00,000 sq.ft. An investment of Rs. 15 crore will go into each of these stores excluding land. Knowing that aggressive rivals like Reliance Retail Ltd will enter tier II cities over a period of time as the urban cities get saturated, the company has started to foray into these cities. Mr. Andrew Levemore has said that work is in progress at 14 of the 28 sites and construction has started in several cases. These centres are located in Mumbai, Bangalore, Hyderabad, Delhi, Lucknow, Jaipur, Aurangabad, Ahmedabad and Pune.

ITC went ahead with mass distribution of branded garments while launching a premium Wills Lifestyle store in South Extension, New Delhi
in July 2000. Enthused by the retail response, Wills Lifestyle opened its 42nd store in the country and the first exclusive leisure outlet in Kolkata. At the Images Fashion Awards 2001 & 2003, Wills Lifestyle was declared ‘The Most Admired Exclusive Brand Retail Chain of the Year’ Following this, Wills Sport was declared ‘The Most Admired Women’s wear Brand of the Year’ at Images Fashion Awards 2002. Wills Lifestyle also stocks fashion accessories. ITC launched John Players in December 2002 to broad-base the array of branded apparel. They are present across the country through exclusive stores and over 1500 multi-brand outlets. ITC has launched fragrances and personal care products under the Essenza Di Wills brand. Over the last five years, ITC’s Lifestyle Retailing Business Division has established a nationwide retailing presence through its Wills Lifestyle chain of exclusive specialty stores. They have built a powerful brand portfolio. Wills Lifestyle has been established as a chain of exclusive specialty stores providing the Indian consumer ‘International Shopping Experience’ through ambience, customer facilitation and clearly differentiated product presentation.

Riding the revolution that swept across India’s retail sector in 2003, Trent made rapid progress with its expansion plans as it set up four new outlets of the standout Westside marque in Mumbai, Ahmedabad and New Delhi. While Westside is the name of the company, Trent stands for Tata Retail Enterprises. The company raced ahead of the 10 percent growth rate posted by the apparel industry, achieving a 50 percent growth for the calendar year. Hyderabad which was a loss-making store in 1999 started to break even from 2000. At the AGM held on September 14, 2000, it had been announced that barring ‘unforeseen circumstances’, they planned to operate 12 stores by the end of two years. The cost of setting up 7 new
stores occupying an area of 65,000 sq.ft. each would be Rs. 21 crores and the cost would be met by internal accruals.

South Extension in Delhi has also witnessed a similar uprising in the mid-1990s. In suburban Noida’s Sector 18 market, almost all the houses on the main road in this essentially residential colony have been turned into huge departmental stores: Ebony, Big Jo’s, Zohra, Hopp, TG’s, to name a few. In Delhi, the newest Ebony store in Noida with four huge floors of shopping saw more than 10,000 shoppers in the first week of its opening. “This is the most happening shopping area and so we decided to move in here,” said Ebony owner Mr. Anas Wajid. An enthusiastic visitor to Ebony has commented that it is “just like shopping abroad.”

Retail company Piramyd Retail Ltd, part of the Piramal group, has firmed up plans to become one of the top three large format retailers in the country by 2010. The company has chalked out plans to invest over Rs. 170 crore over the next two years to aggressively grow its departmental stores brand, to reach the level of 1.75 million sq.ft. of operations in this period, according to Mr. Krish Iyer, Managing Director and CEO, Piramyd Retail. “We plan to grow from the level of four Piramyd Megastores and six Trumarts to reach 22 megastores and 128 Trumart level by 2010 to reach a turnover of Rs. 2,400 crore,” Mr. Iyer said. The company’s turnover will go up from last year’s Rs. 69 crore to Rs. 220 crore by the end of this fiscal. “We intend to pump in Rs. 60-70 crore into our retail ventures every year after the initial Rs. 170 crore,” Mr. Iyer said (Piramyd Retail draws plans for expansion, Monday, The Telegraph, 25 July, 2005).
According to Mr. Ved Prakash Arya, CEO, Globus Stores Pvt. Ltd., Globus is designed as a family store which will cater to the middle class and above. Mr Arya said Globus was set up with an initial investment of Rs. 18 crore, excluding the cost of the land. Out of this, Rs. 10 crore was spent on technology alone. The entire supply chain system has been supported by ERP software from the US Company, JD Armstrong. In 2001 the group had five outlets.

Reliance Industries will pump Rs. 2,000 crore into its retail business in Bengal and develop as many as 60 outlets by 2010. Reliance Retail Ltd. (RRL), a venture headed by Mr. Mukesh D. Ambani, will invest Rs. 25,000 crore over the next few years. They will focus on competitive offerings to Indian consumers across a host of verticals. This initiative, which will have a pan-India presence, would possess formats ranging from neighbourhood convenience stores, supermarkets, speciality stores to hypermarkets and also have domestic and international brands catering to both mass market and luxury segments. Reliance Retail opened its first store in Hyderabad in November 2006.

Archies Limited which has 75 company-owned stores already in operation in various parts of the country and 500 franchisees and outlets spread across 139 cities in India and six other countries, has plans to open 200 company-owned stores across the country in prime retail space over the next two years. It has set a target turnover of Rs. 100 crore against Rs. 85 crore recorded in the financial year 2005-06.

The Rs. 39,000-crore Aditya Birla Group has appointed global consulting firm, McKinsey & Co to chalk out the company’s retail rollout plans. Sources suggest that McKinsey has been given the responsibility to strategize on the entry strategy for the group. McKinsey is to study the
opportunities in the sector and advise on plans to launch a chain of fashion-led outlets and hypermarkets. The Aditya Birla Group recently became the third major business house to announce its foray into organized retail. Mr. Mukesh Ambani’s RIL and Mr. Sunil Mittal’s Bharti Enterprises have also joined the bandwagon to enter this lucrative and fast-growing sector. Analysts suggest that new and existing Indian companies are planning to scale up at a fast pace before the imminent entry of foreign players is allowed in the sector. McKinsey has already built a strong retail practice and is also working with Future Group (formerly Pantaloon Group), while KSA Technopak is working closely with Reliance. Other consultants like, AT Kearney, Ernst & Young, PwC and Third Eyesight are also said to be working with new and incumbent players (Shuchi Vyas, The Economic Times - August 29, 2006).

But once global retailers can set up shop in India the whole scene might change. Current FDI norms don’t allow global retailers to step in, except for cash-and-carry formats, franchisee operations and special licenses. Opinions differ on when the government will open the way. But even opponents of FDI concede that they won’t be able to stall the move for more than two years. The €52-billion German giant Metro AG has entered in the cash-and-carry mode. French hypermarket chain Carrefour has set up a representative office to develop an entry strategy. Wal-Mart has huge plans for India. They are moving a senior official from its headquarters in Bentonville, Arkansas, to head its market research and business development functions pertaining to its retail plans in India. New York-based high-end fashion retailer Saks Fifth Avenue has tied up with realty major DLF Properties to set up shop in a mall in New Delhi. Tommy Hilfiger, retailer of apparels, expects to open one store each in Delhi, Ahmedabad, Lucknow and Bangalore in the next four months.
Indian retailers are fully aware that they have about two years. Hence they are in a hurry to ramp up fast.

As has been aptly summarized by Mr. Amitabh Taneja, Chief, IMAGES & Director, International Council of shopping Centres (ICSC-India) & Indian Retail School, in INDIA RETAIL REPORT 2005 by IMAGES - KSA Technopak, “India is now ready to leapfrog into the next stage of evolution where a large number of Indian and international retailers would build scalable models with a pan-India appeal with a view to be sustainable in the long term. Already, players are becoming profitable after having gone through their respective learning curves indicating the viability of organized retailing across formats. Opportunities are abundant, across formats and categories, as the new Indian consumer has clearly demonstrated a readiness for all organized retailing segments. Moreover, as has been the case in retail markets across the globe, the influx of foreign brands into India shall transform the retail landscape as domestic players grow bigger and become more innovative in the face of enhanced competitive pressures. All this can only spell good news for the Indian consumers who will be inundated with a flurry of state-of-the-art products and services at reasonable prices – a state they have long craved for.”

A brief study of the related underlying psychological reasons as to why people shop has been undertaken. The reasons which may not be apparent initially, but they exist subconsciously and induce people to shop. Shopping has also been regarded as a form of therapy by some, though its benefits have not reached conclusive ground as yet. “Shopping in a sense is a form of therapy. It is good to occasionally reward yourself with a purchase, an easy way to assert self-worth. And when we feel reassured
about that, we feel better and more confident”, said Dr. Sharma. This explains the increasing trend among people to go out and buy themselves an expensive gift whenever they feel let down. We go to the market to satisfy our basic needs: food, clothing and shelter. Each of these products fulfils a need in us – it makes us feel complete. However, often people are bogged down by self-doubt. In such situations we subconsciously buy ourselves out of the feeling. For instance, stocking the fridge with groceries results in satisfaction about us as a provider, while clothes shopping meets basic needs as well as carries a secondary value like creativity. Shopping also makes us feel better because we feel we are doing something about what we perceive as ‘tricky situations’. Like buying a suit that helps us project a professional image and ace a job interview; purchasing postcards so we feel connected to distant relatives and friends; or buying a vacation that will restore our stressed souls. Beyond the basic needs, shopping fulfils a host of others that can be even more rewarding and self-affirming. The purchase of a book may carry with it a validation of our intellect while acquiring a painting can demonstrate one’s interest in the arts and even be an indicator of one’s taste.

The therapy is not about what one buys; merely the act makes one happy. Dr. P. S. Das, psychiatrist at Max Healthcare, said, “The act of buying takes some thought and involves an investment of time. All this makes one feel important and worthwhile. But most importantly, it distracts the person out of his misery for that moment, which is why he feels relieved and happy doing it.” Shopping is also an activity that allows people to connect with one another. Seeking and finding just the right items for family members and friends is a pleasure-filled experience. “People often
envision a wide range of possibilities — comfort, delight, or perhaps knowledge — that their gift is meant to provide, often investing large amounts of time making their choices,” explained Dr. Das. But more often than not, shopping becomes a community affair. This is especially true of women, as a study conducted by Paco Underhill who authored the book Why we Buy: The Science of Shopping, shows women prefer to shop with other women and when they shop together, they invest more of their time in the process of shopping. The study stated, “When two women shop together, they talk, advise and consult to their heart’s content. It’s a social activity that can result in bonding. Often there is a healthy cross-fertilization of ideas. When shopping is wrapped around a meal, there is time for disclosure. Women tend to boost each other’s egos in this environment, making the activity even more positive and pleasurable”. Anthropologist John Campbell once said, “Money is congealed energy, and releasing it releases life’s possibilities”. Today, the Indian middle-class has more buying power than before and many of them are realizing the ‘possibilities’ that money can buy.

Retail as a therapy, in a way, is an offshoot of the heady consumerism that started off in Europe in the 1980s. As the economy grew rapidly and people succumbed to the pressures of modern life, they turned to spending for relief. India too, is going through the motions of development and hence the growing tendency among the populace to ape the European experience. Explained Dr. Das, “Disposable income is of course one of the deciding factors. The disposable income among the urban middle class has increased considerably. Besides, there is a rampant increase in the number of shopping malls and high-end stores in a city. There is money and the outlet to spend it – hence it becomes easier
for a person to turn to shopping”. Though retail therapy is something that pans age and class, it does appear that the younger and more affluent people are the ones who are apt to indulge in dysfunctional shopping for things they don’t really want or need.

However, psychologists do prescribe retail therapy with a warning. A recent British research conducted by analysts Publicis indicates that depression is twice as common in people who go shopping to lift their spirits. “This only offers a short-term buzz,” said Dr. Sharma, “but some shoppers later regret their purchases. Ultimately, it may make them feel worse”. Unhappy people are more likely to try and change their lives through purchasing. And such people run the risk of becoming compulsive shoppers, which health professionals treat as a serious disorder. Compulsive shopping can also be the outward sign of other problems such as depression or a lack of self-esteem. In extreme cases, it can even bankrupt families, destroy relationships and drive some compulsive shoppers to suicide. Psychologists partly blame the media for the rising tendency to shop to thrill. It makes people believe that anything is possible if you have the will to spend. This ultimately drives the person to spend and in turn feel happy for a short period of time. “However, once they realize the ‘uselessness’ of the shopping spree, there is a sense of guilt that dawns on them,” said Dr. Das.

No doubt, shopping in its many forms offers endless possibilities for enjoyment and self-realisation. “I can never pass a shopping mall without stepping into it, since that’s where I can be who I really am inside. How would it be if I was trapped here forever? Is even a lifetime enough?” (Being who I want to be, for free, Chandrima S.Bhattacharya) It’s in a
shopping mall that she feels one can act out their fantasies for free. From checking out the perfumes, trying out the kind of clothes that one longs to wear but never will, usually allows one to leave the mall a contented person.

For people who experience its more positive effects, it indeed becomes therapy. For others, it may just be a warning sign for bigger problems to come.

The tell-tale signs of compulsive shopping are:

❖ One drives down to the mall even when one doesn’t have anything to buy.

❖ Forever making up a list of things to buy.

❖ One would rather go shopping than visit a sick relative.

❖ One’s only source of entertainment is walking around the shopping arcade.

An impulse control disorder is characterized by a disturbed personality that is totally unable to resist an impulse, drive or temptation. The psyche of people with this problem is not only disturbed at the time of buying, or whatever the particular need is, but for days or even weeks beforehand (Motives for going on buy binge, Dr. Thomas Stuttaford). Having finally satisfied their lust, by acquiring the latest designer dress for instance, they are temporarily relaxed and happy and the tension that had been building has been dissipated. Unfortunately once the purchase has been taken home and given a cursory glance, the tension starts to mount again. Compulsive buyers are people whose lives revolve around the next big
spend and who have a great ability to fantasize. They are more often women than men and can mentally visualize themselves wearing some particular outfit.

The initial feeling is a surge of excitement as people find that must-have item in shops, followed by a sickening sense of let-down shortly afterwards. Scientists know now why it happens and can provide some pointers to avoiding it (Blame it on brain chemistry – Philip Sherwell and James Orr). The feeling is caused by the release of a specific chemical in the brain. Dopamine, a chemical associated with pleasure, is released in waves as shoppers first see a product and then consider buying it. But the research shows that it is the anticipation rather than the buying that discharges dopamine and drives the process. The effect of the naturally produced chemical lasts only a short time and can leave the shopper feeling let down when brain chemistry returns to normal. Gregory Berns, a neuroscientist at Emory University, Georgia in the US and author of Satisfaction: The Science of Finding True Fulfillment, said: “Dopamine is all about the hunt and the anticipation. It is released as you conjure... the thought of this purchase and anticipate how it will look and how you will use it”. Researchers also replicated the human experience of discovering a new product by using MRI (magnetic resonance imaging) scanners. As a shopper makes a purchase, levels of dopamine flowing between nerve cells in the brain increase significantly. But once the product is bought, the chemical balance normalizes very sharply. The feeling is often a feeling of regret – known as “buyer’s remorse” in the retail world – soon after experiencing a shopping high. “The dopamine motivates you to seal the deal, but it only hangs around for a very short time – minutes or even seconds”. Other researchers are
using EEG (electroencephalogram) monitors to study shopping habits. Neuroco, a London consulting firm, uses portable monitors strapped to shoppers to produce “brain maps”. These show a marked difference in the brain patterns of someone just browsing, compared with a shopper about to make a purchase.

Ruth Engs, studying compulsive shopping in the US, has some tips to control spending:

❖ Draw up a shopping list and stick to it.

❖ Minimise credit-card use.

❖ Go window-shopping for ideas after stores have closed. Go home and think about it.

❖ Avoid stores when visiting friends or relatives. Shopping in new locations can lead to greater dopamine surges.