CHAPTER II
CHANGING RETAIL BUSINESS MARKETS/GLOBALIZATION

2.0 The Globalization of Retailing an historical overview

Let’s first see what brought about the globalization of retailing – truly the most significant change that occurred in retailing since the department store evolved out of the town fairs of the 15th and 16th century. Then see what are the potential implications of this for India - one of the world’s great and most powerful nations; yet with undoubtedly the least sophisticated retailing industry of any major country.

Retailing in 1966 was a regional business, dominated by department stores, most of whom did their business in one major city in the U.S. or Europe. Les Wexner a former coat buyer had just opened his first store in Columbus Ohio and called it the Limited. Don Fisher had an idea to open a chain of stores to sell Levi Jeans – he called them The Gap. And Sam Walton had opened his first store in Bentonville Arkansas in 1962 – And decided to call it Wal-Mart. European retailing was dominated by major stores in Paris, London or Berlin and the concept of the regional shopping center was just developing. The first enclosed mall, Northland, opened in Minneapolis in the early 60’s – driven by the need to make shopping more customer friendly in the frigid mid Western Winters. Designer brands were in their infancy – Ralph Lauren, Calvin Klein, Gorgio Armani began in the late 60’s, and were then essentially small national businesses – barely known beyond their borders.

In the relatively short period of thirty five years all of this has changed – accelerating in the past decade, Today, major retailers, luxury and mid priced brands, and mass market chains all have a global strategy – most are developing the internet as an additional marketing tool – and today Wal-Mart at $200 billion is the largest company in the world, driven by global expansion and based in 9 countries; Carrefour, the worlds second largest retailer operates in 26 countries, and Metro in 23 countries. What brought about this dramatic change – changes in priorities for globalization, specialty chains, luxury retailers, brands, changes in sourcing, all thinking globally and where is all of this heading? What happened? Within forty years the economic structure of the retailing world changed at a geometric pace – changes that were fueled by economic growth, sourcing, and brands that accelerated consumer demand through out the world.
2.11 The American economy grew at an unparalleled rate.

Per capita income in America tripled between 1960 and 2000. Life expectancy in 1900 was 45 years in 2000 was 75 years. In the past six years net household wealth rose almost 40% to $75,000 from $55,000. Foreign held assets in the U.S. grew from $2.4 Trillion in 1989 to $9.7 Trillion in 2000. This growth fueled an enormous expansion of retailing, shopping centers and stores proliferated at an unprecedented and possibly unhealthy rate. By 1998 there was 20 feet of retail space for every man, woman and child in the U.S. – up from 5 Feet in 1960. This too rapid growth produced over expansion. Too many retailers, too much space, too many suppliers. The result a consolidation that saw the number of U.S. major department store groups decline from 12 to 6 in a decade and the disappearance of such names as Montgomery Ward, Woolworth, Bonwit Teller, Gimbels, B. Altman and Woodward & Lothrop, among others.

America accounts for 40% of the world GNP and as it became apparent that retailing was a mature industry in the U.S. – retailers and their suppliers sought new opportunities for growth and for the first time began to look beyond their borders, stimulated by the growing wealth of other economies. Similarly European retailers such as Carrefour and Metro first looked to expansion beyond their borders in Europe then globally.

2.1.2 Most changed region in the world between 1966 & 2000 - Asia

Without doubt the most changed region in the world between 1966 and 2000 was Asia. Thirty-five years ago, Hong Kong, Singapore, Thailand, Taiwan and India, these were countries of great poverty, known for producing inexpensive products or handcrafts with little or no demand for mid priced or upscale consumer products. So too was China in 1978. Even the Japan of 1966 carried a similar connotation. All of that changed – Asia and in particular China learned to produce fine quality products - leather handbags, cashmere sweaters, shoes all forms of apparel, toys and the finest of technology – TV, computers, cell phones all great value. India expanded its carpet industry and developed as a source for expensive apparel. Brands like Ralph Lauren, Calvin Klein, Giorgio Armani and Donna Karen sourced major product lines in Asia.

In the 60’s the image of Made in Japan or Made in China was of cheap shoddy merchandise – that image ended. The result was more industry, more affluence, and more employment throughout the Asian region. The next step was the development of shopping centers, department stores and luxury retailers in Hong
Kong, Singapore, Beijing, Taiwan and Bangkok as well as Tokyo. This created more possibilities for retailers and manufacturers seeking new markets.

2.1.3 **Global communications grew rapidly in the post war era.**

Television, a new industry, suddenly became the norm. Virtually every household in any developing country regarded Television as a necessity. China today has more television sets than any country in the world. One is surely familiar with going through remote Indian villages and seeing 30 – 40 people gathered in a house watching TV. Television really sold the American life style to the world – people saw American homes, American fashions – American foods and kitchens – American brands – all of this created global demand. Side by side with TV was the increasing presence of American films – popularizing the same life style.

The Post War Era also saw an explosion of magazines - Vogue, Elle, House Beautiful, Harpers, Playboy, People, Time, brought fashion to Europe and Asia. One of my clients is Men's Health Magazine. In ten years, we have grown from one magazine - 600,000 paid US circulations to over 3,000,000 with 25 editions published in Europe, South American, Asia, Africa and Australia. As the world reads, goes to the movies and watches TV, demand is growing for the range of products they see – The opportunity is there.

2.1.4 **The emergence of global brands.**

This era gave birth to brands that for achieving their potential recognized the need for distribution throughout the world – in athletic footwear, Nike started in the US, Adidas in Germany and Reebok in the UK. In Cosmetics and fragrance Estee Lauder started in the US – and now does 40% of it’s 4.5 Billion overseas and is dominant in the prestige markets – Shiseido began in Japan and L’Oreal in France. L’Oreal is the world’s most dominant supplier with over 500 brands selling on all five continents, and last year had sales of $11 billion.

Ralph Lauren started in ties, Calvin Klein in coats, Donna Karan in Women’s Sportswear – Tommy Hilfiger and Nautica in Men’s Sportswear – all recognized their need to expand their range of product – then their distribution in order to grow, so moved into Europe and Asia. Today the Ralph Lauren organization has set a priority on global expansion.
2.1.5 The growth of luxury brands.
The increasing affluence throughout the world — the creation of strata of well-traveled sophisticated consumers wanting only the best tied in with the development of worldwide luxury goods representing taste, sophistication and chic. These brands achieved financial success and profitability by becoming luxury goods retailers — they opened their own stores rather than selling goods as wholesalers, as others did. Gucci is a highly profitable $2.6 billion company — turned around by Tom Ford who created a new image, Prada has almost 200 stores, and Viutton is the most profitable retailer in the world with 200 stores and grows 25% a year. Hermes, Ferragamo, Fendi and Armani (the most profitable company in Italy) follow a similar model. Japan — the world’s most conspicuous consumers drove up the popularity of these brands worldwide. Because the Japanese distribution system is so costly Japanese line up in London, Paris or Guam to purchase these brands at lower prices than home.

Suddenly the emerging markets of Asia developed luxury goods boutiques featuring shops for each of these brands which vied with each other — and offered higher and higher prices for locations not only in the Ginza but on Via Montenapoleone, New Bond Street, the Faubourg St. Honore or Madison Avenue, the world’s great shopping thoroughfares. Today for both LVMH and Gucci, Asia is their largest single market — Bigger than Europe or the U.S.

2.1.6 Financial Pressures
Many of the major brands and key retailers are publicly owned — each of them is constantly pressured by Wall Street and the financial community for growth in sales, profits and earnings per share. The best example is Wal-Mart — a company that grew from $10 Billion twenty years ago — to $200 Billion and continues to command a substantial multiple. Today Wal-Mart and its divisions operate over 3,000 stores worldwide of which 1,041 are overseas. This year Wal-Mart plans to add 300 new stores — totaling an unprecedented 40 million square feet. Wal-Mart sales exceed the combined sales of retailers 2, 3 and 4 worldwide.

In the U.S., Ralph Lauren, Tommy Hilfiger, Donna Karen and Liz Claiborne have developed global growth strategies in their efforts to meet market expectations. Ralph Lauren last year restructured his company to focus more on global opportunities. Most successful is LVMH — They own over 1,100 stores worldwide, last year grew 35% to over $11 billion and their stock sells for 51 times earnings. Gucci now owned substantially by PPR sells for 31 times earnings is worth $8.5
billion and is now replicating their successful strategy for YSL. Burberry has rebuilt their image — created new demand worldwide and is now taking their company public. The Gap began as a retailer for Levi Jeans — then added other private label products under various corporate brands. When Mickey Drexler joined the Gap in the late 1970’s, he combined all 14 brands into one — The Gap — and the label on every product became the same as that of the store. Driven by pressure to grow, Gap added an upscale chain Banana Republic and a more moderate chain to compete with the mass stores — Old Navy. Simultaneously Gap developed an overseas presence in the UK, France and Germany and is now moving into Asia. And the business next year will reach $14 Billion. Gap is part of a new generation of value driven specialty stores who design and source their own fashion, offer excellent value, and in each case the store becomes the brand. H&M based in Sweden a $4 billion retailer, by next year will have 800 stores in 14 countries, including 100 in the U.S., Zara in Spain, and Next in the UK are all part of this growing specialty retailer group.

Toys’ R Us — Became the classification killer dominating the toy Industry — with 1481 stores, 432 of them outside the U.S. and does two of its $11 Billion global business in Asia. Under John Eyler its new creative CEO, they are developing specific toy products for each global region.

2.1.7 The growth of the Internet

Possibly no development has greater future potential for stimulating globalization of retailing in the next decade then the internet. Today it is already becoming clear that the most successful retailers on the internet will be those that combine an on line presence with an off line presence, be that a retail store, a catalogue or both. Our most successful Internet companies today include. JC Penny — $300 million with a $ one billion goal, Wal-Mart, Kmart, Lands End and Gap, each with internet volumes well over $100 Million. Wal-Mart has stated its goal to become the world’s largest Internet retailer. Today global internet use is rising exponentially. By 2002 the estimated number of internet users will be 521 Million people and in 2003 it is estimated that $1.64 Trillion worth of commerce will be conducted over the internet. The total number of current users among the top 10 countries is 213 million people. In the future, there will not only be more people on the Web but they will be accessing it faster and more efficiently — Broadband technologies are becoming increasingly available and usage will grow rapidly. Despite this in many countries, we are only scratching the surface for the internet. Consider these statistics for July 2000.
Population | % of Internet Users | % of Population Using the Internet |
--- | --- | --- |
Canada | 31.3 Million | 13.5 Million | 43.2% |
US | 281.4 Million | 115.0 Million | 41.7% |
UK | 59.5 | 12.2 | 21.0% |
Italy | 57.6 | 12.2 | 15.9% |
Japan | 126.5 | 19.6 | 15.5% |
Germany | 82.8 | 12.0 | 14.5% |
France | 59.3 | 7.0 | 11.8% |
China | 1,261.8 | 8.9 | 0.7% |
India | 1,050.0 | 4.0 | 0.4% |

As content, presentation and facility for ordering grow — and broadband increasing the usage of computers, the retail business will grow globally. It is incredible to think of all those changes taking place over only 35 years — globalization is a fact of life in many parts of the world — but barely beginning in India.

2.2 **Indian perspective**

Now what about India? Clearly one do not have the basic knowledge of retailing in India today that world have of many parts of the world — but based on perceptions of retailing and India, one can have strong beliefs about the potential and what can happen. India can be one of the greatest single opportunities for retailing growth of any major nation over the next decade.

**Modern Trade V/S Traditional Trade**

| India's Share- (Based on FMCG Categories in %) | 2003 | 2004 |
--- | --- | --- |
Modern | 07 % | 10 % |
Traditional | 93 % | 90 % |

Source: Ac Nielsen Shopper Trends 2005

Why — and what must happen. India today with a population of over one billion — has a growing middle class — by Indian standards — of 150-200 million people, as well as a select but rapidly growing high income household group - of some to 3-5 million people. These middle and high income household grow 10% per year supported, by an Indian economy that has had consistent 6-7% or more growth in GNP. Indian life styles are changing with more and more women better educated, entering the work force — and more and more two income households with higher disposable income.
The increase of sophistication, travel, the growth of cable television and affluence creates increasing demand for better products and better retailing from this new generation of consumers. Yet what is the offering of retailing and of global consumer brands today? Although there is a beginning of some malls and some multi brand stores – India as a country dramatically lags behind the rest of the world. Indian retailing today is mostly about 12 million retail outlets – almost all at the most primitive rural subsistence level – essentially single family units – organized retailing lags for behind the rest of the world.

There is increasing consumption of cars, TV and refrigerators reflective of these new consumers but that is on the fringe of retailing. The opportunity can be in multi brand stores, department stores, supermarkets, apparel and home furnishings chains, discount stores and luxury brands sold in their own boutiques. It is quite safe to assume that there are many retailers and branded suppliers who regard India as too difficult – almost impossible today – yet would welcome the opportunity to create an appropriate joint venture, if they felt India was changing.

2.2.1 What is needed to begin to take advantage of this enormous opportunity?
The support of government, regional and national, combined with industry to create a climate that encourages retailing growth and eliminate barriers to entry, specifically:

1. Tax laws need to be simpler – duties should approach those of other nations.
2. Foreign retail investment and joint venture should be encouraged – Land must be found to develop shopping malls – and the infrastructure improved so cars and public transportation are available. Investment should be encouraged in the retail sector and incentives offered to make this happen.
3. Better systems need to be developed to encourage use of credit cards, delivery of product, and mail order.
4. There needs to be training for retail managers either by the retailing institutions or schools – There should be an element of pride in being a successful retailer or India.

2.2.2 What can the results be?
Today, not one of the top 25 retailers in the world is in India; it is safe to believe that this can change drastically.
As one thinks about it there are enormous opportunities in:
- Men's Apparel - Children Apparel
- Women's apparel – primarily for Sportswear and accessories – recognizing the ethnic nature of women's dress
- Home Furnishings - Books - Music - Electronics
- Do it Yourself - Home Improvement
- As well as food retailing, which is undoubtedly the largest single opportunity?

2.2.3 The benefits
The benefits to India of such a program could be enormous.
1 Organized retailing can create new jobs, raise income standards and create a better quality of life through superior products, sold at more attractive prices in a better shopping environment.
2 It will create opportunities for consumer goods manufactures and suppliers. Today India produces goods for Ralph Lauren, Nautica, Levis, Liz Claiborne, Tommy Hilfiger, Zegna and many other global brands – these also can be for the home market.
3 Internet retailing – either for content or E-commerce is a major future opportunity. It is ironic that India who trains so many of the world's technicians and internet entrepreneurs lags in its own systems and development of E-Commerce. As more and more of the world participates in increasing sales of product online – frequently with an off line presence as well, this form of distribution should grow rapidly – it is appropriate to the culture of India – but requires greater confidence in using credit cards or credit, as well as more PC's and a more professional distribution system. Certainly there will be concerns for protecting the 12 million shopkeepers – but this can create opportunity for them to upgrade – participate with other retailers or improve their performance. In viewing the very positive benefits to be derived from organized retailing, it is worthwhile to contemplate the Wal-Mart program.

2.2.4 Wal-Mart program contemplation:
As a $200 billion company Wal-Mart needs to add $25-$30 billion or more each year. Currently Wal-Mart has very aggressive plans for China not merely in terms of new stores but sourcing. The Wal-Mart program calls for:
1) 97% of the products sold in their stores in China are produced locally.
2) In order to manage these stores, Wal-Mart has developed an outstanding training program to teach modern retail systems. This year they will be hiring 300 college graduates in China to educate them in the Wal-Mart retailing business model. It is certain they and others will not only manage Wal-Mart stores but over time as the program is repeated fan out across the entire Chinese retailing industry.

3) To produce 97% of their goods locally, Wal-Mart works very closely with local suppliers improving their effectiveness, and specifically through their retail link develops a sophisticated approach tying their suppliers to their stores.

4) Wal-Mart believes they set a standard in each country as good corporate citizens working with the government, complying with local legislation and fully meeting their tax obligations.

5) It is very true that Wal-Mart could have an enormous interest in India if the barriers to entry were lowered. They are aware that India is rapidly becoming the world's most populous nation and a great potential opportunity.

(Source: Marvin Traub, MTA, KSA Retail summit, 18-20 February 2001, New Delhi)

2.3 The Indian scenario

It is fascinating to contemplate the possibilities for retailing in India ten years from now. Under the proper circumstances support and encouragement, India with its diverse population, big cities, middle and upper income households could be housing malls with department stores, apparel chains, value driven specialty stores, as well as free-standing major mass market players and upscale boutiques. There is opportunity for all or none, depending on leadership within the country—a very real challenge!

The liberalization of the consumer goods industry, initiated in the mid '80s and accelerated through the '90s has begun to impact the structure and conduct of the retail industry in India. Over the last five years, there have been clear signs of an emerging revolution in Indian retail. A multitude of factors is responsible for this new awakening. Chief among these is the new demand for better products and retailing from India's first generation of demanding and cash-rich consumer. This demand has elicited a strong response in the shape of new supply, of products, formats and options, and new competition.

The Answer to a query like: Where did Organized retailing start? ; is as given below:
Food and grocery: Bangalore, Hyderabad, Chennai. Then it spread to cities like Jaipur, Baroda, Ludhiana, Indore, Patna, Lucknow, Pune, Ahmedabad, Surat, Nagpur, Kanpur, Coimbatore, Kolkata, Delhi, Chandigarh, etc.

Nonfood: Delhi, Mumbai, Kolkata, Bangalore, Hyderabad, Chennai. Then spread to cities like Jaipur, Baroda, Ludhiana, Indore, Patna, Lucknow, Pune, Ahmedabad, Surat, Nagpur, Kanpur, Coimbatore, Kolkata, Delhi, Chandigarh, etc.

The scenario in 1999 was as follows:
- Unorganized Retailing accounted for Rs 5,83,000 Crores
- Organized-Nonfood accounted for Rs.5,000 Crores
- Out of which organized food and grocery accounted for mere Rs. 600 Crores

The projected scenario in 2005 is as follows:
- Unorganized Retailing to account: Rs 7,08,836 Crores
- Organized-Nonfood account: Rs. 29,842 Crores
- Out of which organized food and grocery would account: Rs. 5,956 Crores

Note: Food excludes hotel & restaurants
Non-Food excludes fuel, automobiles and entertainment. Also excludes government and co-operative retail activity
(Source: KSA Technopak presentation on “Retail Vision 2005” at retail summit 2000)

What’s the size of the market?
- Value added foods: Rs. 77,000 Crores to Rs. 225,000 Crores in 2005
- Pharma: Rs 8000 Crores
- Music & Entertainment: Rs. 4000 Crores
- Colour cosmetics: Rs. 1200 Crores

250,000 Crore Opportunity!!

The top 20 cities in India -
North: Delhi, Chandigarh, Jaipur, Lucknow, Ludhiana
East: Kolkata, Bhubaneshwar, Guwahati, Patna
West: Mumbai, Ahmedabad, Surat, Nagpur, Pune, Indore
South: Bangalore, Chennai, Hyderabad, Cochin, Madurai

2.3.1 What Drives The Industry?
The actual composition (the distribution of the types of retail stores) of the retailing industry in a particular geographic area is determined by the following factors:

I Demographic trends
II Life style Trends

I Demographic trends:
Demographic trends involving population size, the number of households, population mobility, its location and income dominate a retailer's strategic planning for the future, hence qualifying him for a particular category from the ones described above.

II Lifestyle Trends:
Life-styles represent the ways in which individual consumers, families or households live and spend time and money. The life-style trends, in correlation with demographic trends, do have a great impact on the structure of the retailing industry. The trends regarding some factors must be understood and adapted to by the retailers.

2.3.2 Change Drivers: Macro Environment
- Globalization of MNCs (Retail & brands)
  - Gautier, Lifestyle—"Pringles"-P&G,"FOX'S"-Nestle.
  - Britannia's International portfolio-global brands of Cookies and confectioneries
- Easing of import barriers: India is importing a large array of products ranging from food to furniture
- Release of restrictions would further enhance the Dismantling of APM, release of unproductive space into retail arena by DOP, Railways --- will align with multiples?
- Urban land acts modifications.

2.3.3 Key drivers of this retail revolution
Over the last decade, there has been a significant evolution in the Indian consumer. Although it is most noticeable in the large metros, it has also impacted smaller towns across the country. Some of the key drivers of this retail revolution are:

1. Rising income
2. Media explosion
3. Change in women and in family structure
4. Rural market waking up
5. Supply chain management and establishment
6. New competition
7. Entry of corporate into organized retail
8. Expansion of family owned businesses
9. Entry of new entrepreneurs
10. Retail project funding
11. Building of chain around brands by the manufacturers
12. Emergence of retail activity hubs
13. Changing scale of operations
15. More competitors are eyeing the retail industry
16. Entry of MNC retail majors

1 Rising Income
Over the last decade, India’s middle and high income population, having an annual income of over Rs. 60,000/- has growth at a rapid pace of over 10 percent per annum, even as the large low income base shrunk. This growth is most evident in the urban markets, but has also impacted rural markets. This growing high income population is triggering off the demand for consumer goods and will enable the penetration of higher quality / higher priced products.

2 Media Explosion
Over the last decade, there has been a radical explosion in media. The rush was kick started by the cable explosion and has accelerated to a point where there are more cable connections than telephones in Indian homes today and about 80 channels being aired all times. The media bombardment has exposed the Indian consumer to the lifestyle enjoyed in more affluent markets and raised their aspirations as well as demands from the shopping experience.

3 Change in women and in family structure
Multiple studies and investigations have uncovered an urban woman. Today typically, she is better educated and in many cases, working. There has been a simultaneous shift in the family structure, with unclear families becoming a significant component of urban markets. This is estimated to be as high as 70 percent. The modern Indian women is seen to be being increasingly under time pressure, desirous of sometime for herself, willing to indulge and award of her shortcomings in terms of knowledge in the home / kitchen. She is therefore more prone to convenience option, more demanding on store ambience and looking for solution providers and external guarantors of quality and usability.

4 Rural market waking up
The rural market is beginning to emerge as an importance consumption area. For many basic products, it has always been an importance consumption point. However now it has begun accounting for over one third of the demand for most key consumer durables and non-durable products as well. In response to these
manufacturers of consumer goods both FMCGs and durables have begun developing new products and marketing strategies with the rural consumer in mind.

5 Supply chain management and establishment

Over the last few years, the consumer goods sector has been transformed by increased liberalization and sophistication in consumer goods manufacturing, a continuous reduction in customs duty, and a shift from quota to tariff based systems. Auto durables have been in the vanguard with the explosion in capacity, models and demand, and FMCG categories such as dairy, juices, biscuits and personal care products have followed suit.

Entry restrictions for multi-nationals have been removed in nearly all the sectors, allowing the arrival of SONY and SAMSUNG in durables and KELLOGG'S and PERFETTI in FMCGs, to mention only a few. This has led to a situation where a chain retailer enjoys better range depths and sourcing options as well as better average margin. Range proliferation is in strong evidence across all categories. During latter half of the last decade about 19 consumer goods categories, 1378 brands and 2579 individual products entered the Indian market. Simultaneously, with the explosion in brands in grocery and durables high quality sourcing options in apparel have become available. In parallel with this rise in supply of products is the rise in supply of quality retail space. The growth of modern retail formats has tempted a number of real estate companies, and other corporates, to invest in development of malls. Further projects for six million square feet of mall space are under implementation across six key cities over the next few years. Suddenly, from a famine of real estate, there may be a surplus, as India still lacks enough quality retailers to fill this space easily. Refer Appendix-I for a list of retail brands in Indian Market.

6 New Competition

Over the last five years, there has been a proliferation of organized sector players entering or expanding their presence in the retail market. A number of these entries are showing signs of early success, and appear to be positioning themselves to capture a long-term business opportunity.

7 Entry of Corporates into organized retail

Large Corporates have begun entering into the arena of organized retail in the last five years. Over the last five years, a number of large business groups such as TATA, RPG, RAHEJAS and PIRAMALS have been setup Stores/malls and built business retailing, Petroleum retailers such as HPCL, HCL, and BPCL are also expanding their presence from fuel retail to grocery in the name of SPEEDMART,
BAZZAR and convenience stores in the name of CONVENIO. While many of these initiatives were initially driven by the need to use existing real estate, they are beginning to assume the contours of a serious business today. Refer Appendix-II for the list of organized retailers in India.

8 Expansion of family owned business
The most successful of these are the Rs.150 Crore VIVEK's. The 40 year old Chennai chain selling consumer durables, the Rs.50 crore PANTALOONS apparel retail business and Bangalore's Food retailer Nilgiris.

9 Entry of new entrepreneurs
The growing attractiveness of retail has begun to attract new entrepreneurs with ideas, and venture capitalists with funds. SUBHIKSHA, an innovative discount grocery cum pharmacy chain in Chennai, has expanded to a total of 57 stores in less than three years, and is one of the most successful retail start-ups of the recent past.

10 Retail Project Funding
Impressed with the profits in retail and its steady rise financial institution like ICICI and venture capitalists such as IL & FS are also increasingly willing to invest in retail business.

11 Building of chains around brands by the manufactures
Brands in apparel, footwear and durables have driven the growth of specialty chains and upgraded existing multi-brands outlets. Some like REEBOK claim to have entered retailing because of the paucity of suitable multibrand retailing options. However, today, many of these are emerging as large retails (TITAN, MADURA GARMENTS, and RAYMONDS) and appear to be committed to developing their retail businesses.

12 Emergence of retail activity hubs
Delhi, Mumbai, Chennai, Bangalore, Pune, Hyderabad, Indore and Vizag have become major retail hubs in the country. In these hubs, about one fifth of food sales flow through super markets and one fourth of durables sales come from Speciality chains.

13 Changing scale of operations
SUBHIKSHA has over 55 stores in Chennai and Food World has 45, Spread over Chennai, Bangalore and Hyderabad. This growing scale is enabling these supermarkets to eliminate links in the Purchasing Chain and to craft deals with Food processors directly. In fact, the scale of purchases has made India's largest consumer goods company, HLL, dedicate a special team to deal with these emerging power retailers.

14 Shifting of Purchase habits towards super markets in metros
Shopping behavior in urban India has evolved over the last few years. A survey of Indian women revealed that 40 percent felt that their shopping patterns had altered in the last five years. The increase in variety, quality and availability of products, as well as an increase in spending power has resulted in consumer increasingly using supermarkets for their personal shopping. However, although as much as 30 percent of the women surveyed said that they bought their toiletries and other personal care products in supermarkets, only eight percent bought their fresh produce there.

15 Core competitors are eyeing the retail industry
From an ignored industry until last decade, the level of interest in retail as a growth opportunity has increased visibly. Large conglomerates like the TATA, ITC, PIRAMAL, RPG, RAHEJA have initiated investment, the BIRLA have acquired the Madura Garments apparel business, while RELIANCE has publicly committed to developing a retail business along with the development of its fuel retailing networks.

16 Entry of MNC retail major
Foreign retailers are looking for entry options in India. The increasing attractiveness of the retail sector is raising the interest of a number of global retailers. A number of MNC retail major including TESCO, KING FISHER, METRO, CARREFOUR and AHOHD, are exploring entry options. In apparel, Benetton, Lifestyle and Zegna are already in business, and DAIRY FARM has a number of Joint-ventures for retail in India. Refer Appendix-III for the list of MNC retailers in Indian Market.

2.4 Several Change drivers already in place
A number of the drivers of the transformation in retail such as income growth, the entry of best practice foreign retailers freeing of real estate markets are already in place in India.

2.4.1 The foremost being-Convergence of Technology,
Leading to creation of homogeneous demand for new economy products and services in fields like Telecom, Information, media and entertainment coming together
- Cable Internet: Information or Entertainment?
- Digital Camera: Business or pleasure?
- MP3, Streaming Videos : at the mouse's length
- WAP : Synergy of services

2.4.2 Other drivers
- Manufacturers already active in creation of alternative channels
- Large corporate entry into the sector
- Category migration by non-IT retailers
- Expansion in private label (assembled hardware)
- Government Sponsorship to import & manufacturing
- Import duty
- Tax policy

2.5 Industry Players

What is the reason that big groups like Tatas, ITC, Piramal Enterprises and SKumars are putting huge amounts of money into retailing? The answer is very simple. Now, just a couple large organized retailers are in the market whose turnover crosses Rs. 100 crore. And in this sector anything above 25 crore counts you as a major player. Consultants like A.T.Kearney have predicted that by year 2005 retailing will be worth Rs. 1,60,000 crore in India.

Table 1: Gives an overview of the main players in this sector along with their expansion plans:

<table>
<thead>
<tr>
<th>Company</th>
<th>Turnover Rs. Crores</th>
<th>Number of Outlets</th>
<th>Space (in sq ft)</th>
<th>Expansion Plans to be achieved by</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPG</td>
<td>156</td>
<td>27 Food World</td>
<td>2,00,000</td>
<td>50 Food World 8 Music World</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 Music World</td>
<td></td>
<td>18 Health &amp; Glow Outlets for</td>
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<td></td>
<td></td>
<td>4 Spencer's outlets</td>
<td></td>
<td>Turnover of 23.75 Crores per month</td>
</tr>
<tr>
<td>Shopper's</td>
<td>130</td>
<td>1 each in</td>
<td>1,00,000</td>
<td>15–17 outlets if FIPB approves</td>
</tr>
<tr>
<td>Stop</td>
<td></td>
<td>Mumbai,</td>
<td></td>
<td>Foreign Equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bangalore,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hyderabad,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Delhi, &amp; Jaipur</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vivek &amp; Co.</td>
<td>90</td>
<td>8 Chennai</td>
<td>1,00,000</td>
<td>10 in Chennai &amp; Bangalore</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 Bangalore</td>
<td></td>
<td>7 in Hyderabad Vishakhapatnam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Salem</td>
<td></td>
<td>&amp; Vijayavada</td>
</tr>
<tr>
<td>Nilgiris</td>
<td>76</td>
<td>17 Super Mkts</td>
<td>80,000</td>
<td>4 outlets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14 Cakeshops</td>
<td></td>
<td>30% Growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In terms of</td>
</tr>
<tr>
<td>Company</td>
<td>Stores</td>
<td>Stores Type</td>
<td>Turnover</td>
<td>Location</td>
</tr>
<tr>
<td>--------------</td>
<td>--------</td>
<td>-------------------</td>
<td>-----------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Pantaloons</td>
<td>60</td>
<td>12 + 40 franchises</td>
<td>90,000</td>
<td>11 Super Stores</td>
</tr>
<tr>
<td>Vivek &amp; Co</td>
<td>90</td>
<td>8 Chennai</td>
<td>1,00,000</td>
<td>10 in Hyderabad Vishakapatnam &amp; Vijayavada</td>
</tr>
<tr>
<td>Nanz</td>
<td>40</td>
<td>15 Supermarkets</td>
<td>70,000</td>
<td>N.A.</td>
</tr>
<tr>
<td>Vitran</td>
<td>25</td>
<td>11 Departmental Stores</td>
<td>50,000</td>
<td>20 outlets</td>
</tr>
<tr>
<td>Crossword</td>
<td>16</td>
<td>Ahmedabad, Delhi, Pune</td>
<td>27,000</td>
<td>25 Stores</td>
</tr>
<tr>
<td>Landmark</td>
<td>N.A.</td>
<td>Coimbatore</td>
<td>18,000</td>
<td>Plans to open Mall in Kolkata with Emami</td>
</tr>
<tr>
<td>Kemp</td>
<td>N.A.</td>
<td>2 Stores in Bangalore</td>
<td>1.25,000</td>
<td>Kemp City</td>
</tr>
</tbody>
</table>

Source: "Rushing into Retailing" Business World, 31 May 1999

Note: N.A. = not available.

Cross Roads, another major player promoted by the Piramal Enterprises is making waves in Mumbai. It started its operations in August - September 1999 and details of its operations were not available to incorporate in this report.

2.5.1 Major Players At a Glance

RPG: The expected growth and potential in this sector have prompted the bigwigs like RPG to go in for expansion plans. The RPG group, now having Rs.156 crore turnover from organized retailing, is expected to pump in Rs.120 crore into its expansion ventures and expects Rs.2000 crore turnovers from retailing by the end of year 2003. Its growth plan for its FoodWorld chain of supermarkets will be boosted by the decision of Dairyfarm (the retail division of Jardine Matheson), its technical partner to exercise its option of taking 49% in food world. According to Mr. Harsh Goenka, Chairman, RPG Enterprises, "moving into retailing was part of..."
our plan to change our business mix from commodity based business to service based ones.”

II Shopper’s Stop:
Shopper’s Stop launched its Mumbai branch in 1991 with their men’s line soon followed by women’s and children clothes. The concentration was on "one room, one ambience, and one experience" and its success resulted in opening new branches in Bangalore and Hyderabad. Cashing on in the current consumerist trend, the shop not only offers products but also offers an avenue to channelise operations. For customers who cannot afford a John Miller or Wendell Rodericks original once a year moderately priced truck show is held at shopper’s stop.

III Vivek & Co.:
Vivek & Co. in Chennai is good example of a multibrand store. The company operates three huge stores in Chennai and one in Bangalore with a combined area of over 1,00,000 sq. ft. Its price policy is low and its main attraction is the discount sales held annually on the New Year’s Day. Vivek & Co. recognizing the inherent dangers in too much bigness is developing about fifteen small stores with not in-depth product representation. Fierce competition and the urge to capture the untapped market, made the retailer take this decision. Vivek & co.’s presence is however largely confined to the south of India.

IV Cross Roads:
A stand-alone departmental store that spans four floors and takes up 35,000 sq.ft. A recent development in Mumbai promoted by Piramal Enterprises defined its target audience as families that have annual income of 2,00,000 to 20,00,000. The emphasis is on their target unit which is the family and not individual. Experience is what it aims at. Crossroads hosts Mumbai’s largest video games, which prove to be a good attraction for children and even elders. McDonalds has its outlet here as it feels the spill over traffic has the potential to be enormous. This traffic is being accelerated through cross promotions e.g. an event in one outlet can win the customer a prize from another. Situated in a strategic location in Mumbai, Crossroads has become a star attraction within few months of starting its operations.

2.6 Environmental Analysis
In order to understand the industry we undertook two different environmental analyses. The first is the PEST Analysis where the political, environmental social, and technological aspects are looked into. In second; the Porter’s Five Forces the competitive Environment of the industry is analyzed.
2.6.1 **PEST Analysis:**

Now, in a particular geographic region, the environment there affects the retailers in the region in various ways. We have studied the effects under the following heads:

- Political environment
- Economic environment
- socio-cultural environment
- Technological Environment

2.6.1.1 **Political Environment**

With the opening up of the economy, more and more MNC's have pervaded the Indian Business arena, through joint ventures, franchisees or even self-owned stores. The very first MNC getting into the business was Spencer's, a tie up between the RPG Group and the Dairy Farm International, a $10 bn Hong Kong based company, and a part of the Jardine Mathenson group.

Government uses regulation to prevent development of monopolies, which results in restricted competition and fixed prices. (MRTPC). Government also propounds price competition laws and unfair trade practice laws. Retailers must understand what rights they have in pricing merchandise, what provision they should make for customer relations, what rights and responsibilities they possess when making a sales, what rights their employees have and what liabilities they may face while selling products to the consumers.

2.6.1.2 **Economic Environment**

The type of economic system (capitalism or socialism etc.) existing in a country has a direct bearing on the potential for and the development of the retailing industry in that country. A retailer cannot escape the effects of the factors in the macroeconomic environment, be it domestic or global that influences the local market. Inflation, unemployment, interest rates, tax levels, the GDP and the rate of real growth in GDP (Inflation adjusted) are some aspects of the economy which a retailer must cope with.

Real growth makes more income available to people who then tend to spend more, leading to higher sales and more profits for the retailers. However growth also leads to higher competition in the long run. As the economy expands, higher demand levels lead more firms into the market, trying to fulfill the consumers' needs. The inflation (i.e. increase in price) leads to less goods being bought at higher prices. As the retailers' cost of goods increases, they attempt to pass on this increase to the consumers. However, it is often not possible to pass on the
entire amount to the consumer, hence resulting in cuts in the retailers' profits. With the increase in Purchasing Power Parity (PPP) and the disposable income of the Indian consumer, retailing is catching up at a very fast pace in the country.

2.6.1.3 Social Environment

As discussed under the title 'demographic and lifestyle trends' above, the demographic trend and lifestyle patterns, of the society that a retailer intends to serve, decide the retailer's strategy. Traditionally, children seldom accompanied their parents while grocery food shopping. Shopping for children was confined to that during festivals when dresses were brought for them. But, in the present day, due to scarcity of time, working parents prefer to spend as much time as possible with their children and this includes their shopping hours also. As the organisation retail sector offers the option of entertainment along with shopping, the younger couples opt for these retail outlets for shopping.

Speaking at KSA Retail Summit, 2000, Peter Lau, Chairman of Giordans International, Hong Kong, said, "It is the format of consumer expectation that changes, not the goods or services they want. This is depicted in the following Figure:

**Figure: Changing Customer Expectations In India**

<table>
<thead>
<tr>
<th>Value</th>
<th>Pre-80's</th>
<th>Mid-80's</th>
<th>1990's</th>
<th>2000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>Quality + Price</td>
<td>Quality + Enjoyment</td>
<td>Quality + Enjoyment + Entertainment</td>
<td>Price + Time + Energy + Stress</td>
</tr>
</tbody>
</table>

KSA Technopak conducted a study on consumer attitude towards shopping in association with the market research firm ORG- MARG in January and February 1999. The study was spread over the four zones of India viz. North, South, West and East and covered a random sample of 7300 respondents in twelve cities.

The results of this study clearly reflect that the buying patterns do vary according to the customs and lifestyle of a region. In the south approximately seven hours are spent on shopping per week. This figure is the highest amongst the four zones, which probably explains the more spurt of new malls and supermarkets in the south than in the other zones. Further, the study has attempted to find out
what a customer expects out of a store. Here, the six attributes desired by most number of people (65% and above) are polite and courteous salespeople, quality of products, non intrusive sales persons, value for money, attractive displays and range of products.

Although desired by a very low percentage of people (only 10%) yet the attribute of an entertainment centre for children has also figures in. That is to say, apart from quality and range of products, value for money and attractive displays, the human touch has a vital role to play. Smart, polite and courteous sales people might make all the difference for a store, which is like any other in terms of the product offerings. There is also emphasis on schemes and promotions, which, as the study ratifies, do pull customers. Further the trend is towards more convenience and flexibility in terms of exchange/ return policies, which play a vital role in encouraging the purchase.

2.6.1.4 Technological Environment
Technology is probably the most dynamic change agent for the retailing industry. The computerization of the various operations in a retail store, including inventory management, billing and payments as well as database (of customers) management, widespread use of bar coding, point -of-sale terminals and Management Information System has changed the face of retailing drastically. Apart from providing the retailers with better and timelier information about their operations, the technology also does the job of preventing theft, promoting the store's goods and creating a better shopping atmosphere. These can be done with the help of closed circuit televisions, video walls, in-store video networks, kiosks and other forms of interactive applications ranging from CD-ROMs to virtual reality to let customers select and buy products. They make the customer's life a lot easier by facilitating the use of developments like credit cards. Toll free 800 numbers have brought about a revolution in consumer's ordering and feedback mechanisms. These also pave way for tele-shopping and net-shopping. Emerging technologies will also facilitate just-in-time management of certain products within the store. These trends are already visible in the music and greeting card industries.

2.7 Porter’s Five Forces
As yet, we have been analyzing the retailing industry in the context of the macro-environment - consisting of Political laws, Economic regulations, Social customs and Technical standards, in the land of a particular retailer. Now we move on to
the analysis of the industry in the contest of competition prevalent within the players of the industry. This addresses the need to identify those factors in the environment, which influence the capability of a firm to achieve a competitive advantage and to position itself to such advantage. Players at different levels of scale of operations have to confront different levels of competition posed collectively by the five forces—threats of new entrants, rivalry amongst the existing firms, and pressure from the substitutes and the bargaining power of buyers and suppliers. Different forces take on prominence in shaping the competition at and also across different levels.

2.7.1 Threat of Entry

To an industry depends on the extent to which there are barriers to entry, which most typically, there are more of the following six:

i. Economies of scale are not such a big issue in the retiling industry. The scale of operation might be small for a firm to begin with and it can, in its initial stages, focus on a specific target segment whose needs can be addressed by that scale of operations. But these surely gain importance once expensive technological advancements (which may be beyond the reach of small retailers) come into picture. For instance, it may be difficult for the small firms (or retail outlets or chains) to use fully automated inventory systems or toll-free 800 numbers or in-store video networks or other interactive applications. As a result, they might lose out on the grounds of efficiency, in competition with their larger competitors. So they must adapt by concentrating on providing more personalized services to the target segment seeking it. Hence this factor is mainly responsible for triggering competition between large and small retailers.

ii. Capital requirements again depend on the scale of operations. Franchisers have an edge over the corporate retail chains in this regard as they are able to form national / international networks without high investment of their own.

iii. Cost advantages independent of size (scale) arise due to the experience gained by early entrants and the relationship they have established over time with their suppliers, manufacturers and customers. These might also pose difficulties in handling market and operational problems. This is why absolutely new local entrant face severe competition from the large retail chains operating worldwide who might want to plunder their regions, with the expertise that they have gained as a result of years of experience. On the top of it, with the help of lucrative offers, they tie-up with the existing local players who know the area well. Such an example is Spencer’s tying up with RPG to open Food World Dairy International.
iv. Expected Retaliation from the existing firms (at large scales) is rising over time or due to recent trend of foreign collaborations, they now have the financial muscle to combat any sort of competition relating to price or promotion. For small and local retailers, this is not such a big issue.

v. Legislation regarding location, prices, number of employees etc. affects the operations or even establishments of a new entrant - at large as well as at small scales. Today legislation has contributed towards increasing competition tremendously by allowing entry of foreign players, independently or as a joint venture with the local players. But it works towards keeping a check on entry by implementation of FIPB regulations.

vi. Differentiation: postulates that new entrants might have to spend heavily to overcome existing customer loyalties, which established firms are enjoying due to past advertisement and customer service or simply due to early entry into the market. To attract its target segment, a retailer will have to project some benefit(s) that he/she is offering over and above the offerings of the existing players.

2.7.2 Intensity Of Rivalry Among Existing Competitors is High

In case of tangible products in retailing industry as the existing feature in the consumer market is brand loyalty (i.e. loyalty to a manufacturer's product) rather than store loyalty. Consumers look for a particular brand which they have used/consumed/heard about, which might be available with a number of different types of retailers- big and small. Today big supermarkets or malls with specialized retailers do pose a threat to the neighborhood retail stores, which are now used for fulfillment of immediate and small needs only. On the other hand, large professional retailers face competition from more personalized retailers who might be more comfortable with offering facilities like credit on purchases, return and exchange offers, specialized, hard to get and better quality items and extended business hours in order to retain whatever customer base they have and not let it be lured away by competitors. They just have to niche around big retail stores and malls by improving customer service, tailoring selection to customer needs and not competing directly with their product lines. Big retailers cannot match small ones on value. They live on hype and not reality. E.g. Big retail stores (chains) like Wal-Mart create illusion that they always undersell the market, based on a handful of heavily promoted items at rock bottom prices, but the rest of their inventory is not as price competitive. According to the research published in Business World - May 1999, few large retailers do have large turnovers- 35.2%
the total retail turnover. But that still leaves a bulk of the market in the hands of the medium and small retailers.

Mr. R Gopalkrishnan of Tata Sons has opined that: "In India, smaller retailers continue to grow contradictory to the normal economic development where small retailers decline in numbers with their emergence of the large players." Experts feel that the size of population and the high unemployment rate have contributed to their growth of small retailers. With so many looking for work, setting up a small outlet is relatively a simple thing to do. Lastly, high (10%) industry growth has turned competition into a market share game.

2.7.3 Pressure From Substitutes emerges mainly from two factors

1. Switching costs for customers to the substitute.
2. Buyer willingness to search out for substitutes.

Also the threat of substitution may take four different forms, each of which we shall now discuss with reference to above factors.

I. Product-for-product substitution -

The growing popularity of traditional non-store retailing base of catalog mail orders, direct mailers, telephone sales, door-to-door selling, supplemented by recent innovations like vending machines, in-home video tape infomercials, on-line CD ROM systems, tele-shopping and net shopping poses a threat to store retailers. These media do provide the customers with ease of shopping, some entertainment and even more information about range of products. But still there are reasons (as per data in table 3 in Annexure 3) due to which these media are not catching on quickly (as per data in table 4 in Annexure 3) especially in India. E-tailing transactions are less than a quarter of a percent of the total retail business in India. Even in western countries, it accounted only for 20% of the total retail spending.

In the US, store based retailers, altered by analyst's predictions that online retail could account for as much as 10% of the total US retail sales by 2003, are queuing up to the internet. However, the situation in India is little different. With limited penetration of computers and Internet, will online retailing (e-tailing) catch up is a big question mark. Retailing is expected to change with the rapid development of new online sales and distribution channels that can be used from anywhere but the extent to which it will grow in India depends on the shift in the mindset of Indians whose current state gives rise to many deterrents as described by the figures in table 3 in Annexure 3.
As described in the section on challenges (e-tailing) these substitutes need to take care of these hindrances in order to grow in magnitude. Furthermore, instead of complete substitution, these media should be looking at possibilities of collaboration with the existing store retailers.

II Substitution of need -

We take switching from one store or one type of store (e.g. small neighborhood retail outlet) to another (e.g. a big department store) as an example of this type of retailing. In this case, the buyers might be looking out for new experiences and might not mind the nominal switching costs (like longer distance to be covered).

iii. Generic substitution-

Generic Substitution or doing without is not possible in case of retailing industry. Retailing will definitely remain, in one form or the other, as long as the manufacturers manufacture and consumers consume. Retailing does not seem to become extinct even in the future. The issue that remains to be addressed is just - what forms it keeps evolving into. One most prominent form visible today is E-tailing.

2.7.4 Bargaining power of suppliers is high if:

I. There is high supplier concentration (i.e. few number of suppliers for the industry).

In case of the retailing business, large numbers of manufacturers are competing for shelf space, resulting into low bargaining power of suppliers in this context.

II. There are other substitute products for sale to the industry.

With large numbers of firms manufacturing similar goods or providing similar services, differentiation is what gives a competitive edge to some suppliers over others. But again due to spade of brands in the market bargaining power of suppliers is low even in this context. But in one specific case of exclusive distribution or dealership bargaining power of suppliers may be high.

III. The industry is not an important customer of the supplier group.

This is not at all the case here. Today, apart from probably factory outlets, retailing is the only interface between manufacturers and consumers.

IV. The suppliers' product is an important input to the buyer's business.

Generally, this is not the case with individual suppliers, hence affecting their bargaining powers adversely.

V. Switching costs from one supplier to another are high.

This again is not the case in most of the categories of retail sales expect for the exclusive dealership of some firms.

VI. There is threat of forward integration by suppliers.
This might be a threat in the long run. Signs are visible in the form of direct mailers, door-to-door selling, tele-shopping and e-tailing. Marketers across the FMCG category and the durable sector feel that the retailer is going to be a powerful influence on buyers. A primary reason for this is trust. Many families take goods on credit from the retailer and moreover, spoilt goods are taken back by him. With all these facilities thrown in, when he recommends a product, the consumer has no reason to doubt him.

2.7.5 Bargaining Power Of Buyers is high if:
Bargaining Power Of Buyers is high for the retailing industry because of flux of retailers of varying sizes and types within the reach of consumers. Hence, because of nominal or no costs varying sizes and types within the reach of consumers. Hence because of nominal or no costs of switching suppliers (for the final consumers), these retailers are fighting for the fixed budget of consumers. The customer in the past decade has become the key focus. The marketing strategies revolve around him. From shopping, the trend has shifted to shopping, entertainment and experience. The changing consumer needs are depicted in the diagram in Annexure 7. In certain cases, where retailers are providing highly differentiated products or services to the buyers, the buyers have low bargaining powers (e.g. Crossword in Ahmedabad).

2.8 How has the Indian retail sector responded to such changes?
These changes may have sired retailers such as the Shoppers stop, Westside, Pantaloons, Musicworld, food world, Ebony, Subbiksha, Gautier and others. But a far more fundamental shift has already taken place, and has been led usually not by the organised sector but by the large companies, but more so by the small independent retailers of goods (and services, especially those in the food-services). Have we noticed, for example, any changes in the appearance and behaviour of our neighbourhood grocery store (also known at the local bania shop or the Kirana store)? Thousands of such stores have given themselves a subtle facelift; improved visibility of good self-service options in many case, improved lighting, and an increase number of stock-keeping units.

It is almost the norm now to have goods delivered at home with the order-taking done either on phone or sent on a Slip of Paper. The average "minimum" transaction value for home-delivery actually continues to come down with orders worth as little as Rs 50 not considered too small! In terms of replenishment or replacement of goods not matching up to expectation - when was the last time
any one of us has had a problem with our neighbourhood grocer regarding seeking a replacement or refund? While Domino's and Pizza Corners may have set the initial standards for delivery at home, it is the smaller independent local enterprises who now offer both an extraordinary variety of food-at-home option with no added cost or hassle.

Certain traditional shopping areas are seen renaissance of sort in terms of renewed consumer interest and high footfalls. Priya shopping complex in Vasant Vihar is potentially the most "happening" place (in New Delhi, if somehow the current owners/tenants of this fantastic complex pool in some resources to improve the overall infrastructure including walking areas, cleanliness, parking and lighting. Or, even sleepy Saket now seeing the beginning of becoming even more of a destination (again due to PVR multiplex and the emerging range of eating options around it). I am sure similar developments must be taking in other cities.

Traditionally, retailers relied upon either a somewhat unique product mix or personalised service or a "good" location. Still true, but the definition of a location has changed for good! Increasingly, good location is where there is cluster of complementary shopping, leisure and eating options. These could be the new malls, e.g. Ansal Plaza in Delhi or Spencer in Chennai or Crossroads in Mumbai, or the revitalised shopping destinations such as those mentioned above.

A stand-alone retail outlet (with the exception of food and grocery, and health and personal care outlets) - no matter how strong the product mix, value and service proposition may be - is likely to lose out in favour of outlets that are located in a more well-rounded cluster. I have no hard data to prove this, but would like to surmise that some of the otherwise outstanding "exclusive" outlets of traditional market leaders such as Raymond' Reliance, Bombay Dyeing, an some new generation retailers such as Shoppers Stop (the newly-opened outlet in Pune could be one sue test case to watch out for) may be under pressure to even retain their traditional customer base.

Traditionally, Indian consumer product companies have offered exceptionally low margins to the trade (distributors and retailers) as compared to most other countries and have got away with it! There are several factors for this. Some of them include extraordinary level of retail fragmentation in India that has prevented small independent retailers front having any significant leverage with their supplier companies; pernicious rent control laws that have helped retailers
even in metro cities such as Delhi and Mumbai to operate large retail businesses paying practically no rent in today's rupee terms; little investment at the retail end by the owners of such businesses either on upgrading of facilities or on human resource development; and practically no investment in terms of retail brand building or marketing and promotion.

However, with increased premium on the existing prime shelf space, retailer power is increasing steadily. Enhanced distribution and retail presence—by brands seeking to set up their own stores or by new national or regional retail companies—is now being done at the present day cost of new retail space. New space requires fresh investment on interiors and fittings/fixtures. There is an increased emphasis on getting better qualified and more trained man power, and customer acquisition and retention requires a new effort on marketing and promotion. These enhanced levels of investment make it necessary for the retailers to seek higher margins from the brand owners.

In the initial flush of euphoria, many retail start-ups tender estimated this fundamental truth about their business model. They ended up stocking the traditional retail brands for a wide range of consumer products—believing the mere large volume of business would give them adequate operating margins due to "economies of scale". Whereas the truth was that organised retail as compared to the traditional retail was operating on a "reduced margin" due to the higher and more organised scale of operation.

In recent months, we are now seeing a more assertive retailer who is willing to move out even some of the best-selling brands if the "return per square foot" is not comparable to returns generated by the 'non-power' national or international brands. At the same time, retailers have also stepped up their effort to understand category management more empirically and supplement slow-return categories with high return ones, and substitute poor return brands by higher return ones. We thus see traditional fabric retailers moving to stock ready-to-wear since the latter offer higher gross margins than the former; and department stores like Shoppers Stop and Westside adding, new categories such as saris and accessories (fashion jewellery, fragrances and cosmetics) that, generally offer better margins than apparel and footwear categories.

Retailers are now also aggressively moving into developing their own private labels as a tactic to improve operating gross margin. Initially, this has been done in the apparel categories by retailers such as Shoppers Stop and Pantaloon (and
more recently by Globus) and in food & grocery categories by industry leaders such as Food world. We would see increasing pressure on other branded goods as well in not so distant future.

What the implication of these developments would be on the likes of Hindustan Lever, Raymond, Madura Garments, P&G and other such industry/category leaders creates many opportunities for interesting studies and animated debates.

The End