Chapter-1

INTRODUCTION

From the ancient bartering system to present day organised retail markets, global retail industry has travelled a long way to become part and parcel of the modern world. This chapter provides an overview of Global Retailing Industry and Indian Retailing Industry. Keeping in mind the objective of the research work, the chapter logically makes an attempt to present section-wise the historical perspective on supply chain to integration of supply chain and to focus on the growing importance of supply chain in the retail sector. The chapter also addresses some key issues faced by the industry and takes through the future initiatives and trends.

1.1 Global Retailing Industry

1.1.1 Global Retailing Industry - An overview

In late 20th Century, the search for convenience in shopping, which was primarily for food and essential day-to-day items, by the consumers together with increased vehicle ownerships gave birth of convenience stores or supermarkets in entire Europe and America. The increased demand for new tastes, stimulation, products of the consumers along with increase in income fuelled further growth of the supermarkets. With invention of barcodes, the scalability of operation of a supermarket increased manifolds through efficient management of thousands of items, their prices, stocks and timely replenishment. With fully computer-operated depots and logistics, integration of store replenishment with consumer demand was made possible and the superstores like Wal-Mart were born and gave new dimension to organised retailing. ‘Organised retailing’ is the term used to describe the structured supply chain leading to retail chains and big box merchants. These organised stores manage multiple business processes that include inventory maintenance, consistent pricing, support services, competitive products from multiple manufacturers and various other aspects of modern merchandising.
By the year 2003, the worldwide retail sale alone was valued at $7 trillion. The top 200 retailers contributed to 30% of worldwide demand. The money spent on household consumption worldwide increased 68% between 1980 and 2003. The leader was the USA where almost two-thirds or $6.6 trillion out of the $10 trillion American economy was consumer spending. About 40% of that ($3 trillion) was spending on discretionary products and services. Retail turnover in the EU was approximately Euro 2,000 billion and the sector average growth looked to be following an upward pattern. Many developing countries opened up their economies to the free markets giving strong incentives for foreign investment in mid-90s. (Source: Global Retail Report, 2003)

However, the global economic growth came to an end in 2008. As that year progressed, the recession that began in the United States worsened and spread across other countries. The retailers faced an extremely challenging environment as consumers became more cautious and reduced their spending in response to troubled housing, employment and credit markets. As consumers drastically curtailed their spending beyond their means, retailers selling discretionary goods were particularly hit hard with those selling food and other necessities fared considerably better.

Fiscal 2008 sales and profits for the Top 250 Global Powers of Retailing reflected the impact of declining consumer confidence. Among the Top 250, 61 retailers had declining retail sales in fiscal 2008, which was up from 44 in 2007. As spending by consumers became much more dependent on income than on credit, retailers selling apparel and accessories, consumer electronics and home improvement products struggled. However, the composite retail sales growth was not as sluggish as might have been anticipated given the severity of the economic downturn. Sales-weighted, currency-adjusted retail sales for the Top 250 rose 6.3 percent in fiscal 2008 compared to 7.6 percent in 2007. However, the composite net profit margin fell from 3.7 percent in fiscal 2007 to 2.4 percent in 2008, bringing to an end what had been a trend of continuing improvement in retail profitability in previous years. Many retailers fought to buy sales with heavy promotions, which hit the bottom line hard. Of the 184 companies that disclosed their bottom-line results, 30 operated at a loss which was more than double the 14 unprofitable
companies in fiscal 2007. Perhaps 123 companies, two-thirds of those that reported bottom-line results, saw their net profit margin decline in 2008 (Source: Global Retail Report, 2011).

In 2009, retailers continued to suffer the consequences of the recession. More than one-third of the Top 250 Global Powers of Retailing (90 companies) suffered declining sales, up from about one-quarter (61 retailers) in 2008. For the entire group, sales-weighted currency-adjusted retail sales rose a meagre 1.3 percent. On the other hand, profitability showed improvement in 2009 as retailers tightened their belts in anticipation of slowing sales. To push earnings up, many companies cut costs substantially and adjusted their inventory levels in response to reluctant consumers. As a result of these efforts, the Top 250 composite net profit margin rose to 3.1 percent in 2009 from 2.4 percent in 2008. Of the 188 companies that reported their bottom-line results, only 13 operated at a loss which was less than half the number of unprofitable companies in 2008. About one-third (67) of reporting companies saw their net profit margin decline in 2009, compared with two-thirds in 2008. Based on 179 companies for which both net income and total assets figures were available, composite return on assets in 2009 was 4.9 percent, up from 4 percent in 2008 for these same companies. The world's 10 largest retailers saw their share of total Top 250 sales slip in 2009, and their composite sales growth was stagnant at just 0.2 percent. Nevertheless, these retailers still garnered a whopping 30 percent of the Top 250's combined sales which was slightly down from 30.2 percent in 2008 (Table 1.1.1). The makeup of the Top 10 remained the same in 2009 as in 2007 and 2008, with Wal-Mart as the undisputed leader. The top 250 retailers could garner advantages of their operations across geographical boundaries (Figure 1.1.1). Although sales were flat and profitability lagged, the retail leaders were more productive than their smaller competitors. (Source: Global Retail Report, 2011)
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<td>1</td>
<td>Wal-Mart</td>
<td>U.S.</td>
<td>405,046</td>
<td>0.9%</td>
<td>3.6%</td>
<td>8.7%</td>
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<td>2</td>
<td>Carrefour</td>
<td>France</td>
<td>119,887</td>
<td>-1.2%</td>
<td>0.5%</td>
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<td>3</td>
<td>Metro</td>
<td>Germany</td>
<td>90,850</td>
<td>-3.2%</td>
<td>0.8%</td>
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<td>4</td>
<td>Tesco</td>
<td>U.K.</td>
<td>90,435</td>
<td>4.8%</td>
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<td>5</td>
<td>Schwarz</td>
<td>Germany</td>
<td>77,221</td>
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<td>Kroger</td>
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<td>76,733</td>
<td>1.0%</td>
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<td>7</td>
<td>Costco</td>
<td>U.S.</td>
<td>69,889</td>
<td>-1.5%</td>
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<td>4.9%</td>
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<td>8</td>
<td>Aldi</td>
<td>Germany</td>
<td>67,709</td>
<td>3.8%</td>
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<tr>
<td>9</td>
<td>Home Depot</td>
<td>U.S.</td>
<td>66,176</td>
<td>-7.2%</td>
<td>4.0%</td>
<td>6.5%</td>
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<tr>
<td>10</td>
<td>Target</td>
<td>U.S.</td>
<td>63,435</td>
<td>0.9%</td>
<td>3.8%</td>
<td>5.6%</td>
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<td>Top 10</td>
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<td>$1,127,381</td>
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<td>Top 250</td>
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<td></td>
<td>Top 10 Share of Total</td>
<td></td>
<td>30.0%</td>
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Source: Global Retail Report, 2011 (Sales-weighted, Currency-adjusted Composite Growth Rate from Published Company Data and Planet Retail)

Table 1.1.1: Economic Concentration of Top 10 Retailers, 2009

Source: Global Retail Report, 2011

Figure 1.1.1: Share of Top 250 Retailers by Region/Country, 2009
At the start of 2010, Governments' interventions to recapitalise banks, stimulate demand and flood the market with liquidity helped to avoid a more grim economic result. However, this was not adequate to ensure a robust recovery in many economies - at least not in the developed economies of North America, Europe and Japan where the growth was modest and inflation was low. On the other hand, strong economic growth came to the emerging world but with the risk of rising inflation.

As the year 2011 began, retailers started worrying about inadequate demand in rich countries and overheating of market in emerging countries. Home markets for developed country retailers are likely to be slow-growing, saturated and prone to excessive regulatory interference. In addition, the retailers are exposed to exchange rate volatility, changing fiscal policy and the sustainability of recovery in some markets. Most of global economic growth is taking place in the emerging markets where consumer spending is increasing rapidly. To achieve rapid growth, successful retailers are seeking out new territories.

Thus, it can be seen that over the years, due to increased competition and saturation of market followed by restraining legislation in home countries, the retailers have been relentlessly pushed to the global markets. With consumers of advanced economics becoming much more price sensitive and conservative in their buying, the major retailers are looking beyond geographic boundaries. There have been drastic changes in the global economy, consumer demand and retailers' operating systems. The entire retail operations today are infused with far more technology than ever before. From operational point of view, retailers have been exposed to market deflation, lack of pricing power, global over-capacity, low interest rates, economic stagnation and declining consumer confidence. To overcome these growing difficulties, technology has become the real enabler for retailers. With all the emphasis on technology and cost-cutting, major driving force of retailers continues to be demand-based i.e. identifying new markets and reach to new customers through globalisation of their operations.
Hence, the best global retailers are now spending substantial resources and time learning about the local markets. This necessitates understanding the supply chains, regulations, sources of merchandise and most importantly tastes and habits of the consumer. Even after years of research, retailers may fail to develop the right merchandising.

1.1.2 Emerging Economies and Opportunities

The major emerging markets are the developing countries and are expected to continue growing rapidly in the next decade, thereby creating a much larger market of middle class consumers. The high penetration in developed economies leading to saturation of growth is making the global leading players to look for prospective emerging economies where there is tremendous opportunity for growth (Table 1.1.2).

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>USA</td>
<td>85</td>
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<tr>
<td>France</td>
<td>80</td>
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<tr>
<td>Japan</td>
<td>66</td>
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<td>Malaysia</td>
<td>55</td>
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<td>Brazil</td>
<td>36</td>
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<tr>
<td>Russia</td>
<td>33</td>
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<tr>
<td>China</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>5</td>
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</table>

Source: Global Retail Report, 2011

Table 1.1.2: Organised Retail Penetration Level (In Percentage)

The eight emerging markets, namely BRIC (Brazil, Russia, India and China), Indonesia, Mexico, Turkey and Vietnam, are important for their economic size and growth as well as their considerable potential. Together these countries have 3.2 billion people (roughly half the world's population), and a combined GDP in excess of the U.S. when measured using a purchasing power parity (PPP) exchange rate. However, per capita GDP of these countries is only about one tenth that of the U.S. (Source: Deloitte LLP, 2010)

While China and Europe face the burden of supporting an older population, India is disproportionately young with roughly half the population younger than 25. This is one reason some economists predict that India could surpass China in economic growth rates
in near future. India will have a young, vast workforce and therefore many future consumers with rising disposable income (Source: Inquirer Interactive Inc., 2010). India is forecasted to become the world's fifth largest consumer market by 2025 and to have 50 million outbound tourists by 2020, providing significant opportunities for consumer businesses (Source: Deloitte LLP, 2010).

India's consumer class is estimated to grow nearly twelve-fold (from 50 million at present) to 583 million by 2025, with more than 23 million people likely to be listed among the world's wealthiest citizens. Yet the middle class in these countries is large and growing. The top 20 percent of the population is over 600 million people, many of whom have purchasing power similar to the average citizen of developed countries. In Brazil, for example, the top 20 percent is roughly 40 million people who account for over 60 percent of total income and have an average purchasing power not far below that of Western Europe. As Brazil grows in the next decade, the number of people with such purchasing power will rise very rapidly. (Source: Consumer 2020 'Reading the sign, 2011)

Retail is exploding in emerging economies with strong developing markets and those markets have become the driving forces fuelling global growth in retail sales and space. Over the 10-year history of A. T. Kearney's Global Retail Development Index (GRDI), an annual research project designed to help global retailers prioritize which countries to enter, the population of developing markets increased 11%, while retail sales per capita has almost doubled, retail space has more than tripled and internet access grew by nearly 500%.

Clearly, developing markets hold significant potential for retail growth, but picking which market is right for development has been a tough learning experience. Initially many global retailers focused their developing market expansion aspirations on China, which gained acceptance into the World Trade Organisation (WTO) in 2001. As the decade unfolded, retailers were drawn to the potential of Southeast Asia, the BRIC nations (Brazil, Russia, India and China) and Eastern European markets like the Czech
Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Rumania, Slovakia and Slovenia following their joining the European Union (EU) in 2004.

But, based on the last 10 years of retail growth, five nations have consistently ranked in the Top 10 in all the studies carried out by different agencies: China, India, Russia, Vietnam and Chile. Almost everyone understands China's size and therefore its market potential. More difficult is establishing its true market value, particularly when it comes to the emerging middle class and burgeoning urban population. As many retailers have learned the hard way, the Chinese consumer is unique, and effectively selling to them demands striking exactly the right balance between assortment, pricing and service models. But in spite of all these constraints, China maintains its high attractiveness in terms of opportunities for all the global retailers.

Indian retailing remains highly fragmented by Western standards. But, organised retail has made great strides over the past 10 years. Like China, India's size will always make it attractive to expansion-minded retailers but much of that attraction can be quickly lost in the morass of regulatory challenges, the near necessity of taking on a local partner and the increasing power of local competitors like Reliance, Future Group and Birla. With the young population and growing family incomes in urban as well as rural areas, India has attracted global attention for future opportunities.

While Russia has experienced a decade of historic, double-digit market growth, the lack of transparency in government regulation makes it a difficult market to enter. Also like India, competition — this time in a more consolidated rather than fragmented form — poses significant challenges. Vietnam opened its borders to wholly owned foreign trade in 2009 attracting international retail investment, particularly from Japan and Korea. However, recent inflation and the slow pace of development of infrastructure and distribution networks have hampered large-scale foreign retail investment and frustrated growth plans for retailers doing business in the country. Chile, the final member of the Big Five, lifted its restrictions on direct foreign investment in 2001, eight years before Vietnam, and has enjoyed an uninterrupted stream of foreign investment ever since.
1.1.3 Challenges in Emerging Economies

The emerging markets possess challenges to all the retailers who are looking to venture outside the developed markets due to saturation. In the battle for global retail dominance, the first movers seem to have an advantage, but also face the threat of making costly initial mistakes which make life easier for the alert second-wave competitors.

Challenge 1: To Develop a Strategy and Execute it

Retailers must have a strategy in the context of the market chosen. This is a very difficult task and there is no scientific method for identifying the right strategy. The decision whether to adapt the existing market or to bring into its strength it possesses at home to a new market may prove to be critical. There are many examples of success and failure for each strategy. Still, one rule does seem to apply in all cases - “whatever the strategy one chooses, the execution becomes the most critical to succeed.”

Challenge 2: To Identify a Competitive Advantage

Competitive advantage varies greatly and depends on the competitive environment. In an emerging market which lacks modern retailing, simply bringing modern supply chain management and merchandising as well as large financial resources might be adequate. In a more developed market, competitive advantage can be ‘offering a well-known global brand’, ‘a unique format’, ‘a higher level of customer service’, ‘a more entertaining and informative customer experience’ or ‘a more efficient supply chain that enables low pricing’.

Challenge 3: To Learn About Local Tastes and Customs

The best global retailers spend considerable resources and time learning the local market and the customers. Understanding the supply chains, regulations, sources of merchandise, consumer tastes and habits may become the core to success. Many retailers, even after years of research, fail to develop the right merchandising. Understanding an unfamiliar culture is extremely difficult even under the best state of affairs.
**Challenge 4: To Use Local Managerial Talents**

Most of the global retailers rely on the expatriate managers. The best situation is to have local managers for most stores as they often possess associations with the local business community and government. These local managers typically have a better understanding of local consumer culture and they often stimulate greater loyalty within the organisation than foreigners. But the challenge is to develop local talents in a way that is consistent with the values, culture and processes of the parent company.

**Challenge 5: To Develop Local Relationships**

In China, a major European food retailer had severe problems in achieving success mainly because of failure to build strong local supplier relations. In Indonesia, a large global food retailer faced difficulties when the local franchisee opened a competing store on its own. The franchisee acquired the business knowledge in the process of working with the foreign retailer and then applied the knowledge to start its own chain. Thus building correct local relationships are critical and it may be through a partner or franchisee or local suppliers and vendors.

**Challenge 6: To be Ready for Big Mistakes and Accept it**

Global retailing has a steep learning curve where sometimes big mistakes are made. The capacity to learn and change from this learning is critical and a commitment of time will always be necessary to do that. There are perhaps more examples of global retailers making mistakes initially and succeed than stories of instant success. A venture in global retailing may be a gamble and the gambler must be willing to stay at the table for more than one game.

**Challenge 7: To be Ready to Invest on Large Scale**

Almost all the success stories include being selective about the choice of the markets to be entered and then delivering considerable resources to those markets. Achieving the scale is not only important for operational efficiency but it also enables a retailer to build a consumer base. It also helps to convince local suppliers and vendors that the retailer is there to stay. Otherwise, they are often reluctant to enter into new associations.
1.2 Indian Retailing Industry

1.2.1 The Indian Retail Market

Retail is one of the fastest growing industries in India over the last couple of years. The advantages of the robust emerging market of India could clearly be summarized through following Figure 1.2.1:

Figure 1.2.1: Advantage India

Indian Retail Sector comprises of organised retail and unorganised retail. Traditionally the retail market in India has been largely unorganised. However, with changing consumer preferences, organised retail is gradually becoming popular. Unorganised retailing consists of small and medium grocery store, medicine stores, subzi mandi, kirana stores, paan shops etc. More than 90% of retailing in India fall into the unorganised sector, the organised sector is largely concentrated in big cities. Organised retail in India is expected to grow 25-30 per cent yearly (Source: Deloitte LLP, 2010).
1.2.2 Evolution of Organised Retailing in India

'Hawkers', popularly known as 'Mobile supermarkets', are seen in every Indian by-lane and are therefore difficult to track, measure and analyse. These are individuals selling multiple products of daily use to a very small population. They are also termed as the lowest-cost mobile retailers and as far as location is concerned, these retailers have succeeded beyond all doubt to reach to their customers. They have neither village nor city-wide ambitions/plans – their aim is simply to take a long walk down the end of the next lane. This mode of mobile retailers is neither scalable nor viable over the longer term, but is certainly replicable all over India and provides a stream of income for many individuals.

'Kirana' or 'Mom-and-pop' stores represent the strong but semi-organised retailers in India. These are also known as 'Grocers' or 'Provision Stores' and are characterised by more systematic buying from the wholesale market (popularly called 'mandis') or the farmers and selling from a shop. Economies of scale are difficult to achieve in this format, but the front end is visibly changing with the times. These stores have presented Indian companies with the challenge of servicing them, giving rise to distribution and cash-flow cycles as never seen elsewhere in Asia. These retailers are not organised in the manner that they could challenge the power of the sellers. But, the companies have to depend on these retailers to reach to vast customers.

A 'Supermarket' is a more organised retail format. It is a self-service store offering a wide variety of food and household merchandise organised into departments. It is larger in size and has a wider selection than a traditional grocery store. It is smaller than a hypermarket or superstore. It is a popular retail format in urban and semi-urban areas.

'Department Store' is a retail establishment which specializes in selling a wide range of products without a single predominant merchandise line. Department stores usually sell products including apparel, furniture, appliances, electronics and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photographic equipment, jewellery, toys and sporting goods.
‘Discount Store’ sells merchandise, especially consumer goods, at a discount from the manufacturer’s suggested retail price or the selling prices being offered in general in the market by other retailers.

‘Specialty Store’ is a store which offers specific and specialized types of items. These stores focus on selling a particular brand, or a particular type of item. For example, a store that exclusively sells cell phones or video games is considered specialized.

‘Hypermarket Stores’, also called ‘Superstores’, are nothing but combination of supermarket and department stores that offer wide varieties of food, grocery items, non-food items or general merchandises such as appliances, electronics, furniture, clothing, services etc under one roof in a vast space, sometimes in excess of 200,000 square feet. Originated in France, the hypermarket had limited success in the U.S. due to consumer resistance to the limited grocery selection and the warehouse atmosphere. Success in Europe was attributed to the fact that fewer alternatives were available. Compared to regular supermarkets, a large volume of goods must be sold by these superstores to break even.

For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and fast-food chains. Thus we see that retailing, one of the largest sectors in the global economy, is going through a transition phase in India.

The boom in retailing has been confined primarily to the urban markets in the country. Though with excellent potential, India poses a complex situation for a retailer, as this is a country where each state is a mini-country by itself. The demography of a region varies quite distinctly from others. In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. This is the main reason as to why many of the successful retail chains in the country today operate at regional segments only and
not yield as good results in India as in other countries. With increase in competition, the following retail formats (Table 1.2.2) are getting more and more popularity in India:

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<th>Description</th>
<th>Example</th>
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| Hypermarkets      | • Average size varies between 50,000 sq ft and 100,000 sq ft.  
|                   | • Offers a large basket of products, ranging from grocery, fresh and processed food, beauty and household products, to clothing and appliances.                                                            | Spencers, Big Bazaar. |
| Cash-and-carry    | • Average size - 75,000 sq ft.  
|                   | • Offers several thousand stock-keeping units (SKUs) and generally has bulk buying requirements.                                                                                                         | Metro, Bharti-Wal-Mart. |
| Department stores | • Average size varies between 10,000 sq ft and 60,000 sq ft.  
|                   | • Offers a large layout with a wide merchandise mix, usually in cohesive categories, including fashion accessories, gifts and products for the home.                                                              | Shoppers Stop, Lifestyle. |
| Supermarkets      | • Large in size and typical in layout.  
|                   | • Offers not only household products but also food as an integral part of their services.                                                                                                                  | Apna Bazaar, Food Bazaar. |
| Shop-in-shop       | • Shops located within the premises of large shopping malls in major cities.                                                                                                                                  | Infinity (Magma Group). |
| Specialty stores  | • Single-category stores.  
|                   | • Focus on individuals and group clusters of the same class, with high product loyalty.                                                                                                                     | Brand Factory, Food Bazaar. |
| Category killers  | • Average size - 8,000 sq ft.  
|                   | • Large specialty retailers focusing on a particular segment. These retailers are able to provide a wide range of choice to consumers, usually at affordable prices, due to scale economies.                   | The Loft (footwear mall), Central (readymade garments mall). |
| Discount stores    | • Average size - 1,000 sq ft.  
|                   | • Offers a wide range of products, mostly branded, at discounted prices.                                                                                                                                 | Subhiksha, Levi's factory outlet. |
| Convenience stores | • Average size - 800 sq ft.  
|                   | • Relatively small retail stores located near residential areas.                                                                                                                                            | In & Out, Safal.        |

Sources: Ernst & Young, The Retailer, January 2009; Working Paper No 222, Impact of Organised Retailing on the Unorganised Sector, ICRIER

Table 1.2.2: Retail Formats in India
1.2.6 Future Initiatives and Trends

A. Transformation of the Supply Chain

To counter the challenges by existing small local players who are providing unbeatable advantages of convenience and home delivery to customers, organised retailers seem to have just one option — offer attractive prices to the consumer. Thus, right sourcing coupled with economy of scale likely to help organised retailers to secure competitive advantages and to leverage by driving the costs down, increasing stock turns and getting better credit terms from its vendors. Increasing the efficiencies of the entire supply chain is of utmost priority for every big retailer. For example, the existing food supply chain in India is full of inefficiencies as a result of inadequate infrastructure, too many middlemen, complicated laws and an indifferent attitude. There is tremendous scope of improvement in food supply chain which will bring down the total cost of operation significantly and help the retailers to offer lower prices to the customers. Many corporate have started programmes and operations with direct collaborations with the farmers for mutual benefits. The farmer-corporate relationship has helped the farmers to secure technology, resources and prices and the corporate to source high quality products at a low cost to the retail shelf. These farmer-corporate models are likely to be replicated and extended to all the farm end products. With the emergence of private labels, the retail chains will work with the farm community more cohesively in developing an efficient supply chain and to leverage on the cost advantage at both ends.

B. Supplier-Retailer Relationships

Traditionally, supplier-retailer relation in India comprises several layers such as the national distributor, the regional distributor, district wholesalers and the end retailers. However with the increasing presence of organised retailers in India, this scenario is changing fast and the relationship of these retailers are being established directly with the manufacturers. The new model is affecting the relationships that the manufacturers used to enjoy with the still dominant traditional system in the retail sector. The supplier-retailer relationship is now coming under severe pressure as both the parties try to squeeze maximum margins out of the other.
C. Innovations in Transportation Logistics

Most organised retail chains in India have their own network and do not outsource logistical requirements. As retail chains have begun to focus more and more on the retail end, the necessity to outsource the logistics support to some experts and efficient logistics service providers is emerging. The logistics service providers have also begun to come out with innovative customized solutions for the retail chains. As for example, GATI has developed a model for distribution of Alphonso mangoes throughout India with the support of Information Technology.

D. Formats

India is populated with traditional ‘mom-and-pop’ stores and supermarkets under organised retail chains. Only a few dared to venture into the hypermarket segment with success. This format is being fast replicated by other players indicating maturity of consumers in India. But, considering the geographical, cultural and regional divergences, multiple formats will be there to stay in India. In spite of high population in rural and semi-urban areas, organised retail chain is yet to reach to those areas. For such location, a cost effective and efficient ‘no frills’ retail model is likely to give the desired operational advantages to retailers.

E. Social Trends

India is country of ‘unity in diversity’. The geographical, social and cultural diversities of the population put immense challenges to every retailer who is looking for national roll out of its retail chain in India. This has taken its toll particularly on perishable items like food as well as other items like clothing. The retailers must plan after understanding the local cultures and taste to see any chance of success. The same reason is behind many retailers’ decision to restrict their operation in select cities or select geographical boundaries.

But, with more and more cultural integration primarily due to professional migrants from different states and culture, retailers will find feasibility to spread their operation across India. With increase in nuclear families, income and number of working women in the
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‘Specialty Store’ is a store which offers specific and specialized types of items. These stores focus on selling a particular brand, or a particular type of item. For example, a store that exclusively sells cell phones or video games is considered specialized.

‘Hypermarket Stores’, also called ‘Superstores’, are nothing but combination of supermarket and department stores that offer wide varieties of food, grocery items, non-food items or general merchandises such as appliances, electronics, furniture, clothing, services etc. under one roof in a vast space, sometimes in excess of 200,000 square feet. Originated in France, the hypermarket had limited success in the U.S. due to consumer resistance to the limited grocery selection and the warehouse atmosphere. Success in Europe was attributed to the fact that fewer alternatives were available. Compared to regular supermarkets, a large volume of goods must be sold by these superstores to break even.

For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and fast-food chains. Thus we see that retailing, one of the largest sectors in the global economy, is going through a transition phase in India.

The boom in retailing has been confined primarily to the urban markets in the country. Though with excellent potential, India poses a complex situation for a retailer, as this is a country where each state is a mini-country by itself. The demography of a region varies quite distinctly from others. In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. This is the main reason as to why many of the successful retail chains in the country today operate at regional segments only and
are not aiming at nationwide presence, at least for the time being. Hence we find more of
regional players in India. It is likely to take time before nationwide successful retail
chains emerge.

It can be observed that the most popular retail format in India is the ‘Supermarket’,
beside the corner shop/grocery store/mom-and-pop store. Hypermarkets have very
recently come into being and are negligible in number though most retail chains do intend
to expand their presence through this format very soon. ‘Discount chains’ are also
substantial in number and are growing at a fast pace through the country, predominantly,
in the southern region.

If projections were to be made considering the current trends in food retailing in India,
some years down the line, food and grocery stores will become dominating trade partners
for the food industry, which, in turn, will be forced to offer special discounts and trade
terms for them to get the shelf space in such stores. Once established, in-store label
brands will become a real threat to the industry as manufacturers will have to compete
with the store label brands that are generally very price-competitive. Most retail chains
have already started developing their own unique supply chains that would suit their
needs precisely. Replicating the success stories of the big names of the Western nations
may still be a distant dream for Indian food and grocery retailers, but at least the winds
are blowing in the direction of growth.

1.2.3 Indian Retail Sector - Opportunities Ahead
Indian retail sector has caught the world’s imagination in the last few years. India’s retail
growth has been largely driven by increasing disposable incomes, favourable
demographics, changing lifestyles, growth of middle class segment and a high potential
for penetration into rural and urban markets and fuelling the growth of India’s
approximately US$ 25 billion organised retail market (Source: IBEF Report : Retail,
Nov’2010). However, due to the impact of the global financial crisis, Indian retailers
have been suffering from the effect of rapid credit squeeze, high operating costs and low
customer confidence.
According to the Department of Industrial Policy and Promotion, there has been a large amount of Foreign Direct Investment (FDI) inflow in single-brand retail trading and India continues to be among the most attractive countries for global retailers.

The Indian retail market has been ranked in 2009, by AT Kearney's eighth annual Global Retail Development Index (GRDI), as the most attractive emerging market for investment in the retail sector. The robust growth of organised retail in India over past few years also indicates the positive trend for global retailers (Figure 1.2.2).

*Values are in INR Billion

Source: AT Kearney's eighth annual Global Retail Development Index (GRDI), 2009

Figure 1.2.2: Growth in Indian Retail

From the segment-wise contribution, dominance of a few segments like food and fashion to the growth of Indian retail market is clearly visible (Figure 1.2.3).
### Table 1.2.1: Key Players in Indian Retail Sector

<table>
<thead>
<tr>
<th>Player</th>
<th>Store Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tata Group</strong></td>
<td>Landmark (books and music), Croma (multi-brand electronics), World of Titan (watches), Tanishq (jewellery), Titan Eye+ (eye wear), Westside (lifestyle retail store), Star Bazaar (hypermarket chain), Fashion Yatra (family fashion store).</td>
</tr>
<tr>
<td><strong>Future Group</strong></td>
<td>Central (shopping mall), Big Bazaar (hypermarket), Pantaloons (fashion outlet), Blue Sky (sunglasses), Brand Factory (multi-brand readymade garments), KB's Fair Price (essential products), Navaras (jewellery), Planet Store (multi-brand sports and lifestyle specialty retail), aLL (fashion garments), Ethnicity (Indian ethnic wear), Home Town (home needs), eZone (electronics), Furniture Bazaar (home furniture), Electronics Bazaar (under Big Bazaar, electronics stores), Home Bazaar (satellite version of Home Town), Collection I (lifestyle furniture), Gen M &amp; One Mobile (mobile phones), M-Port (electronics), Shoe Factory (footwear) and Depot (books and music).</td>
</tr>
<tr>
<td><strong>Reliance Group</strong></td>
<td>Reliance Fresh (neighbourhood store), Reliance Mart (supermarket), Reliance Super (mini-mart), Reliance Digital (consumer durables and Information Technology), Reliance Trends (apparel and accessories), Reliance Wellness (health, wellness and beauty), iStore (Apple products), Reliance Footprint (footwear), Reliance Jewels (jewellery), Reliance TimeOut (books, music and entertainment), Reliance AutoZone (automotive products and services) and Reliance Living (home ware, furniture, modular kitchens and furnishings).</td>
</tr>
<tr>
<td><strong>RPG Group</strong></td>
<td>Spencers (multi-format retail store), Music World (music and home video store) and Books &amp; Beyond (book store).</td>
</tr>
<tr>
<td><strong>K Raheja Group</strong></td>
<td>Shoppers Stop (clothing, accessories, fragrances, cosmetics, footwear and home furnishing store), Crossword (book store), Inorbit Mall (fashion, lifestyle, food and entertainment) and Hyper City (hypermarket).</td>
</tr>
<tr>
<td><strong>Landmark Group</strong></td>
<td>Lifestyle (garments and accessories), Home Centre (household and furniture, garments and retail), Splash (high street fashion brand) and Funcity (family entertainment brands).</td>
</tr>
<tr>
<td><strong>Bharti Group</strong></td>
<td>Field Fresh (fresh and processed fruits and vegetables — multiple-format store).</td>
</tr>
<tr>
<td><strong>Mahindra Group</strong></td>
<td>Mom and Me (infant and maternity care).</td>
</tr>
<tr>
<td><strong>Aditya Birla Group</strong></td>
<td>More (supermarket and hypermarket formats, earlier known as Trinethra).</td>
</tr>
<tr>
<td><strong>Vishal Retail</strong></td>
<td>Vishal Mega Mart (multiproduct stores).</td>
</tr>
</tbody>
</table>

Source: IBEF Report: Retail Nov’2010 (Indicative List)

### 1.2.5 Emerging Retail Models in India

An interesting observation is that different organised retailers are currently experimenting with different formats of retail trade. Since the Indian market is as yet not mature enough, it is hard to predict which of the formats will have a winning edge over all others which points to a possibility that internationally accepted formats may not be applicable or may
not yield as good results in India as in other countries. With increase in competition, the following retail formats (Table 1.2.2) are getting more and more popularity in India:

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
</table>
| Hypermarkets   | • Average size varies between 50,000 sq ft and 100,000 sq ft.  
                | • Offers a large basket of products, ranging from grocery, fresh and processed food, beauty and household products, to clothing and appliances. | Spencers, Big Bazaar.    |
| Cash-and-carry | • Average size - 75,000 sq ft.  
                | • Offers several thousand stock-keeping units (SKUs) and generally has bulk buying requirements. | Metro, Bharti-Walmart.   |
| Department stores | • Average size varies between 10,000 sq ft and 60,000 sq ft.  
                 | • Offers a large layout with a wide merchandise mix, usually in cohesive categories, including fashion accessories, gifts and products for the home. | Shoppers Stop, Lifestyle.|
| Supermarkets   | • Large in size and typical in layout.  
                | • Offers not only household products but also food as an integral part of their services. | Apna Bazaar, Food Bazaar.|
| Shop-in-shop   | • Shops located within the premises of large shopping malls in major cities. | Infinity (Magma Group).  |
| Specialty stores | • Single-category stores.  
                 | • Focus on individuals and group clusters of the same class, with high product loyalty. | Brand Factory, Food Bazaar.|
| Category killers | • Average size - 8,000 sq ft.  
                     | • Large specialty retailers focusing on a particular segment. These retailers are able to provide a wide range of choice to consumers, usually at affordable prices, due to scale economies. | The Loft (footwear mall), Central (readymade garments mall). |
| Discount stores | • Average size - 1,000 sq ft.  
                | • Offers a wide range of products, mostly branded, at discounted prices. | Subhiksha, Levi's factory outlet. |
| Convenience stores | • Average size - 800 sq ft.  
                     | • Relatively small retail stores located near residential areas. | In & Out, Safal. |

Sources: Ernst & Young, The Retailer, January 2009; Working Paper No 222, Impact of Organised Retailing on the Unorganised Sector, ICRIER

Table 1.2.2: Retail Formats in India
1.2.6 Future Initiatives and Trends

A. Transformation of the Supply Chain

To counter the challenges by existing small local players who are providing unbeatable advantages of convenience and home delivery to customers, organised retailers seem to have just one option — offer attractive prices to the consumer. Thus, right sourcing coupled with economy of scale likely to help organised retailers to secure competitive advantages and to leverage by driving the costs down, increasing stock turns and getting better credit terms from its vendors. Increasing the efficiencies of the entire supply chain is of utmost priority for every big retailer. For example, the existing food supply chain in India is full of inefficiencies as a result of inadequate infrastructure, too many middlemen, complicated laws and an indifferent attitude. There is tremendous scope of improvement in food supply chain which will bring down the total cost of operation significantly and help the retailers to offer lower prices to the customers. Many corporate have started programmes and operations with direct collaborations with the farmers for mutual benefits. The farmer-corporate relationship has helped the farmers to secure technology, resources and prices and the corporate to source high quality products at a low cost to the retail shelf. These farmer-corporate models are likely to be replicated and extended to all the farm end products. With the emergence of private labels, the retail chains will work with the farm community more cohesively in developing an efficient supply chain and to leverage on the cost advantage at both ends.

B. Supplier-Retailer Relationships

Traditionally, supplier-retailer relation in India comprises several layers such as the national distributor, the regional distributor, district wholesalers and the end retailers. However with the increasing presence of organised retailers in India, this scenario is changing fast and the relationship of these retailers are being established directly with the manufacturers. The new model is affecting the relationships that the manufacturers used to enjoy with the still dominant traditional system in the retail sector. The supplier-retailer relationship is now coming under severe pressure as both the parties try to squeeze maximum margins out of the other.
C. Innovations in Transportation Logistics
Most organised retail chains in India have their own network and do not outsource logistical requirements. As retail chains have begun to focus more and more on the retail end, the necessity to outsource the logistics support to some experts and efficient logistics service providers is emerging. The logistics service providers have also begun to come out with innovative customized solutions for the retail chains. As for example, GATI has developed a model for distribution of Alphonso mangoes throughout India with the support of Information Technology.

D. Formats
India is populated with traditional 'mom-and-pop' stores and supermarkets under organised retail chains. Only a few dared to venture into the hypermarket segment with success. This format is being fast replicated by other players indicating maturity of consumers in India. But, considering the geographical, cultural and regional divergences, multiple formats will be there to stay in India. In spite of high population in rural and semi-urban areas, organised retail chain is yet to reach to those areas. For such location, a cost effective and efficient 'no frills' retail model is likely to give the desired operational advantages to retailers.

E. Social Trends
India is country of ‘unity in diversity’. The geographical, social and cultural diversities of the population put immense challenges to every retailer who is looking for national roll out of its retail chain in India. This has taken its toll particularly on perishable items like food as well as other items like clothing. The retailers must plan after understanding the local cultures and taste to see any chance of success. The same reason is behind many retailers’ decision to restrict their operation in select cities or select geographical boundaries.

But, with more and more cultural integration primarily due to professional migrants from different states and culture, retailers will find feasibility to spread their operation across India. With increase in nuclear families, income and number of working women in the
society, there is sharp change in the shopping pattern creating the need and feasibility of more and more supermarkets graduating to hypermarkets in near future.

F. Online Retailing

With the manifold increase in internet accessibility and usage across India, online retailing has become a strong media to connect to the customers, advertise products and to generate online sales. However, poor performance of many companies offering virtual shopping through internet underlines the importance and necessity to continue the store-based retailing. Products having 'touch and feel' attribute or very high value or need to test performance can be sold through 'stores' model only. The issues related to internet transaction security are of prime concern in countries like India.

At the same time, internet has opened up a stream of opportunities for the retailers to source their products, to reduce vast wastages in operation through efficient and real-time information sharing, improve understanding of changing market scenario and consumer needs. Thus, from being just another medium, the internet is becoming part and parcel of retail operations.

G. Impact of Technology

Technology plays the most important and critical role in the success story of any industry and retailing is highly technology intensive. Technology is helping the retailers to drastically reduce their operating costs by improving demand prediction, order tracking, lead time management, inventory and shelf management.

A glaring example is that of Wal-Mart who has been able to retain its competitive advantages over the other strong competitors in the retailing industry for so many years through extensive usage of technology for its distribution and information systems including introducing innovative logistics techniques like cross-docking and electronic data interchange (EDI). Capture of vital information at 'point of sale' and processing of the information through the supply chain for timely shelf replenishment play an important role in retail operations. The technology is helping the retailers not only in establishing
strong link with the suppliers but also understanding and developing link with the consumer. Data warehousing followed by data mining can help the retailers to know their existing and potential customers better and to meet their changing requirements in a more effective way.

H. Food Safety Issues

The food supply chain is quite distinct from other retail chain because of the perishable nature of food items, the safety and integrity of the product involved from the source to end customers. The need is for totally integrated infrastructure and services which will ensure compliance to all the food safety requirement and customer demand. With the high value proposition in food retailing, retailers are increasing their efforts to integrate and consolidate the food supply chain in India.

HACCP (Hazard Analysis Critical Control Point) is an internationally accepted technique for preventing microbiological, chemical and physical contamination along the food supply chain. There is National Codex Resource Centre, Directorate General of Health Services under Ministry of Health and Family Welfare, Government of India, whose objective is to establish sound internationally agreed guidelines for national food control systems based on the criteria of consumer health protection and fair practices in trade and taking into account the needs and special concerns of all countries. All these including food hygiene standards have been adopted by the Bureau of Indian Standards which is the national standards body in India and the retailers are encouraged to comply these standards.

1.3 Retail Supply Chain Management

1.3.1 A Historical Perspective on the Supply Chain

It is essential that one should review historical aspects of production and operations management to understand the significance of supply chain initiatives (Bruce, 1997; Poirier and Reiter, 1996). From 1960s to mid 1970s, most of the retail organisations had vertical structures and focused on the functions for optimisation of their activities. The win-lose relationship with suppliers proved to be adversarial. Manufacturing was mainly
focussed on material requirement planning (MRP). During 1980s and 1990s, retailers started process mapping and evaluating their operations including integration of functions like product design and manufacturing. Many organisations started taking quality initiatives like TQM and ISO standards.

In 1990s, worldover, retailers started experiencing increasing competition domestic as well as internationally which gave rise to many strategic alliances among organisations. The structure of organisations started aligning with the processes and outsourcing of many activities took place to achieve competitiveness and cost benefits. Implementation of various technologies for manufacturing like enterprise resource planning (ERP), product data management, distribution requirement planning, collaborative tools, electronic commerce helped the organisations to improve their overall performance (Aberdeen, 1996). There is growing appreciation for change in focus of organisations from ‘extracting the lowest price from immediate supplier’ to ‘reduce total cost for a product from source to its consumption’ (Turbude, 1997). Mutual reliance between supplier and retailer encouraged greater sharing of information between them. From mass production to customised production, emphasis was made on greater organisational and process flexibility and coordination of processes across many sites.

1.3.2 Integrated Supply Chain

With the emergence of time based strategies, the necessary revaluation of corporate strategy and manufacturing was required (Porter, 1996). Growth and expansion of the business was done based on relationships forming partnership, alliances and joint ventures (Peter Drucker, 1999)

The concept of ‘Integrated Supply Chain’ was first proposed by Houlihan in 1985 (Cooper and Ellram, 1993) which involved different processes and activities producing value for the ultimate customers (Lummus et al., 1998). The connected series of activities are related to the planning and controlling of raw materials, components and finished products from suppliers to the final customer (Vickery et al., 1999). Earlier, the supply chain integration involved full ownership or vertical integration. Due to increasing
competition, greater flexibility in ownership in the form of partial or joint partnership (Ellram, 1995), long terms contracts, shared process, product or Information Technology has started evolving. There are many instances of mismatches between the expectation and actual performance of supply chain integration (Neuman and Samuels, 1996; Simatupang and Sridharan, 2002; Zammuto and O’Connor, 1992). It has been observed that the poor communication and lack of trust due to decrease in integration activities like shared information, cooperation and shared goal result in failed partnership (Ellram, 1995; Elmuti, 2002; Germain and Droge, 1998).

1.3.3 Supply Chain Business Process Integration

The business process integration involves collaboration and continuous flow of information (Lambert and Cooper, 2000). The key supply chain business processes are CRM, customer service management, demand management, order fulfilment, manufacturing flow management, supplier relationship management, product development and commercialisation, and returns management (Lambert, 2004).

1.3.4 Retail Supply Chain

Retail supply chain, in recent times, puts considerable efforts to make the product available fastest to the customers thereby reducing the inventory costs (Rettig, 1997). It includes planning, execution, optimisation and measurement of procurement, Collaborative Planning Forecasting and Replenishment (CPFR), demand forecasting, inventory replenishment, inbound and outbound transportation, store logistics and warehouse management. With increase in expectation among customers on customisation, prices, quality, innovation and availability of the product, product life cycle has shrunk dramatically and pressure on retail supply chain has increased manifolds to perform better and continuously improve.

Retail supply chain is multi-channel with physical stores, websites, kiosks, catalogues etc. Effective supply chain management helps retailers to maintain a balance between supply and demand. Latest technologies like radio frequency identification (RFID), wireless and mobility infrastructure enables effective retail supply chain.
1.3.5 Effective SCM Enablers

A. Realistic Ordering Lead-times
Retailers are required to act timely to place order so that the supplier is not surprised and able to meet demand spikes on time.

B. Averting Problems
Retailers are required to take measures to identify potential stock-outs or any change in preferences of customers. Accordingly, retailers should ensure timely placement of replenishment request before the inventory drops to zero or managing the shelf considering the customers' purchasing pattern.

C. Facilitating Resource Planning and Allocation
It is of utmost priority that the retailer should do proper resource planning and allocate resources so that profit leaks like inaccurate shipments, increased transportation and labour costs can be avoided or reduced.

1.3.6 Future Initiatives and Trends

A. Collaborative Planning, Forecasting and Replenishment (CPFR)
Retailers always look for finding new ways to improve the ability to anticipate customers' demand and fulfil it coupled with reduced inventories. This can be achieved only through improved forecasting and merchandise planning. Strong collaboration with the manufacturers and suppliers will likely to reduce cycle times and inventories throughout the entire supply chain.

B. Radio Frequency Identification (RFID) Assessment
Global retail giants like Wal-Mart and Metro AG have developed their own business strategy to link the use of RFID technology to business benefits and implementation costs. Metro AG's 'Future Store Initiative' has delivered very strong results which increases the visibility and popularity of retail technologies such as RFID. However, concerns of consumers on privacy issues, such as the extent to which retailers should have knowledge about the products consumers have in their homes, are to be addressed.
C. Buying Optimisation
Retailers are continuously working on strategic sourcing issues to streamline their buying process. Retailers are also evaluating the potential of e-procurement mainly for their non-merchandise requirements. Low-risk projects with high returns are critical for success. Retailers are looking for effective cost management, bulk discount purchases, improving inventory management and better management of their suppliers. These factors are more important for retailers sourcing various products globally.

D. Data Synchronisation
Data synchronisation is one of the challenges the retailers always face. Real-time sharing of POS (point of sale) data along with inventory with the suppliers seems to be the best option for reducing the out-of-stock cost drastically. Data synchronisation helps to initiate the purchase order on time followed by invoice reconciliation reducing any possibility of data entry error.

E. Reviewing Supply Chain Network Infrastructure
To attain the desired level of cost effectiveness and service level and to avoid outdated technology, retailers should review its existing supply chain network infrastructure. However, only a few retailers are found to be interested to use the sophisticated algorithms required to process large amount of data and carry out cost-benefit analysis of alternate network designs.

F. Outsourcing Non-core Functions
To evaluate and exercise the option of outsourcing of an activity or a function, retailers need to be cautious and analytic. Outsourcing of business processes like human resources is not yet popular in retail industry unlike other industries.

G. Legacy Application Replacement
Many retailers are using custom-developed applications for running portions of their supply chain. These custom applications are slowly being replaced with off-the-shelf packaged software applications. However, these involve, many times, changes in the
organisation metrics, business process and people to improve service levels and reduce service cost.

**H. Supply Chain Visibility/Information Flow**

For effective and efficient performance of any supply chain, the visibility and quality of information flow in the chain are essential. This not only helps to monitor the supply chain performance but also helps to identify and remove bottlenecks.

**I. Supply Chain Processes Automation**

More and more technology driven operations are coming into retail operations like capturing customer data, sales data etc. through various data collection devices. These data are then stored and processed using data warehouses for improvement in the operations. Business process improvement initiatives are followed by technology initiatives to enable the retailers to support to their changing environment.

**J. Emergence of Multiple Franchisee Model**

This model helps the suppliers in securing greater economy of scale, reduce dependency and gain local knowledge of the market. Players like PepsiCo India are extensively following this model.

**K. Rural Retailing**

For future growth of retail sector in India, rural areas will likely to contribute significantly as almost 70 percent population is rural who account for almost two-fifths of the total retail consumption. Already a few corporate are working actively with the rural population to secure the future market as well as supply cost advantages. Campaigns like DCM Shriram's 'Hariyali Kisaan Bazaar' and ITC's 'Chaupal Sagar' are glaring examples of success. Glimpses at the percentage sales major companies are getting from rural markets underline the importance of rural retailing in India.
<table>
<thead>
<tr>
<th>Company</th>
<th>Category</th>
<th>Percent Sales from Rural Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindustan Unilever</td>
<td>Household products</td>
<td>45</td>
</tr>
<tr>
<td>Dabur India</td>
<td>Personal products</td>
<td>40</td>
</tr>
<tr>
<td>Dish TV</td>
<td>Media</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: Ernst & Young, The Retailer, October 2009

Table 1.3.1: Retail Sales in Rural Market (In Percentage)

L. **Focus on Private Labels**

With increasing competition and constant pressure on offering items at lower costs to the customers, retailers are increasing focus on their own private labels to increase profitability of operation. With direct collaboration with the producers, retailers are able to source many items at cheaper costs and pass on the price benefits to their customers to leverage against the competition.