CHAPTER IV

PART A  CHANGEING STORE FORMATS

PART B  E COMMERCE IN INDIA & APPLICATION OF TECHNOLOGY

4.0 Retailer Classification

Retailing can be classified in terms of Store retailing, Non-store retailing, and Retail organizations.

**Store retailers**

Include many types, such as specialty stores, department stores, supermarkets, convenience stores, superstores, combination stores, hypermarkets, discount stores, warehouse stores, and catalog showrooms. These store forms have had different longevities and are at different stages of the retail life cycle. Depending on the wheel-of-retailing, some will go out of existence because they cannot compete on a quality, service, or price basis.

**Nonstore retailing**

Is growing more rapidly than store retailing. It includes direct selling (door-to-door, party selling), direct marketing, automatic vending, and buying services. Much of retailing is in the hands of large Retail organizations such as corporate chains, voluntary chain and retailer cooperatives, consumer cooperatives, franchise organizations, and merchandising conglomerates.

(Source: Philip kptler, 2003, Marketing Management,(11'th Ed.),Prentice Hall India.)

4.1 Channel Construct in India (Classification of Outlets)

**Convenience**

- Dry Cleaners - Petrol Pump - Cosmetic Shop - Wine Store
- Std / Pco Centre - Xerox Shop - Pick Up Centre - Juice Stall
- Pan Cigarette Shop - Florist - Tea Stall Cum Eatery Outlets
- Cold Storage - Club Stores - Vegetable / Fruit Shop
- Gift Store / Fancy Store / Novelty Store - Bakery - Confectionary shop
- Milk/Milk Product Shop - Oil Depot - Stationary Shop
- Chemists/Medical Store/Pharmacy
- Road Side Stall / Kiosk, Petty Shop
- Non Traditional Outlets (E.G. Fuji Image Centers)

**Grocery**

- General store - Provision store/kirana/grocery
Departmental store / co op store - Super market

Leisure
- Motels - Lodges - Clubs - Cinema Theatre
- Canteens
- Drama Theatre Canteens - Discothèques
- Amusement Parks - Zoos
- Sports Stadium/Centers - Special Events(Sports/Music)
- Cultural Events - Marriages
- Pepsi Marketing(Signage Rentals Etc)

Restaurants
- Mobile Van Eatery - Cold Drink Parlor
- Ice Cream Parlor - Milk Dairy Cu M Eatery
- Fast Food Shop - Farsan/Namkeen Shop
- Tiffin Shop - Mithai Shop Cum Eatery
- Bar Cum Restaurant - Bar/Pub
- Permit Rooms - Restaurant

Transport
- Bus Station - Airport - Railway Station
- Port - In Flight Catering

Wholesale On Premise
- Contract Caterer/Vending Operator
- Catering Distributor
- Contract Caterer/Vending Operator

Wholesale - Retail
- Club Stores
- Cash & Carry / Wholesalers
- Home Delivery Agents

Emerging Trends
- Evolution of cash and carry hyper markets: 90% consumer traffic
- Proliferation of local eatery chains: Organized effort
- Global QSRs accelerate investments: Business models stabilized
  (Quick Service Restaurants)
- Emergence of eatery clusters: Youth Hangouts
- Growing investment in multiplexes: Move towards (FEC) Family Entertainment centers.

Thus, it can be seen that overall, it is an ever-changing scenario.
Figure of Channel Construct in India:

- Multiple Grocery
  - Hypermarkets
  - Supermarkets
  - Mass Merchandise

- Modern
  - Convenience & Gas

- Total Market
  - Groceries
    - Convenience
    - Eateries
      - Udupis
      - Dhabhas
      - Highway hotel
  - On Premise
    - Restaurants & Pubs
      - QSR
      - Theme Restaurants
      - Casual Dining
      - Bars/Pubs
      - Cafes

- Entertainment & Travel
  - Cinemas
  - Amusement Parks
  - Hotels/Motels
  - Airlines/Airports
  - Bus/Train Stations

- Business/Industry/Education
  - Contract Caterers
  - Schools
  - Workplace
  - Vending

(Source: Mr. Rajan Chhibba, “Challenges of multi channel retailing-learning from best practices”, KSA Retail summit 2002)

4.2 Formats: The presence of many types of formats is as follows:

- Specialty stores
- Convenience stores
- Hypermarkets
- Electronic shopping
- Vending machines
- Department stores
- Big box retailers/power-retailers/category killers
- Manufacturer’s outlets
- Internet shopping
- Direct mail & catalogues
- Door-to-door retailing

1 Speciality Scores: They are highly scalable for most products.
New categories getting organised are:
Further Opportunities are there in following:
- Toys - Office Products - Speciality Food Offers
- Opticals - Travel - Computers

2 Department Stores:
Some pros of this format are as follows:
- Customers who shop at Department Stores are more satisfied.
- Department Stores are perceived to offer better Value-For-Money and Quality.
- Developed and developing supply base.
- Scaleable for smaller cities.
- Private label for better margins.
- Fits with changing service requirements.

Also these are the cons...
- Franchising infeasible, all investment is internal.
- Large space requirement.
- Currently, most competitive amongst organized retail categories.

3 Supermarket:
some enablers are:
- Working women
- Changing food habits
- Penetration of refrigeration/cooking devices
- Decline/stability of real estate prices
- Easing of import restrictions

And some hurdles are:
- Lack of food processing
- Inefficient supply chain

4 Nascent Non-Store:
- Evolving models: Mixed formats as well as pure non-store.
- Multi-format retailers get most effective pay-off from non-store initiatives.
- Direct Selling and E-tailing grow rapidly.
- Fulfillment and customer service infrastructure are the Key Success Factors.
Most Prominent Formats that have emerged are as follows:

- Malls
- Hyper markets
- Departmental stores
- Non-food stores
- Super Markets
- Specialty stores

4.3.1 Malls

• Have emerged as Multi-option Family Leisure Centres.
• Cities with existing 100,000+ sq. ft. mall developments: Delhi, Lucknow, Mumbai, Chennai, Cochin, Coimbatore, Varansi, Kolkata.

The most emerging area of modern retails is malls; and the likelihood of strong growth in this area. In 2005 mall development has flourished with new developments being announced regularly. A major driving force has been the convergence of retail and entertainment sectors. Several players - primarily builders - have entered the fray. E-city Entertainment of the Essel Group is planning to establish a chain of malls across the country called Fun Republic. The company already has one such centre in Ahmedabad, which has a turnover of around Rs 30 crore per annum. Fun Republic is a conglomeration of several stores, entertainment and lifestyle options under one roof. At Ahmedabad, the centre has a department store, books and music stores, several food stores, restaurants and multiplexes. The Group's next venture is expected to come up at Andheri in Mumbai. The focus this time will be on lifestyle. The centre will have a 30,000 sq ft lifestyle boutique called Experia offering health and beauty options like spa, skin, hair and dental beautification clinics, salons, gymnasiums and so on. E-City is also planning to launch its department stores - Hours, book stores - Book Bay and music stores - Sonic State in other locations besides Fun Republic.

Apart from the Essel Group, several other property developers have entered this arena. Unlike the hype that was built around the establishment of new malls some years ago - when Crossroads in Mumbai and Ansai Plaza in New Delhi came up - this time fears have already been raised on the prospects of these properties. Mumbai suburbs Mulund and Thane are expected to see the construction of around 6 lakh sq ft of mall space whereas Gurgaon near Delhi may witness close to 12 lakh sq ft of mall space. Most major cities in India are likely to face a huge oversupply of retail space in the next 2-3 years. It is estimated that close to 20 mn sq ft of retail and entertainment space would be added in the next 3-4 years. How many will survive remains to be seen since industry observers expect many developers to shelve or at least put on hold their expansion plans. However, it is certain that India is finally going to see a boom in the construction of international quality retail space, which will catapult it to the next level of growth.
and development. See table 'Retail Rush', for financial data on some of the players in the industry.

4.3.2 Hypermarkets

A major development in retail has been the emergence of the hypermarket format. Big Bazaar and Giant are the main players here. Big Bazaar, Mumbai is moving towards having close to 10 turns per annum, which would result in a turnover of close to Rs 50 crore from a single store in one year of operation. Big Bazaar’s management plans rapid scale up and the chain is expected to reach a turnover of Rs 175 crore in 2002-03. Giant, the other hypermarket operation, is believed to be doing a turnover of close to Rs 75 crore per annum.

4.3.3 And Beyond 2005...: Dominating issues will be:

- Hypermarkets - Discounter Dominance
- Internet Invasion - Operational Outlook
- Merger Mania

Dominating issues for Store Retailing will be:
- Location Analysis - Store Management - Active selling
- Sales (small volume) - Target group marketing - Merchandising
- Advertising/PR - Logistics

Dominating issues for Mail Order Retailing will be:
- Mail Order Retailing - Address Management - Catalogues/Mailings
- Disposition - Return-Management - Sales(large volume)
- Telephone Marketing/Call center - Customer Scoring

And the Key-know-how in Multi-Channel Retailing will be as follows:

1. For Store Retailing
   - Location Analysis - Store Management - Active selling
   - Sales (small volume) - Target group marketing - Merchandising
   - Advertising/PR - Logistics

2. For Mail Order Retailing
   - Address Management - Catalogues/Mailings - Disposition
   - Return-Management - Sales (large volume)
   - Customer Scoring - Telephone Marketing/Call center

4.4 Comparison of Retail Forms

The forms in retailing industry structure are compared on the following parameters.

1. Control that the owners exercises over the retail unit
2. Flexibility that an individual retail outlet enjoys in terms of its target market, its location, store hours, product assortment and/or the prices it changes.

3. Economies of scale that the particular type of retailer enjoys, in terms of supply and purchase economies (achieving bargaining powers with suppliers gaining distribution rights for new items as they are introduced, getting service and selling support, getting reorders filled promptly, access to advertising media), operational economies (cost efficiencies), automation, managerial economies and/or risk-bearing economies.

4. Long run planning

5. Competition faced by each type of retailers.

6. Leading concerns for each type of retailers.

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Characteristics</th>
<th>Independent Retailers</th>
<th>Corporate Retail Chains(CRC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Control</td>
<td>Direct control of strategy, image and consistency; centralized decision-making</td>
<td>Reduced managerial control because of geographical dispersion. *A level of centralized or coordinated purchasing &amp; decision making is seen. * Lack of communication &amp; time delays affect making &amp; implementing decisions</td>
</tr>
<tr>
<td>2.</td>
<td>Flexibility</td>
<td>Enjoy flexibility in location &amp; strategy</td>
<td>Limited flexibility as well established norms have to be followed</td>
</tr>
<tr>
<td>3.</td>
<td>Economies of Scale</td>
<td>Few, even if &amp; only if operating on a large scale</td>
<td>Efficiency in multiple store operations through shared warehousing facilities, volume purchases, centralized decision-making as regards personnel, purchasing, pricing, advertising, sales training &amp; financing policies</td>
</tr>
</tbody>
</table>
4. Long Run Planning
Owner intimately involved in daily operations, therefore responsiveness to new legislation, products & competitors suffers
Considerable time & resources are devoted; even specific personnel are there who assigned this task

5. Competition
High because of
* Ease of entry
* Low capital requirements (as compared to CRC)
* Simple licensing provisions
Lower because investment costs are high. Individual outlets face competition from players offering similar assortment of goods/services

6. Leading Concerns
* Identification of successors
* Roles & dependence on no-family employees
* Management training for family members
In addition to maintaining consistent retail marketing strategies in all branches, adapting to local needs of the target market

Source: -Ron Hasty, James Reardon - Retail Management

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Characteristics</th>
<th>Franchise Systems</th>
<th>Leased Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Control</td>
<td>High degree of control exercised by the franchisers, esp. through the contractual agreements</td>
<td>High degree of control exercised by the leaser resulting into inflexibilities described further</td>
</tr>
<tr>
<td>2.</td>
<td>Flexibility</td>
<td>Contract provisions limit the franchisees' flexibility, e.g. by enforcing centralized purchases through franchisers or purchases from certain approved vendors</td>
<td>Limited in terms of hours for which the department is open and in terms of operating style &amp; offering which are influenced by the parent store</td>
</tr>
</tbody>
</table>
3. **Economies of Scale**

High, due to volume purchases by the overall firms and due to cooperative marketing programs. LDs are used by existing store-based retailers to broaden merchandise & service offerings into product categories requiring highly specialized skills or knowledge not possessed by retailers themselves. LDs pay for inventory, personnel, security equipment & outside display window expenses.

4. **Long run Planning**

Limited involvement of the franchisees in the strategic planning process. Not at all influenced by the interests of the LDs alone.

5. **Competition**

None from own firm as they get exclusive selling rights for specific geographical territories. Care is taken that LDs do not live off the traffic generated by other parts of the store.

6. **Leading Concerns**

* Termination or non-renewal of franchises
* Franchises cannot be sold or passed on to heirs without approval from the franchiser
* Raise in rent
* Renewal once leases expire
* In-store locations may not generate expected sales

Source: -Ron Hasty, James Reardon - Retail Management

-Barry Berman, Joel R. Evans-Retail Management: A Strategic Approach

**Annexure 5:** Categories of Retailers by the Strategy Mix that they implement.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Types of Retailers</th>
<th>Location/ Target Market</th>
<th>Assortment/ Price</th>
<th>Examples of Offerings</th>
<th>Customer Service</th>
<th>Competitors or Challenges Faced</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Merchandise Retailers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional Department Store (TDS)</td>
<td>Full line Discount Stores (FDS)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>--------------------------------</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Is a large retail unit with an extensive assortment of goods &amp; services that is organized into separate departments for purposes of buying, promotion, customer service &amp; control.</strong></td>
<td><strong>Is a type of Department Store, differentiating itself from a Department Store on the above aspects as per the following information.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business district, shopping center or isolated store/ Weak focus on customer market segments</td>
<td>Business district, shopping center or isolated store/ Clear customer focus: middle class &amp; lower middle class shoppers looking for good value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extensive width &amp; depth; average to good quality/ Average to above average prices</td>
<td>Extensive width &amp; depth; average to good quality/ Competitive Prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture, home furnishings, appliances, apparel, household linen &amp; dry goods</td>
<td>* More emphasis on durable goods- auto accessories, gardening equipment, &amp; house wares than TDS* Less fashion sensitive goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ranges from medium to high levels of sales help, credit, delivery etc.</td>
<td>Self-service; minimal assistance in any single department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* More price-conscious are attracted to Discount Retailers* Food Retailers have started scrambled merchandising * Specialty Stores in Shopping Malls</td>
<td>Lower priced discounters &amp; new store formats</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aspect</td>
<td>Location/ Target Market</td>
<td>Assortment/ Price</td>
<td>Examples of Offering</td>
<td>Customer Service</td>
<td>Competitors or Challenges Faced</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
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<td>-----------------</td>
<td>-------------------------------</td>
<td></td>
</tr>
<tr>
<td>Factory Outlet</td>
<td>Out-of-the-way site or discount mall/ Choosy &amp; price conscious customers</td>
<td>Moderate width, poor depth; low continuity/ Very low prices</td>
<td>Could be anything depending on the firm/factory</td>
<td>Self-service</td>
<td>Manufacturer’s key customers—specialty &amp; department stores</td>
<td></td>
</tr>
<tr>
<td>Membership Club</td>
<td>Isolated store or secondary site (industrial park)/ Price-conscious consumers who are members of the club</td>
<td>Moderate width, poor depth; low continuity/ Very low prices</td>
<td>General merchandise (appliances, consumer electronics, house wares, apparels), food &amp; sundries (health &amp; beauty aids, tobacco, liquor &amp; candy)</td>
<td>Limited sales force</td>
<td>Limited size of final consumer market segment, allocation of efforts between business &amp; final consumer accounts</td>
<td></td>
</tr>
<tr>
<td>Flea Market</td>
<td>Has many retail vendors offering a range of products at discount prices in plain surroundings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Factory Outlet**: Is a manufacturer-owned store that sells the manufacturer's closeouts, discontinued merchandise, cancelled orders or in-season, first-quality merchandise.
- **Membership Club**: Is a club of consumers, which straddles the line between wholesaling & retailing.

- **Flea Market**: Has many retail vendors offering a range of products at discount prices in plain surroundings.
### Isolated site, race track, arena, parking lot, stadiums/ Lower class customers

### Extensive width, poor depth; variable quality; low continuity/ Very low prices

### Antiques, bric-a-brac, used merchandise; new clothing, cosmetics, watches, consumer electronics, hardware & gift items

<table>
<thead>
<tr>
<th></th>
<th>Self-service</th>
<th>Hardly Any</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Where it's at</th>
<th>Average visits per month</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td>Hyper Markets</td>
<td>1.0</td>
<td>1.38</td>
</tr>
<tr>
<td>Super Markets</td>
<td>1.0</td>
<td>1.67</td>
</tr>
<tr>
<td>Departmental Stores</td>
<td>1.0</td>
<td>2.88</td>
</tr>
</tbody>
</table>

#### Shoppers' Usage Of Modern Store Types In Urban India in 6 Major Cities last month

<table>
<thead>
<tr>
<th>Spend Most Money used in the last Month</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyper Markets</td>
<td>04</td>
</tr>
<tr>
<td>Super Markets</td>
<td>17</td>
</tr>
<tr>
<td>Convenience Stores</td>
<td>00</td>
</tr>
<tr>
<td>Personal Care/Drug Store</td>
<td>00</td>
</tr>
</tbody>
</table>

#### Shopping Secrets

<table>
<thead>
<tr>
<th>Private Label Brands Bought in past 4 weeks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers</td>
<td>63%</td>
</tr>
<tr>
<td>Non Buyers</td>
<td>37%</td>
</tr>
</tbody>
</table>

#### Spend

<table>
<thead>
<tr>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food World</td>
<td>09</td>
</tr>
<tr>
<td>Trinethra</td>
<td>03</td>
</tr>
<tr>
<td>Giant</td>
<td>03</td>
</tr>
<tr>
<td>Apna Bazaar</td>
<td>03</td>
</tr>
<tr>
<td>Big Bazaar</td>
<td>01</td>
</tr>
<tr>
<td>NilGiris</td>
<td>03</td>
</tr>
<tr>
<td>Sahakari Bhandar</td>
<td>00</td>
</tr>
<tr>
<td>Subhiksha</td>
<td>06</td>
</tr>
</tbody>
</table>
4.5 **Indian Retail Real Estate Scenario**

- Radical change over the past 7 years; exponential growth of organised chains retail, F&B and leisure, although market share still low.
- International chain store penetration still low.
- Traditional Shopping Facilities still dominate.
- Fertile environment for shopping centre development with 60 new schemes in the various stages of development, despite bottlenecks.
- Shopping malls concentrated in major cities only.
- High real estate costs; poor infrastructure & regulatory environment.

4.5.1 **Retail Stake Holders – Growth**

- **Shoppers:**
  - Increased Personal Disposable incomes
  - Buoyant Consumerism
- **Retailers:**
  - 121 organised retailers in last 5 years
  - 14 cities on the expansion list
- **Developers:**
  - Bouncing back from the 1994-95 debacle
  - Fastest Moving Real Estate
  - Corporates entering the fray

4.5.2 **Indian Retail Real Estate – Benchmarked**

- **US:** - 44,000 Malls serving a population of 273 mn; 440 malls mn Sq.Ft
  - Mall driven
- **EU:** - 3,600 Malls serving a population of 200 mn
  - Strong high street presence
- **India:** - 158 Operational Malls in 2005, where as 349 are Proposed by 2007
  - Fragmented, disjointed street level retail with poor parking and infrastructure.

4.5.3 **Potential Demand for retail space**

<table>
<thead>
<tr>
<th>Format</th>
<th>Projected Floor space Demand (2000-2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Stores</td>
<td>2,500,000 sq.ft.</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>1,750,000 sq.ft.</td>
</tr>
<tr>
<td>Specialty Retail</td>
<td>1,100,000 sq.ft.</td>
</tr>
<tr>
<td>F&amp;B</td>
<td>1,250,000 sq.ft.</td>
</tr>
<tr>
<td>Leisure</td>
<td>3,150,000 sq.ft.</td>
</tr>
</tbody>
</table>
4.5.4 Expansion Plans of retailers

- Expansion Plans in metros and secondary cities
- Perceived success factors by retailers

**Success Factors for Retail Outlets as Perceived by Retailers**

<table>
<thead>
<tr>
<th>Catchment Profile</th>
<th>Extent of Direct Competition</th>
<th>Tenancy Mix</th>
<th>Income Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed Business + Service Class</td>
<td>Extensive</td>
<td>Premium Brands</td>
<td>Mixed</td>
</tr>
<tr>
<td>Medium</td>
<td>Low</td>
<td>Mass Brands</td>
<td>Upper Income Group</td>
</tr>
<tr>
<td>Business Class</td>
<td>Class</td>
<td>Brands</td>
<td>LIG</td>
</tr>
</tbody>
</table>

**Potential Supply**

- Existing Floor Space : 625,000 sq.ft.**
- Planned Floor Space (2000-2003) 4,375,000 sq.ft.**

*New Delhi, Mumbai, Calcutta, Bangalore, Hyderabad, Chennai, Pune, Jaipur, A'bad.

** Grade-A Retail & Leisure developments (Source: Jones Lang LaSalle Research)
4.6 What lies ahead?

People will be increasingly shifting their purchasing from high streets to malls. We know that 3 tried mall formats are already existing. Question is what would be the impact on HS? Also will all the 150 operative malls work???

- **Reason they should:** Demand Supply Gap.
- **Reasons they won't:**
  - Uneven Spread
  - Poor Planning
  - And Investment from what sources?

4.7 The Lacunae of Indian Formats

- The developers have assumed that the novelty of the concept shall sustain through the future developments.
- Scientific catchment analysis? Inappropriate scales uneven geographical spread.
- Inappropriate planning: circulation, visibility, store sizing, adjacencies
- First cum first serve leasing.
- Rentals not linked to business (electronics = Jewellery)
- Ineffective mall management: A&P, Cross promotions?
- Sold space rather than leased therefore lost control
As a result who does it really affect?

Retailers
- Thinned out audience instead of concentrated audience
- High street = Malls = Department Stores presence
- Higher market uncertainty and risk; inability to choose
- Where do the newcomers go?
- Where do aggressive expansion plans go?
- Headed for a zero improvement situation?

Developers
- Incoherent mix makes all unhappy
- Poor planning shall overtake novelty factor
- Ineffective management = loss to competition
- Incomplete homework shall lead to mismatched product
- Unhappy shoppers = unhappy retailers = lost revenues
- Higher market uncertainty and risk
- Therefore understand your catchment, occupier preferences and competition: create product accordingly
- Manage it well

4.8 Malls in India: Strategic Issues, Key Issues ....

- High capital investments
- Fears of
  - Hidden costs - Cost and space planning (revenue / expense)
  - Legal issues - Beating the competition
  - Mall management / spendthrift traffic generation
  - Trade and tenant mix – Who are going to be my neighbors?

High Capital Investments
- Stamp duty and registration charges between 2% -14%
- Average security deposit and advance rent between 3-24 months effective rental
- Interiors cost bearing between Rs1200 – 2500 psf
- No revenue sharing agreements

High hidden costs
- Highly inefficient buildings
- High maintenance costs – between Rs 5 – Rs 25 psf
- Parking costs – between Rs 1000 – Rs 5000 per bay pm
- Fixed trading hours reducing time for revenue generation

Cost and space planning (revenue / expenditure)
Ideally only 8% of the revenues are apportioned for rentals

At Rs 200 – 400 psf owning a 1,000 sft outlet has a rental of Rs 200,000 – 400,000 pm

Revenues of this 1,000 sft outlet should be Rs 2,500,000 – Rs 5,000,000 pm

The feasibility of this number is also dependent on the margins in trade

Legal Issues

- Archaic property taxation laws
- High stamp duty and registration charges
- Varying legal frameworks in different states
- Bureaucracy and red-tapism

Mall management / spendthrift traffic generation

- High traffic generation is the key to the success of the mall
- Traffic generating events need to be organized for the benefit of the retailers

- The catchment area suggests the profile of the trade which should be presented in the mall
- The trade shall not only be enough since we need to know, for eg

- Infrastructural comparison..is it adequately there?
- Price ..which is most suitable?

Trade and tenant mix

- The catchment area suggests the profile of the trade which should be presented in the mall
- The trade shall not only be enough since we need to know, for eg
- If we would like to have a Sweet Shop in the mall or a New age burger joint in the fast food category

- The trade and the tenant mix should be strictly followed and once frozen shouldn’t be changed

- Who is my neighbor going to be? Would it be a banarasi saree shop or will it be Marks & Spencer

- Would the other tenants be catering and attractions the same profile of clientele whom I would.

Implications for Developers in India

- Appropriate for the target market

- Appeal to target tenants

- Give the centre an identity

- Create a 'point of difference' from the competition

What is a successful centre?

- High Occupancy - Appropriate market positioning

- Good retail planning and design - Ideal merchandise and tenant mix

- Quality Tenants = Low Risk - High Rental Income & Strong Growth

- Dedicated Pro-active Management to Increase Asset Value

- Satisfactory Return on Investment

Success Factors

SOFT  ► PEDESTRIAN TRAFFIC

Concept
Trade mix planning
PERFORMANCE
Management
Marketing Promotion

HARD
Location & access  RENT
Catchment area
Demographics
GROWTH
Critical Mass
Layout & Design

The formula for success

A balanced approach.... from start to finish

Retail Market Overview
Concept & Scale
Planning & Development
Marketing & Leasing
Shoppers. Retailers

Conclusion

If we give Shoppers what they want, we contribute to the Retailers success, ensuring they pay higher rents, which maximises the value of the Developer's asset $$$$$$.

The investment angle

Investments – Why are Financial Institutions Not Investing/Financing in retail real estate today?

- What do financial institutions look for while investing/financing in retail real estate
  - Developer's Balance Sheet – strength, credit record, transparency
  - Covenant strength of occupiers
  - Rentals, YTM, Vacancy Risk levels, Pay back periods, asset disposal routes
  - Maintenance and mall management for asset value appreciation
  - Market conditions (Real Estate, Retailing business)

- Key issues
  - Most of the Indian developers have poorly maintained and dispersed balance sheets
  - High Land to Construction Cost Ratios
  - "Black' investments as sources of development finance
  - Though a high initial yield due to the high rentals as compared to the commercial buildings the long term lock in periods are not prevalent
  - High property taxes act as a deterrent for a number of transactions
  - Most of the occupiers are new and do not have a very strong cash flow positions on the balance sheet and credentials to suggest long term stability (therefore, risk premium increases)
  - Few large occupiers invest in the mall by means of purchase
  - Value appreciation due to the higher footfall and higher revenue generation is only possible by beating the competition and through a sound mall management which hasn't yet developed in India

- What happens next?
  - Most of the Indian developers aid their developments with loans
  - Their interest costs coupled with low returns due to the rental modal for the retailers forces him to sell the mall on a piecemeal approach to retail investors and high net worth individuals
Due to the multi ownership of not only the mall but also the larger shops the maintenance and the image of the development suffers.

- The retailers do not generate the same revenues which they used to.
- Interest of retailers reduces in the mall and they look for better alternatives.

**Effective Mall Management**

**4.8.1 What is a Mall?**
- It is a real estate asset
- It is a business proposition

**How can this be delivered?**
- By being profitable and delivering the bottom line
- By building a strong income stream with a strong growth potential
- By building a large permanent consumer base
- By having the ability to flex and change as per

**4.8.2 Retail Real Estate**

**A Unique Format**
- Dynamics are three dimensional
  - Landlord / tenant / consumer
- Normal real estate is two dimensional
- Creates additional challenges in making the centre successful
- Shopping centers evolve and change very rapidly

So Mall Management is governed by...
- Needs of all these parties
- All the delivery requirements
- Plus the lenders (shareholders / banks)

**4.8.3 Role of Mall Management:**

To strike a working balance between the interests and perspective of the key parties, relevant to a specific issue.
- Strike a dynamic balance
- Several examples where there are contradictory goals
- Have a long term view of the mall
- Best rents may not get the right consumers
- Highest revenue stream may not last
- Flat rentals may not attract key tenants
4.8.4 Effective Mall Management-The four Pillars:

They are as follows: 1 Operation 2 Leasing 3 Marketing 4 Re-development

I The Role of Leasing-The First Pillar:

Leasing is by all means very critical for the shopping centers' success. It determines income and productivity of the centre. In fact the Success of the centre management is solely due to effective, profitable leasing. For achieving this, an understanding of the market is a must. One must analyze the catchment area / trade area and identify avenues for prospering of tenants. Thus it becomes very imperative to select right kind of rentals for the tenants. It must include the negotiations on lease-contract

Key Issues in Leasing are as follows:
- Deciding the tenant mix of the centre.
- Aligning the tenant mix with the positioning of the centre.
- Getting a “buy in buy in” from all parts of the management team and ownership management team and ownership.
- Current returns v/s future returns.
- Term of leases and escalation clauses.

Thus Effective Leasing will:
- Provide the right tenant mix appropriate to the trade areas.
- Create long term value for the centre.
- Generate sustainable rentals both for the retailers and the centre.
- Create strong brand equity for the development.

To achieve above all, one must have/build a Leasing Team. A team with:
- Loads of experiences in the industry /selling
- Excellent selling and negotiation skills.
- Good understanding of retail economics.
- Ability to be flexible and creative.

In Indian Context, available options can be:
- Hire from financial services / consumer durable business
- Look for an interest in shopping / fashion
- Look for strong people skills
- Look for patience / attention to detail
- Look for a comfort with numbers

II Marketing-The Second Pillar:
It is involved in different aspects of business including leasing. It is also very critical to centers' success. Its fundamental role is to increase the center value. It increases the center's Value:

1. **By increasing sales to improve rents.**
   Rentals are related to sales densities. Marketing drives the footfall and therefore sales. It is especially important at renewal times.

2. **By keeping tenants happy.**
   Unplanned closure impacts rental income. So, marketing needs to launch each retailer very carefully and also it needs to monitor their sales performance too. It does so by coordinating the tenant marketing programs, which creates the overall goodwill of the centre.

3. **By providing Support to Leasing:**
   It provides market research to leasing, creates customized presentations and the right environment in the mall. It also identifies the right kind of retailers to fill a particular need of the mall.

**Marketing and Brand Building:**
It achieves so by:
- Building interest, awareness for the mall
- Identifying and creating a competitive edge
- Communicating centre strengths, uniqueness
- Creating effective advertising and communication
- Building powerful promotions
- Generating ongoing PR stories

**The scope of marketing activity includes:**
- Retailer relations
- Investor relations
- Retail Staff training
- Customer service
- Visual merchandising

And the Marketing Organization must incorporate people from FMCG companies/Ad agencies. Must have been exposed to strong advertising/events experience, and be good team players with excellent people skills.

**III Operations - The Third Pillar:**
It is the "guts" of the Centre, and has the backroom responsibility for smooth functioning. It has strong support functions, which maintains asset's value.

**Elements of Operations are:**
- Maintenance
- Security
- Housekeeping &
- Finance & Accounts
Maintenance: It adds value in terms of running the center smoothly and effectively. It enhances the customer and tenant environment. Its key responsibilities are:

- Running a proactive maintenance programme.
- Training of maintenance employees to provide flexibility in solving problems.
- Identifying areas to achieve greater efficiency and productivity.
- Plans & develop crisis management programmes.

Keeping it Clean: Overall cleanliness of the property

Creating a Safe Environment: It enhances a Customer-Tenant environment, by creating a secure property and being responsible to retailers and customers. This is done by:

- Risk assessment for the property & community.
- Crime prevention and preventing incidents from taking place.
- Order maintenance and creating a visible presence.

Operational Structure; Issues & Options are as follows:

1 Contract v/s Proprietary:
Should it do on its own or give it on contract? If given on contract, what kind of customer service would it provide? What is the cost of Cost of outsourcing v/s in-house? What about the quality of the outsourcing companies? What about the Retention and loyalty of contractual employees?

2 Hiring & Training:
It must hire a minimum of few experienced new people first and provide them with professional training. Hospitality industry can be a good hunting ground for the

3 Creating Benchmarks:
It is very important to create benchmarks for, downtime, response time etc. and to keep improving upon our own benchmarks.

Key Issues for Management:
- Leases  
- Planning / Budgeting  
- Occupancy  
- Rents  
- Common area maintenance  
- Utilities  
- Miscellaneous Revenues

Key to centre revenues:
- Require proper management  
- "Gross"or"Net” lease  
- Clear rent provisions

Planning & Budgeting:
- Financial Plan  
- Projecting revenue or vacancy  
- Rates of vacancy, renewal retention  
- Sales and expanse growth

Occupancy Projections:
- Projecting renewal or replacement  
- Unscheduled vacancies & plans  
- Prospective tenants  
- Listing all expiry leases

Common Area Maintenance:
- Tenant pays share of common area costs
• Common areas cost include A/C, lighting, repairs, security, landscaping, etc.
• Estimated in advance
• Generally paid proportionately on store area
• Allows for escalation

Utilities
• Major part of expenses
  • HVAC, water, sewerage, etc.
• Direct utility charges
  • Pro rata share of chilled water
• Should not earn a profit on utilities

Miscellaneous Revenues
• Revenues from temporary leasing
• Revenue from telephone, vending machines
• Revenue for billboards, advertising, etc.
• Contract services to tenants e.g. housekeeping

IV Re-Development: The Fourth Pillar:
The Mall is a dynamic, "living" organization. And the market is constantly changing. So the only constant element is change. Thus effective management need to redevelop and manage changes periodically. The various factors affecting the centre are: Overall retail environment -new malls, new retailers, changing consumer needs and demographics. So the way out is:
• Constant re—development
• Re—merchandising & new tenants
• Re—zoning and new formats
• Additions & renovations
• Changing food and entertainment.

* (Source: KSA Retail summit, February 21, 2003 )

4.9 Field Study
Based on the above—mentioned factors, few players in the retailing industry have been observed and details have been produced. At the local level (i.e. Ahmedabad), Ravji’s and Raymond’s; at the national level, RPG Spencer’s Food World and at the international level, Wal Mart have been taken up for observation. The findings have been presented under respective heads:

4.9.1 Ravji’s
This combination super-store was the pioneer in Ahmedabad but today has a few competitors in the market. Further the management feels that increase in the number of competitors will increase the market for such convenience stores as a whole and hence will benefit them as they are sure of having an edge over their
competitors. They do not see any threat from the big malls and shopping complexes as according to them, the consumer look for quick and easy shopping of grocery, toiletries, small gift and stationery items and will remain loyal to them.

a. Operational Management:
Located in the centre of city of Ahmedabad at Vijay Char Rasta, Ravji's is in a planned shopping centre to enhance its sales. Surrounded by apartments, gift shops and crockery shop Ravji's is a favourite stop for Ahmedabadis.

Assortment:
In 1990, it stocked around 5,000 products/brands in contrast with 16,000 products/brands that it stocks today. It has no plans of expansion in the near future- either in terms of new outlets (branches) elsewhere or in terms of increasing the size of the existing store to introduce new product lines. The only thing that has been happening since its opening and will continue even now is the increase in the number of shelves to stock newer products/brands coming in the market.

Store Management:
Encashing the advantage of being a part of an apartment, Ravji's extend exclusive parking facility to its customers. The excellent parking includes the consumer satisfaction as parking poses a lot of trouble in the main roads of a city. There is one front entry and exit door.

- A checkpoint counter with security is available as Ravji's provide the facility of self-service.
- There are normal banners and signboards for outside signs.
- Ravji's do not have any outside display window. But at the entrance, a display window exhibits the new arrivals and promotional schemes attached products.
- There are well stacks shelves and signboards for easy location of products.
- Centralized air-conditioned and light background music makes shopping more fun
- Signboards are used to distinguish brands and products.

Inventory Management:
Ravji's does bulk buying from the manufacturers or their distributors. Daily stock taking is undertaken and orders are placed according to the predetermined recorder levels.

Store Security: Precautions are taken to avoid shoplifting. Mirrors on the ceiling give a wide view of the store also enables in checking theft. Service assistants do the work of monitoring in addition to guiding the customers in their shopping.

Credit Management:
Ravji’s accepts cash and credit card payments. It is yet to catch upon debit cards.


Being amidst the food outlets like Rasranjan and Havmor, and number of houses no facility for pay phones and rest rooms are provided. However, prompt delivery, fast billing at the four counters and special discounts during festive time, do attract many customers to this store.

c. Promotional Mix.

Ravji's is active in attracting the customers by offering various promotional schemes one after the other. The means of communication used for communicating their offering to the consumers are; Regular insertions of advertisements in the local newspapers (more frequent during high expenditure like Diwali) and word of mouth.

4.9.2 Raymonds

The Raymonds chain started its exclusive operations in 1969 with the first exclusive showroom in Delhi. In 1970, the operations commenced in Gujarat with the establishment of the first exclusive retail showroom at Ahmedabad. Prior to that the distribution was through the local retailers. These retailers stocked more than one brand.

a. Operational Management

Located in a planned shopping area. In Ahmedabad it is situated in C.G.Road - the main crowd puller in the city. The assortment is based on standard size. Their assortment is stocked in respective shelves. These comprises of fabrics, ready-made garments and cotton Parks Avenue range. They cater to the needs of a large segment of the society covering middle class to upper class.

Store Management

- Located in the shopping centre, where parking facilities are provided by the traffic control.
- No separate parking facility is extended.
- Centre door for entry and exit.
- No special check out counter.
- Banners and signboards are displayed outside the shop.
- Mannequin dressed with their well-tailored suits decorates the display window.
- Well maintained shelves on the walls and the suiting and shirting are neatly stocked, however no signboards to indicate the stocks.
- Centrally air-conditioned showrooms.
- No distinct lighting system.

Inventory Management:
When the stocks have to be replenished the sole selling agent of the area is intimated and the delivery is taken. The recorder level and lead-time are mentioned by the manufacturer.

**Store Security:**
As there is no self-service, no special efforts are taken for store security. Guards are posted at the door and no other special guard is on duty.

**Credit Management:**
They accept both cash and credit card payment. In credit cards they accept only Master, Visa and Citibank cards.

**b. Customer Service**
- Credit card facility available
- Immediate delivery
- Variety in their retail brands
- Exchange within two days of purchase, though certain conditions apply
- Tailors available for stitching services
- However, no baby sitting/ pay phones/ rest rooms

**c. Promotion**
Discount is given during festive times. To establish relationship, Raymonds has started marketing of gift cards through their web site. The USP of these cards is that they can be encashed at any of the 250 Raymond's' retail showrooms in India.

### 4.9.3 RPG - Spencer's ----- FoodWorld

Launched by RPG group, Food World was established at Chennai in 1996. Now their reach has extended to other cities like Bangalore and Hyderabad and will soon come to the western part of India.

**a. Operational Management**

Food World started its operations in the residential area of middle class in Chennai. Their aim was to provide goods at affordable prices. The size is according to the availability of space in the area targeted and the format follows.

**Assortment:**
A customised allocation of space is undertaken to ensure customer satisfaction and productive usage of space.

**Store Maintenance and Image:**
- No special parking facility offered.
- One main door for entry and exit.
- Neon signs and bright lighting arrangement décor the Food World outlet.
- New attractions and arrivals are displayed on the front display window.
Tiled floor makes the store more attractive.

Centrally air-conditioned store with piped music provide a smoothing ambience to shop.

**Inventory Management:**
Food World leverages the size for advantage by buying at low prices and managing margins even after offering the products at discount. They offer two broad categories of food and non-food durables. Food category is further divided into packed and processed, dry, grocery and fresh items. This categorization enables the Food World to go close to the respective original manufacturer or supplier. To simplify logistics and lower costs, all supplies are made to the central warehouse at Gundy, in Chennai, which is on-line with the outlets to ensure Just-In-Time SKU supplies. Stock levels are pre-determined depending on the shopping pattern at each store. For critical SKUs, there is a pre-set base level. And whenever the stock touches the base level, the order for fresh supplies is automatically triggered off.

**Security Management:**
To check theft, checkout counters are equipped with infrared scanners.

**Credit Management:**
Offer cash, credit and debit card facilities.

**B. Customer Service**
The service is prompt and they offer home delivery for regular customers within a certain area. They take order over the phone for very regular customers. Drinking water facility is provided to make shopping convenient for their customers.

**C. Promotional Schemes**
Food World offers most of their products on discount. It is perceived to be a 'value for money' store occasional newspaper advertisements and word of mouth form their main mode of communication to the public.

**4.9.4 Crosswords**
Crosswords was promoted by India’s leading publishing house, India Book House. It has its presence in Mumbai and Delhi and franchisee outlets in Ahmedabad, Pune and Nasik. An exclusive store for books and CDs/Cassettes, it has created its own market in a short span of time.

**a. Operational Management**
Considering the productivity factor Crosswords has its outlets in the busy shopping centers of a city. Its outlet is established near Meethakali Six Roads in Ahmedabad, South extension in Delhi and Grant Road in Mumbai, which are the busy shopping centers. The size and format depends on the location.
To achieve maximum productivity of space, Crosswords has followed micro merchandising, where the arrangement is customized to satisfy the local customers. In Ahmedabad Crosswords, Stationery, gift articles and cassettes occupy about 1/4th of the space and the rest are books. Near the checkout counter, the magazine shelf is placed that catches the eyes of the customer at the last moment. The Crosswords has been laid out in a way to encourage free and leisurely storing.

**Store Management:**

Parking is as organized by the traffic control.

They have same entry and exit door. Well lighted by neon signboards.

The shelves are neatly stocked with books, category wise. This makes the task of locating books easier for the customers.

**Inventory Management:**

Being a part of Indian Book House is advantage and they buy their stocks from the publishers directly.

**Credit Management:** They accept cash and credit cards.

b. **Customer Service**

At Crosswords, the store is brightly lit and clear signs define the subjects like Philosophy, Management, and Sports etc. thus ensuring that the customer does not get lost. Tables and chairs have been provided to encourage browsing. Further the shelves in the middle of the store are not more than three to four feet in height, so as to make it convenient for all customers to access the books. The service assistants are also present to provide guidance/assistance. A café shop is attached to the outlet for refreshments.

c. **Promotional schemes**

Discount Schemes and advertisements in the dailies are the means of advertising in addition to the powerful tool of word of mouth. Regular newsletters and reviews as well as promotions with famous authors are part of Crosswords promotional schemes. Some of the world’s best authors are invited for book signing sessions at the store, which increases store traffic and keeps interests of book reader alive.

4.9.5 **WAL-MART**

Wal-Mart is a special discount store-chain in the US. It is one of the leading retail chains of the world and contributes 16% of the US retail business revenue.

a. **Operational Management**

Wal-Mart selects a community with a healthy local downtown filled with locally owned human scale retail stores. It targets the outskirts of the town and there it
builds its giant store. Having established a name for itself, it does not go behind shopping centers, but a centre mushrooms around it. 12:

**Space Allocation:**
Having tons of experience in retailing and consumer behavior, Wal-Mart knows what to keep where and how to use its space productively. Wal-Mart's layout is customized to its local target consumers.

**Store Maintenance:**
Wal-Mart is known for its giant parking facility. Being a giant store, no one misses its presence and neon signs of huge sizes adorns its entrance. In the interior, one does not get the feel that you are in a store. Understanding that the secret of success is store maintenance, the surroundings in the store are well maintained. Centrally air-conditioned, well-lit and good feel are the characteristics of Wal-Mart. 13. Retail design maintenance will protect your investment.

**Inventory Management:**
Being a giant, gives it an advantage of buying merchandise for lowest price. Its considerable buying power enables it to bargain for. It uses QR (Quick Response) system inventory planning. With QR, a retailer reduces the amount of inventory it keeps on hand by ordering more frequently and in lower quantities. This system gives faster response time and better control over its supply chain. Credit management: Allows Debit, Credit, Smart Cards and cash Payments.

b. **Customer Service**
Prompt delivery, variety of products, attractive packaging, trial purchases, special sales, extended store hours during the festive times like Christmas, baby sitting facility, restrooms, pay phones etc make a customer fell cared when he/ she visit Wal-Mart.

c. **Promotional schemes**
Wal-Mart spends only 0.3 % of its sales on advertising by offering quality service, it relies largely on word of mouth and its low pricing strategy to increase its customer base.

PART B

**E COMMERCE & APPLICATION OF TECHNOLOGY IN INDIA**

**E-commerce**

4.10 **International scenario:**
Online shopping is big business internationally. In this retail business, you don’t count footfalls. Nor do customers get the real world, touch-and-feel experience of the goods they buy. The shopping ambience, too, is only as good as the customer
wants it to be. Still, shoppers are flocking to these "virtual malls" in the millions. Online shopping is no longer a fad; it's an acknowledged and important part of the retail experience, with more than a tenth of the world's population having bought products and services over the Internet.

According to market research organization ACNielsen, there are more than 627 million online shoppers in the world. Over 135 million people across the globe have purchased DVDs or video games and an equal number have made air ticket reservations. More than 128 million purchased clothes, accessories or shoes, while more than 112 million customers paid for music downloads or CDs. The numbers are impressive even for high-ticket purchases: more than 106 million customers purchased electronic devices like cameras and close to 98 million bought computer hardware. These are the findings of the twice-yearly global ACNielsen Online Consumer Opinion Survey, which polled more than 21,000 consumers in 38 countries to understand their shopping behavior and preferences. Respondents from Europe, Asia Pacific, North America, Latin American and South Africa were asked about their online shopping experiences, including when they last purchased online, what they bought and how they paid for it.

(Source: "The other retail story," Business standard, December 20, 2005.)

The big pixel
Not surprisingly, online shopping is most popular in Europe and North America. Germany, Austria and the UK top the list, with 95 per cent of Internet users in these countries having purchased online at least once. In the UK and Germany, when asked whether they had bought online in the past month, 89 per cent of the respondents said yes. In the Asia Pacific region, recency of Internet purchase was lower, with less than half the respondents saying they had bought online in the past month; the corresponding figure for India was even lower, 38 per cent. Still, India's average number of online purchases (5.2) in the past month was higher than the region (4.9), higher than the global figure (4.9) and even higher than that for Europe (5.1).

For Indian online shoppers, the relatively higher number of purchases is likely to be driven by convenience and a desire to own the latest. Preeti Desai, president, Internet and Mobile Association of India (IAMAI), seconds this. "The 18-35 age group is the highest online buyer of apparel in India. With the fashion culture transcending metros, the net allows smaller metros to leverage the distance and buy from fashionable metros."

Books the most sought after item:
Across the globe, books are the most popular online purchase, with 34 per cent of the respondents mentioning books in their list of last three items purchased online. Reading is most popular in China, where 56 per cent of the respondents said they bought books online, followed by Austria, Russia and South Korea, at 50 per cent. At 35 per cent, India’s figure wasn’t too impressive (though close to the regional average of 37 per cent), but still better than Chile and Denmark’s 11 per cent. But then, Indians seem keener on making their travel arrangements online. More than 36 per cent of Indian respondents said they bought air tickets over the Internet, making that the most popular online purchase, and higher than the global average of 21 per cent for the category. The other popular buys for Indians: videos (22 per cent) and clothes (21 per cent).

Credit cards—the most preferred mode of payment:

How do online shoppers pay for their purchases? Credit cards won this race by a handsome margin. Fifty nine per cent of the total respondents raised their hands for credit cards, while bank transfers trailed at 23 per cent, followed by cash on delivery (COD) with 13 per cent. Indian respondents were even more overwhelmingly in favor of credit cards (68 per cent), but opted for COD (29 per cent) as their second choice, rather than bank transfers (19 per cent). So, which card will it be? Visa was far ahead of arch rival MasterCard, with 59 per cent opting for it against MasterCard’s 26 per cent. The ratings remained unchanged for India, too, with 67 per cent preferring Visa against 22 per cent for MasterCard. MasterCard was master only in South Africa and The Netherlands. Interestingly, Pay Pal—a Web-based service that allows secure, electronic funds transfer between Internet users—ranked fourth in the popularity stakes, with just 12 per cent of all respondents using it as their method of payment; the figure for India, 7 per cent.

Asked about their "preferred" mode of payment, consumers across the globe stuck to their existing choices: credit cards (45 per cent), followed by bank transfers (15 per cent). Forty seven per cent of the respondents in India, too, said they would prefer to use plastic for online payments. What little advantage Pay Pal had gained, it lost when ranked on the preference scale: globally, it dropped to 7 per cent, while just 4 per cent Indians said they would prefer it to other payment options.

What do Indians Login for?

Senior citizens seeking to book train tickets still need to queue outside separate counters at the railway booking office, but younger travelers found a short cut a
while ago — they buy their tickets online. According to IAMAI, close to 24 per cent of the Rs 1,180-crore Indian online shopping spend is for railway tickets and close to half (47 per cent) of all online rail ticket buyers are in the 26- to 35-year age group. Toss in airline ticket bookings, and travel makes up nearly 58 per cent of Indian online shopping spends. No other category (apart from electronic gadgets — 10.10 per cent), contributes even close to 10 per cent in value in Indian online shops. It’s not just the money. Even the numbers of monthly transactions are increasing. IAMAI estimates the average numbers of transactions have increased nearly four-fold, from 2.07 lakh a month in 2003-04 to 7.95 lakh in 2005-06. “Travel e-commerce has really picked up in the past year,” agrees Pankaj Chandra, business head, e-commerce, Sify.

If travel by air and rail makes up more than of Indian online spends, online shopping portals like Rediff.com, Indiatimes.com, Sify and others could have a tough time selling their gifts, flowers and electronics accessories. So what are their strategies? The trick is to go with the flow. For air tickets, Indiatimes, the market leader in terms of value — even competitors accept it as such have tie-ups with Indian Airlines, Air Sahara, Kingfisher Airlines and Air Deccan. But it doesn’t stop there — since travel and accommodation go more or less hand in hand, the shopping site has also tied up with 725 hotels across 100 cities to offer room bookings round the year. Adds Sharat Dhall, business head, ecommerce, Indiatimes, “We also have airline travel auctions, where people bid for tickets.” That may be a popular option but online shopping sites still face intense competition from their brick-and-mortar counterparts. Sify’s Chandra points out that online sales dip by about 25-30 per cent on weekends and by about 50 per cent during long weekends, when customers go shopping to the real, rather than virtual world. When that happens, Sify simply follows them: one of the top draws at Sify.com is gift vouchers from Indian retail chains such as Big Bazaar, Shoppers’ Stop and Globus.

Points out Chandra, “The idea is to go where the consumer is.” That includes its own cyber cafes iWay, a 3,000-centre strong chain spread over 140 cities. Customers who shop online at these outlets are being offered special discounts, helping the company benefit from both, increased footfalls at the cafés and increased e-commerce. For its part, Indiatimes’ approach is slightly different: it follows shoppers into the malls. Malls around Delhi recently played hosts to Indiatimes’ "hotspots", where customers could surf the net, shop and take part in special promotions organized by the company. The site is also particularly active during peak shopping times (according to IAMAI, e-commerce transactions
jumped to Rs 115 crore during Diwali 2005, compared to Rs 53 crore last year). As part of its run-up to the New Year, Indiatimes is launching a shopping festival, offering gifts and lotteries; it's also putting up posters and flyers around select cyber cafes, which advertise the best deals on its site.

Online retailers are also aping their offline counterparts with direct mailers and loyalty programmes. At Indiatimes, shoppers get shopping points called "Net carrots" that are similar to loyalty points offered by departmental stores. As customers realize there's more to online shopping than just the convenience of not having to find a parking space, the divide between the real and virtual shopping worlds is blurring.

4.11 Indian scenario of E-commerce

An estimated Rs 30 crore of air and rail tickets are sold online in India everyday. A Jewellery piece sells every 5 minutes, a mobile handset every 8 minutes and a car sells every 9 hours on eBay. Over Rs 5,000 crore worth of business (domestic and international) materialized through leads generated by Indiamart.com during the last one year. Moreover, online shopping is now prevalent in nearly 2,000 towns and cities (including tier-II cities like Surat, Ahmedabad, Ankleshwar, Sholapur, Kottayam, Faridabad and Bhopal). Maharashtra tops the list with Kerala yet to pick up.

Recent Internet and Mobile Association of India (IAMAI) figures clearly show that e-commerce has come of age in the country. IAMAI estimates the size of the Indian e-commerce market will touch Rs 2,300 crore (around 10 per cent of the organised Indian retail market) by 2006-2007 — a 95 per cent rise over last year's figures of Rs 1,180 crore and an over-300 per cent rise over the figures of 2004-05.

Goods sold online include books, electronic gadgets, air and rail tickets, apparel, gifts, computer peripherals, audio and video CDs and DVDs, magazines, sports goods, movie tickets, Jewellery and toys. Hotel rooms are also being booked online. Services like net banking (32 per cent), bill payments (18 per cent), stock trading (15 per cent), job search (51 per cent), and matrimonial search (15 per cent) have seen a tremendous rise. Over 60 per cent of e-commerce transactions are being done by 20- and 40-year olds in India, constituting a considerable buying mass, suggests the IAMAI data. Besides, netizens do a lot of online research and cyber window-shopping even if they buy offline, notes Desai. The
Indian middle-class of 288 million is equivalent to the entire American consumer base. This makes India a real attractive market for e-commerce. But is the boom here to stay, given that the country has only around 40 million Internet users (expected to rise to 100 million by 2007-2008), around 15 million personal computers and 12,000 cyber cafes? This is according to TRAI and ISPAI figures (other estimates, though, peg them at around 90,000 to 100,000). The country does not have a very healthy broadband pipe. Besides, predictions have not always been on the dot, our surveys are mostly representative, and the legal infrastructure is sorely lacking.

Gautam Thakar, country manager, eBay India Marketplace, reasons: "On eBay India, we have seen over 1,000 Indians sell globally to buyers in over 95 countries in the third quarter of 2005 alone. In fact, an item sells to international buyers every 10 minutes. In this context, the size of the Indian Internet population alone does not remain a constraint." Jasmeet Singh, vice-president (product marketing), Rediff.com, concurs. "IDC has pegged the e-commerce population to be around 16-18 per cent of the total Internet population in the country, which translates into roughly 6.5 million transacting users." Currently, around 8 lakh people transact on the Internet every month.

While 93 per cent of online shoppers bought products and services worth over Rs 300, 74 per cent of the purchases were above Rs 1,000. "Home delivery", "time saving" and the "24x7" concept appear to be the primary reasons for online shopping. However, to take full advantage of the E-commerce boom, companies need to go beyond the "shop-in-shop" model (shopping links found on portals) which costs less than Rs 20,000. To make a successful E-commerce transaction, both payments and delivery services must be made efficient.

A full-fledged e-commerce-enabled site will include a payment gateway, website designing, development and maintenance, logistics, maintaining merchandise (for online window shopping), analytics (monitoring the shopping cart), and bill and inventory management. A typical 50-product site will cost around Rs 2.5-Rs 5 lakh, while a 50-100-product site will cost around Rs 7.5-10 lakh. Besides handling the tricky issue of bypassing dealers, companies will have to invest time and money to make e-commerce happen. The critical ratio for an e-commerce site is how to convert visitors into customers. Moreover, to propel and sustain e-commerce, several factors will have to be taken into account.

The total value of E-Commerce activities within India has exceeded Rs.570 crore during 2004-05, according to a research conducted by Internet & Online.
Association of India (IOAI), a not-for-profit Industry trade organization, registered under the Societies Act, 1896, dedicated to present a unified voice to Industry and Government. The report estimates a 300% plus growth rate during the next couple of years and has targeted whooping Rs 2,300 crore worth of e-business conducted within the country by the year 2006-07. (Source: IOAI).

The IOAI research report has tracked Internet user's proclivity for shopping online. It aimed to understand the profile, internet usage, products purchased along with propensity to buy along with the nuances of shopping online with the shopper's affinity and aversions to online shopping. A total of 3099 respondent's views were solicited of which 55% (1716) had shopped online and 87% (1493) had shopped more than once forming the base of the report. Changing Lifestyles and shopping habits make this a shopping medium impossible to ignore. The report makes actionable recommendations on how online retailers can fill gaps in the online environment as well as how they can utilize unique elements of the online shopping experience to create a competitive advantage over the physical retailing world.

Said Mr. Neville Taraporewalla, Chairman of IOAI, "The rapid development of E-Commerce is forcing companies today to adopt business strategies revolving around the Internet. The report reflects the changing face of business trends in India. Today, The Internet population is 25+ million and is expected to grow at 100 million by 2007 (Source: IOAI). The report can act as a guideline on how online retailers can use this new business environment for their advantage".

Mr. Mahendra Swarup, Vice-Chairman of IOAI, added further, "This business module is cost effective, easily accessible and profitable in many functional areas. Consumers and retailers both desire a safe, simple and comprehensive online shopping experience that will truly realize the range of power of the Internet. The report highlights ground realities of the online shopping environment and shoppers' attitudes & perceptions towards e-commerce". According to Ms Preeti Desai, President, Internet and Online Association of India, "E-Commerce is coming of age in India. Changing lifestyles and Shopping Habits, A similar metro /non metro consumption of Media and Internet and Multiple Internet Access Points will propel E-commerce transactions to Rs 2300 Crores in 2006-2007 from the current Rs 1180 projection for 2005-2006, an over 100% increase.

From a business perspective it offers unlimited shelf space, it isn't bound by
operational timings and geographical boundaries and an opportunity to cater to country wide city markets (for consumers and suppliers alike) at a comparative miniscule cost to an audience all set to grow to a 100 million by 2007. From a consumers perspective it allows greater access (hence the high response rate by tier 2 cities) to markets and an opportunity to make informed decisions on purchases.

India's online population represents a set of consumers that offer marketers a winning combination — greater affluence and the willingness to adopt technology faster. They will increasingly be too tempting to ignore. Their reasons to shop online — the obvious advantage of convenience; the ability to compare offers across providers; and get the latest goods available and the best possible deal.

For instance, book titles, music and games or even personal durables such as cameras, where having the latest version matters to people who belong to the "early-adopter" segment.

In India, books followed airline reservations closely as the most popular online purchase, with 35 per cent of online Indians buying them over the Internet. Apart from these, nearly 24 per cent Indians have purchased electronic equipment and more than 20 per cent have purchased apparel, music and electronic entertainment (movies, DVDs and games). Online shopping in India is poised for greater acceleration as more manufacturers and service providers integrate the Internet into their sales models. With PC and Internet penetration growing, instituting online mechanisms for sales and service and incentivising consumers to go online by passing on the benefits of lower transaction costs are the keys to increasing online buys.

At present, service industries such as retail banking and airlines have laid the groundwork for harnessing the power of the Internet in India. Undoubtedly, this has also been driven by their need to drive costs down. The newly-launched budget airlines that insist on online (or telephonic booking), for instance, are prime examples of this. But to reach the tipping point of the online shopping boom will require active participation of the consumer marketing companies from manufacturing industries.

<table>
<thead>
<tr>
<th>Payment Method Used</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card</td>
<td>59</td>
</tr>
<tr>
<td>Bank Transfer</td>
<td>2.3</td>
</tr>
<tr>
<td>Cash On Delivery</td>
<td>13</td>
</tr>
<tr>
<td>PayPal</td>
<td>12</td>
</tr>
<tr>
<td>Debit Card</td>
<td>11</td>
</tr>
</tbody>
</table>
Money Transfer  8
Postal Transfer   5
Cash on purchase  3
Through convenience store  2
Pre-Paid card  1
Other Method  5

<table>
<thead>
<tr>
<th>Last 3 Item Purchased</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Books</td>
<td>34</td>
</tr>
<tr>
<td>Videos/ DVDs/Games</td>
<td>22</td>
</tr>
<tr>
<td>Airline Tickets/Reservations</td>
<td>21</td>
</tr>
<tr>
<td>Clothing/Accessories/Shoes</td>
<td>20</td>
</tr>
<tr>
<td>Music</td>
<td>18</td>
</tr>
<tr>
<td>Electronic Equipments</td>
<td>17</td>
</tr>
<tr>
<td>Computer Hardware</td>
<td>16</td>
</tr>
<tr>
<td>Tours/Hotels-Reservations</td>
<td>14</td>
</tr>
<tr>
<td>Computer Software</td>
<td>13</td>
</tr>
<tr>
<td>Event Tickets</td>
<td>12</td>
</tr>
<tr>
<td>Cosmetics/Nutrition supplies</td>
<td>10</td>
</tr>
<tr>
<td>Groceries</td>
<td>6</td>
</tr>
<tr>
<td>Sporting goods</td>
<td>4</td>
</tr>
<tr>
<td>Toys/Dolls</td>
<td>4</td>
</tr>
<tr>
<td>Automobiles and parts</td>
<td>3</td>
</tr>
<tr>
<td>Sports memorabilia</td>
<td>1</td>
</tr>
<tr>
<td>Other Items</td>
<td>19</td>
</tr>
</tbody>
</table>

**Ever purchased over the internet?**

- Global 77%
- Asia Pacific 70%
- Europe 85%
- North America 85%
- Latin America 63%
- South Africa 74%

(Source: "The other retail story," Business Standard, December 20, 2005)

### 4.12 Important Issues dogging the online trade

E-commerce is booming in India. With the market expected to touch the Rs 2,300-crore mark next year, business on the Net is bound to happen. However, there are many issues to contend with — broadband connections, security and legal infrastructure, delivery of goods, credit and debit card payments, taxation laws and finally, mindsets.

**Broadband connections:**

Ajit Balakrishnan, chairman and CEO of Rediff.com, says, "There are several factors that will influence the growth trajectory of E-commerce. Such as, the growth of the overall Internet user base, quality of Internet access through the use of the Net arising from offices and homes versus colleges and cyber cafes, quality of access enabled by broadband penetration and the extent of credit card (stands at 5 million) and debit card use on the Internet."
Legal infrastructure:
Can our current legal infrastructure support this boom? “No,” asserts Pavan Duggal, Supreme Court advocate and president, Cyberlaws.Net. He explains: “The Information Technology Act, 2000 is not adequate. The legal infrastructure is not ready to cope with the projected growth. The use of digital signatures is minimal (around 35,000 only). Electronic contracts that have been issued have not tested the judicial waters. The nation’s expectations for an effective, efficient, legal infrastructure to support e-commerce have been belied.”

Security Concerns:
Another important question is: “How safe it is to transact on the Net?” Gautam Thakar, country manager of eBay India Marketplace, is of the view that as more and more Indians get comfortable with E-commerce, there will be enhanced awareness about online shopping and the people’s trust in it will deepen. Many Indians opt for cash on delivery as a payment option, thus paying for items only when they are delivered at home, he points out.” At eBay, we educate users on safety tips like reading item descriptions fully, looking at sellers’ feedback score (their online reputation) and asking additional questions to get complete clarity. In addition, we protect users through online tutorials on detecting spoof mails, phishing sites and new identity theft crimes,” he adds. Encryption also offers a safer environment. (Phishing means sending an e-mail that falsely claims to be from a particular enterprise like your bank and asking for sensitive financial information.)

Credit and debit card payments
The biggest myth about online shopping is the safety of credit card information provided on the Internet. Frauds do not happen online on sites like Sify, Rediff or Indiatimes. Fraud happens if one has access to information regarding a credit card number and the card’s expiry date, which is readily available on charge slips that individuals sign at restaurants and petrol pumps, notes Pankaj Chandra, Business Head, Ecommerce, Sify.com.”Banks should provide customers alerts attached with any online transaction, done via credit or debit cards or via bank accounts, by email or SMS or both within a fixed time period. They should allow consumers to set up their own liability slabs by creating ceilings on online spends. It should also be made mandatory for banks to declare the names of blacklisted websites on their websites,” suggests Preeti Desai, president, Internet and Mobile Association of India.

Delivery of goods.
That said, there are other challenges faced by e-commerce websites in India. Delivery of goods to consumers by couriers and postal services is not very reliable in smaller cities, towns and rural areas. Besides, shopping portals have been asking for tax holidays and waivers (like the 15 per cent tax on data services on mobiles).

**Taxation laws and finally, mindsets.**

"As of today, inter-state tax applied by the government to products shipped out to other cities takes away a lot of price benefit for consumers. The government should encourage and, maybe, provide sops to online malls to facilitate transfer of goods to consumers across the length and breadth of the country," says Chandra. Dinesh Agarwal, Founder and CEO, Indiamart.com, says, "The main speed-breakers include a long pending requirement of clarification on issues like sales tax and service tax for online transactions. Many state government officials are still not clear or do not agree that web services (web-designing, hosting and e-commerce facilitation) are IT-enabled services and they try to apply sales tax to these services considering them as software/commodities. Similarly, sale of goods and services through e-commerce has not been clearly dealt with by Acts on value-added tax and sales tax. Desai suggests that the government should simplify indirect taxation as "currently, it is incredibly complex and eats up incredible margins". The reason behind the "online travel ticketing segment's meteoric rise in this country", according to Chandra, is the "low touch-and-feel combined with an immense price benefit for the end-user as well as the convenience of the service being available at arm's length". Other segments will see a rise of similar proportions if more people perceive similar benefits of shopping online.


### 4.13 Information Technology and Indian Organized retailing

**Introduction**

Modern technology is one of the most powerful assets for a business. More so for a retailer dealing with multiple products, a chain of stores, various vendors, several warehouses, hundreds of employees and thousands of customers. With sophisticated systems, a retailer can make each of its processes simpler, smoother and swifter resulting in a super efficient enterprise offering the best range of merchandise and superior service to its customers. Indian retailers have been spending more and more on setting up IT systems and, importantly, plan to hike up their investments in this area in the future. Retailers are also looking beyond
basic expenses to higher levels of IT functionalities. This chapter has focused exclusively on IT usage practices in the retail business in India.

Behind every successful retail store there is a reliable and efficient information technology system. Modern technology has the ability to improve and make more efficient each function of the retail business. Retail needs IT for all core processes - planning, ordering, sales, finances, human resources and so on. Easy to see why if you look at the number and complexity of issues involved.

- Which goods are moving and which are not
- Are the vendors supplying goods on time?
- Which goods are available at the warehouse and what needs to be ordered
- What should be ordered in the next season?
- Which customer is buying which products
- The financial performance of the company
- Managing the employees of the organization even in a single location large format store, it would be quite difficult to tackle these issues without good data capture and analysis. In a multi-location set-up, it would be pretty much impossible. Without IT (no pun intended!), various basic retailing functions like storing operations, merchandising management, planning and forecasting and inventory control simply cannot function. IT also forms the basis of supply chain initiatives like Quick Response (QR) or Efficient Customer Response (ECR) and Collaborative Planning and Forecasting (CPFR).

IT links the various areas of the retail business into an integrated structure and helps the flow of information across the organization. After all, this is what successful retail is all about - skillfully managing several contact points both at the front and the back end. Without integrated systems, the retailer may be unable to get timely information, which is the key to future purchases for the store.

Each of these challenges can be met by employing suitable software and creating bridges between them to integrate the entire organization (see chart 'The Retail IT Backbone').

The chief software requirements of a retail enterprise are:

- **Merchandise planning and management software** - this is typically an ERP and business intelligence package that generates data on what is moving at the store level, analyses the data and helps in the planning process.
Typically, the planning or business intelligence software sits on the ERP, which is the management software, mines the data generated by the ERP and helps in the future planning process.

- **Vendor management software** - deals with the entire process of vendor selection, evaluation and transactions. This software needs to be linked to the ERP for best results.
- **Logistics & warehousing software** - links the transporters and warehouses to the ERP. This software generates auto replenishment notes, helps in storage of goods at the warehouse and also offers the best logistics solution for goods transportation.
- **CRM software** - this manages the loyal customers, tracks their purchase patterns, maintains the loyalty programme schemes of the company and provides an important input to the merchandise planning process. This program also includes the point of sales (POS) software, which acts as the data-generating tool for the effective functioning of the software.
- **Financial software** - this is the heart of any retail organization and all software needs to communicate with this program. It generates the financial statements of the company and keeps a tab on expenses.
- **HRD software** - this helps in the management of employees, takes into account their training, development, appraisal and salaries.

There are several players in the retail software space. These include SAP, Polaris, ILL Annstrong, Retail Pro, SAS, Intensia, Oracle and many others. Some are ERP providers while the others also offer business intelligence solutions. Some may have only one of the several modules required by the retailer. The retailer, therefore, needs to implement different programs and then link them so that these can communicate with each other. Interestingly, more and more organizations are going in for software developed in house. Several retailers, especially supermarkets, use their own software rather than depend on external solutions, which, usually are more expensive. Also, since most of the players are very small, they are able to manage with rudimentary inventory control and management systems.

The other aspect of retail IT is hardware. The typical investments here include the POS machines, which can capture customer data and the inventory counting systems like scanners and hand-held palms. IBM and Siemens are among the chief hardware providers to the industry.
ETIG-IRMC SURVEY:

At ET Intelligence Group, they have tracked the evolution of IT in Indian retail over the last three years. In their earlier survey, they wrote about the JDA implementation at Shoppers' Stop, Pantaloon's use of Baan and the in-house software in some supermarkets. In this survey, they decided to take a wider sweep of IT practices in Indian retail.

Presented here is the ETIG-IRMC 'State of Retail Technology in India' Survey, a study focusing exclusively on IT usage practices in the retail business in India. A first-of-its-kind survey, it was conducted with the objective of providing Indian retailers with a credible assessment of the state of current retail technology and assistance in charting out the way forward in selection and deployment of technology solutions for competitive advantage. The study was done by Integrated Retail Management Consulting (IRMC), a Bangalore-based retail consultancy, exclusively for this product. ETIG and IRMC will continue to provide the readers with similar insights on an annual basis.

The study points out key trends among retailers with regard to IT.

- There is an overwhelming need for good and reliable data capture at the point of sale and data consolidation for analysis at the head office.
- Key impediment to launching a chain-wide IT initiative has been lack of vendor support at remote locations and high costs of such initiatives.
- Among large retailers, implementation of enterprise-wide solution is a priority.
- E-commerce initiatives are restricted to B2B rather than B2C sectors.

The overwhelming focus among responding retailers has been on the basics of POS data capture rather than new technology deployment, though there is a reasonably high degree of awareness of new and emerging retail technologies like self checkout, mobile billing, virtual display kiosks, radio frequency tagging and so on. Only some retailers said they had or were implementing IT-enabled CRM initiatives.

MAIN FINDINGS:
The Indian retail landscape is evolving at an incredibly rapid pace. Existing Indian retailers are facing intense competition from the several organized players entering the fray and are, therefore, investing substantially in retail IT systems besides IT-enabled initiatives like CRM, supply chain management, assortment planning and so on. The growing emphasis on retail IT among both the
established and the new players becomes evident from the fact that a large number of retailers participating in the survey have indicated an increase in retail IT budgets.

Retail IT budgets:
The survey reveals that several Indian retailers are planning to hike up their IT spend over the next three to four years. Retail IT budgets are expected to rise from less than 1 per cent of their existing retail turnovers to between 1-5 per cent of their anticipated retail turnovers between years 2002 and 2005.

Focus areas:
Most of the funds in retail IT are being pumped into POS, says the survey. 87 per cent of the retailers indicated investments in this area to be the most critical in the last two years. This is in line with international trends. Future IT initiatives areas will be around network and communication, collaboration with trading partners and implementation of CRM.

The key requirements of the retailers:
Inventory management, information access & dissemination and data consolidation & accurate data transfer emerge as the most desired functionalities of an enterprise-wide retail IT initiative. For retailers across the spectrum - large and small, regional and national, single and multi-store - accurate inventory management tops the requirements list. So for the IT solution providers in the Indian market, solutions for managing accurate inventory holds greater promise than advanced product features like collaborative forecasting and web-enabled retailing capabilities.

Significantly, retail IT functionalities enabling CRM across the enterprise are seen by retailers as less critical than basic data transmission and consolidation capabilities. For the in-store retail system, the chief requirement among retailers appears to be the speed of servicing a customer at the store. Also important is the ability of the system to provide better product information to the shopper. Here, devices like interactive information kiosks installed within the store will find takers among retailers.

Apart from customer service, retailers also look at the integrity of data capture and reliability/bandwidth of the data communication infrastructure. Integrity of in-store data capture will make it necessary for such systems to interface with allied technology products like bar code readers, Electronic Article Surveillance (EAS), RFID and so on. Reduction of theft/shrinkage is not seen as a key functionality delivered by the in-store systems. This may be because of lower
levels of awareness of new and emerging technologies like RFID and EAS among
the respondents.

**Outsourcing:**
Like international retailers who resort to third party vendors for most of their
maintenance and enhancement work, study seems to indicate that Indian retailers
also have tried outsourcing for bulk of their retail IT activities. It helps free up
critical resources for core functions. Lack of internal expertise is another reason.
Significantly, 'availability of standard applications' is cited as one of the main
reasons for outsourcing. These points to the popularity of best-of-breed package
applications among Indian retailers.

**Stumbling blocks:**
Considering the level of penetration of retail technology, the survey also tried to
pinpoint the hurdles in implementing IT packages. *Inadequate support for good
software is the major obstacle*, say 71 per cent of the respondents. Notably, it is
the non-availability of support rather than non-availability of a good software
product that is the main impediment (see graph 'The Hurdle Race'). It is
imperative for software solution vendors to create a credible and broad-based
support network to overcome this problem.

The other hindrance is the amount of money involved in setting up IT systems.
This is especially true for small retailers who are unable to derive economies of
scale on retail IT project investment. 32 per cent of the respondents mentioned
lack of maturity among users as a problem area. Solutions providers, therefore,
need to have an appropriate training and hand holding procedure in place for
successful implementation of IT initiatives.

**4.14 Retail Systems – IT Challenges for the Indian retailer**
Increasingly, the organized retail industry is realizing the importance of
information technology in bringing about process improvements, which would
result in greater operating efficiencies and hence increased profits. But the
awareness of IT systems that are available is low, resulting in poor decision-
making. A number of organized retailers in India have installed solutions ranging
from simple Point of Sale (PoS) systems to complex Retail ERPs. But who are
these retailers and what kind of IT systems have they employed? Broadly, one can
classify the retailers into four types, namely:

- **Large retailers** having a chain of over 30 stores: These large retailers, mainly
  supermarkets and departmental stores, use custom-built systems. Some of them
  have implemented ERP packages to take care of their back-office systems.
Mid-sized retailers handling more than 5 stores, with plans to expand to about 15-20 stores in the next two years: These retailers primarily have departmental store formats catering to a variety of merchandise. A number of them have their own private labels for all the merchandise sold in their stores. This large group of retailers has spent a lot of time and effort in implementing packaged IT solutions for POS, demand forecasting, purchase orders and inventory management. A proven solution in many countries, which has found acceptance with many retailers in India, is Retail Pro, a good fit for retailers with 1-50 stores. Higher-end solutions like JDA, SAP IS Retail or RETEK, targeted at larger retailers with more than 300 stores, have also found acceptance in India, though the payback period for such investments can be as high as five to eight years.

The manufacturer-retailer: These retail showrooms are exclusively owned by the manufacturer or are owned and managed by franchisees of the manufacturer. Some of these retail outlets also have Retail Pro for POS as well as the back-office, while others have their software developed from vendors for the same functionalities. In this segment of retailing, it has been noticed that the manufacturer's own stores and franchisee have different IT packages, which lead to data integration problems and delayed receipt of information at the head office of the manufacturer retailer.

Small retailers with less than five stores: These could be specialty apparel retailers, discount stores or departmental stores. They usually have a vendor developed POS system connected to an inventory system, though some of them have started using more sophisticated software packages.

Future of IT trends for the retail
The last few months have not been very good for retailers around the world. The Indian retail industry has grown just 5 per cent, compared to a 10 to 15 per cent year-on-year growth in the previous years. In such a situation, is IT a priority area? Off course, it is. In the next few months, Indian retailers will try to make do with their current IT systems. Because new stores are opening, different formats are being experimented with, and the existing IT systems will be extended, or additional licenses will be bought for IT applications. In the short term, the emphasis would be on using the existing IT resources to generate more information. At this stage, retailers plan to leverage gains from their IT investments. One way of ensuring this is to have information about their customers and devise ways to get repeat business from existing customers. In
order to do this, the retailer would need Customer Relationship Management (CRM) or On-Line Analytical Processing (OLAP) software to run on top of its existing database.

**Customer relationship management**

CRM could be used for, amongst other things, campaign management, to understand the buying patterns of 'loyalty cardholders' and the integration of multi-channel sales. There are a number of CRM packages like TALISMA, SIEBEL, CLARIFY, RETEK CRM, SALES LOGIX, etc., which could be used for this purpose. The only concern here is that the database to be analyzed by the CRM package only records purchases identified through the customer loyalty cards of the retail chain, which adds up to about 25 to 30 per cent of all sales. For the retailer, the flip side to this is that he gets detailed information of the buying patterns of his existing customers and he can plan strategies to get those customers to come back to his store.

**Online Analytical Processing (OLAP) tools**

To analyze a wider spectrum of data, retailers could use OLAP tools in order to segment the sales and carry out behavior analysis. OLAP tools that could be used are Arthur Planning, Oracle Analyser, Adaytum, Cognos, Business Objects, etc. These OLAP tools are very versatile and can analyze the sales data from the PoS and determine the trend of sales for the categories and sub-categories of merchandise sold from the various stores. This analysis would enable the retailers to understand the type of merchandise sold, the frequency of sale, the geographical spread of the sales, and also provide 'what if' analysis for projected sales, price changes, etc. Retailers can then increase sales by providing the correct merchandise and devising promotion strategies.

**B2B software**

For manufacturer-retailers and other retailers who promote their own private labels, the need in the current context would be to monitor the complete manufacturing and supply chain. This can be done through vendor management software, which utilizes the Internet for accessing the details. This B2B site would entail confirming the garment design to the vendor by the retailer, monitoring the fabric purchases from the fabric vendors, monitoring the stitching and delivery of the apparel to the retailer's delivery centre (DC), and the invoicing and payment to the vendors by the retailer. Accessing the Internet from any location could do all this. The vendors would enter the relevant data from their end. This would help reduce costs and ensure the availability of merchandise at the stores.
Collaborative planning and forecasting (CPFR) tools

The use of collaborative planning and forecasting tools (CPFR) would help control costs for the vendor and the retailer, as production would take place after taking into account the planned merchandise requirements of the retailer. This would be a Web-based system, and can be built to suit the needs of the retailer and the vendor. Hence, the short term IT needs of the organized retailer would revolve around his ability to service the customers in a better manner by using CRM and OLAP tools, and to reduce costs by using Web-based systems of vendor management and CPFR.

In a longer timeframe of 2 to 3 years, what should the retailer do on the IT front to retain his competitiveness? To meet the growing needs of the future, there is a need now to take stock of the present IT infrastructure and look at the requirements for the future. The requirement of the future would be to evolve IT as a strategic enabler for the organization. With increased business due to the strong economic situation in the country increasing sales and productivity, retailers need to look closely at their internal systems and procedures. Non-value-adding activities need to be weeded out and replaced by efficient systems and procedures. This exercise would help retailers to define the efficient functionality required for the future. Having defined the functionality, retailers need to understand how information technology would support the efficient implementation of the revised systems and procedures in terms of computer systems, hardware, software and networking. Retailers also need to understand how the IT systems would be integrated and networked across the country's stores and the head office of the retailer.

With the projected growth of organized retailing in India, large to mid-sized retailers need to upgrade their IT systems and take into consideration the technology trends — some of which are currently nascent, but which will evolve to become important assets for the future.

Retail ERP packages

In the future there would be a need to evaluate if retail ERP packages like JDA, SAP- IS, RETAIL-PRO and RETEK are suitable for Indian retailers. These products have an integrated solution for demand forecasting, merchandising, replenishments, supply chain, etc. Most of these packages have built-in CRM, OLAP tools, collaborative planning and supply chain systems that are tightly integrated with the merchandising and forecasting functionality. Though the flip side is that these packages are costly, the return on investment takes longer and expertises to implement the systems are gradually being developed in India.
Hence, it would be a good idea to evaluate these packages, determine the cost-benefit analysis, and wherever possible, source the software from one vendor organization that would provide all the functional requirements of the retailer from an information technology perspective. 

The Indian experience in implementing Retail ERPs has been difficult due to the lack of trained ERP package implementers in India. Hence, the cost of implementation has gone up, as package experts have to be brought in from abroad. But this is true for all ERP implementation in India, whether in the retail sector or in the manufacturing sector. In the past, manufacturing industries also faced difficulties in implementing ERP packages specifically meant for the industry, but over time, with expertise in the packages and in their implementation building up within India, the success rates of such implementations have increased. Hence, over the next two to three years, Retail ERP expertise will grow and will be able to support the needs of Indian retailers, who in that timeframe would have progressed up the learning curve on the benefits of information technology.

**Business optimization software**

a. **Product pricing software**

One of the most critical challenges faced by retailers carrying thousands of products / SKUs is 'pricing' — the ability to price almost all the products suitably, all the time, so that sales of even individual items yield a net profit. The advent of sophisticated price optimization/revenue management techniques offers significant prospects for enhancing profitability. DEMANDTECH and KHIMETRICS, two US-based software product vendors have come up with products that help retailers to optimize the prices of their products. These companies have been beta testing their software product with some of the retailers in the US. The advent of pricing decision support techniques for the retail industry has opened up various possibilities for the retailers. Though it will take some time for such products to come to India, retailers here need to understand the features of the products and how these products can help them in their pricing decisions.

b. **Merchandise optimization software**

Retailers still have difficulty in ensuring that customer requirements are fulfilled. There are a large number of occasions when customers have found that the items are not available when they visit the stores. Increasingly, from a retailer’s perspective, there are times when goods are sold at marked-down prices. Now a new set of software applications has been developed which apply sophisticated data processing techniques to existing inventory and sales data to accurately
determine future patterns of supply and demand at the item and store level. These types of business optimization software are still at a nascent stage in terms of usage. But in the years to come these software applications will be used by a large number of retail organizations.

**Mobile computing**

The uses of mobile computing for optimizing inventory and supply chain efficiencies have been enabling retailers to reduce costs. WAP (Wireless Application Protocol)-enabled, handheld personal digital assistants (PDA) and mobile phones are becoming increasingly important for retail operations. With the use of mobile computing, inventory positions of actual stock in hand at the stores can be entered in the mobile handheld devices and transmitted to the back-office computers for verification of stock. Similarly, supply chain efficiencies can be increased by ordering items through WAP-enabled PDAs, which will reduce the timeframe for the supply of stocks.

**B2C**

The growth in B2C retailing has not taken off in India, primarily because of the apprehension in the minds of the consumer about the security of the payment systems and the efficiencies of the supply chain. The consumer is concerned about the fact that the articles ordered might not reach him due to inefficiencies in the logistics of delivering the product to his home/office. Over time, these inefficiencies will also be removed, and over the next two to three years, retailers will have to cater increasingly to this channel. They would need to start building the IT infrastructure to enable such transactions over the Net.

**Retail exchanges**

Various retail exchanges have been set up in the US and in Europe. One of them is the World Wide Retail Exchange, which enables retailers to interact with vendors and with other retailers for B2B transactions. Such exchanges help in reducing transaction costs. They need to be set up in India too.

Overall, in the long run, Indian retailers need to look at an integrated IT support system to take care of their information requirements. Indian retailers would have to plan their IT requirements keeping in mind these future developments. They need to start now so that they are prepared when business picks up in the months ahead.

(Source: Vivek Mehta ,"IT Challenges for the Indian retailer", TCS, 2005)

4.15 CONCLUSION

The study of retailers brings out the reality from the hype - the E-commerce wave which swept Indian retailing too like everywhere else on the globe - B2C e-
commerce is not happening. Retailers have realized that it is more important to focus on the basics and get them right first. Accurate inventory control is the main requirement of an enterprise retail system. Overall IT expenses in retail are on the rise and some retailers are now looking beyond basic applications to higher levels of IT functionalities. There are some problem areas like non-availability of support and lack of appropriate training which obstruct the spread and successful implementation of IT packages and therefore need the attention of solutions providers.

The End