Chapter II

Evolution of Organized Retailing

Evolution Process – Consumer, Manufacturers and Retailers

If we date back to the time when India got independence there were selling outlets in form of \textit{kirana} (mom-pop) stores and public distribution shops (PDS) as set up by the government. These were more of counter purchase with basic or no service at all. Till early 1960s, there was not a single supermarket in India (Westfall and Boyd, 1960, p. 14). Over the years, more and more counter-service format stores came up all across the country and by the turn of the century it was almost 12 million. The majority of these stores focused on food and grocery – in the form of fast-moving consumer goods (FMCG) items – sold at maximum retail price (MRP). Many of the stores provide credit to customers. While in terms of sheer numbers it is the grocery kirana stores which dominate, in value terms it is the wet markets which are estimated to be accounting for about 70 per cent of food and grocery retail sales (Jones et al., 2005). Wet markets typically deal with the entire range of food items as well and also in unbranded apparels, footwear, low-end durables and other general merchandise items. Other dominant retail formats include the \textit{paan-bidi} shops or the traditional convenience store. And, in terms of non-store retail, street vendors or mobile vendors have been an important retail format in India. Although their numbers have declined over the years, they continue to survive and in some product categories like fresh vegetables they have grown in numbers in various parts of the country. One would also find different kinds of speciality stores in India. Many households would buy grams from the ration-shop, grind them in flour-mills (atta chakki) and get flour – rather than buying loose flour from grocery stores. Mustard oil used to be the principle edible oil in many parts of the country and many households used to procure loose mustard oil from oil mills rather than buy them from grocery shops in packaged form. Freshly milked milk used to be delivered by individual milk-men to many households everyday morning – the concept of buying packet milk from grocery stores was not in practice. In many cities and towns, egg used to be sold by individual hawkers in the wet bazaar and very few would buy egg from grocery stores. Meat was available in speciality stores – either inside the wet market or standalone stores – which still is the practice today in many parts of the country. Fish was available mostly inside wet bazaar and in very few cases in speciality/standalone stores. Bakery items, sweets and milk-based food items were also
sold mostly through speciality standalone stores. Gradually over the years, as the grocery stores started expanding their product-range with growing demand for branded items in product categories like edible oil, flour, etc. there has been marked reduction in these traditional specialized food-stores.

As per the India Retail Report 2013, there are about 57,000 local retailers in the country resorted to modern retail practices in the past two years. The report further adds that local retailers are growing profitably as compared to large retailers.

Evolution of modern retail when we discuss modern retail, the terms large-scale; modern-format and organized are used rather synonymously in India. However, the three terms need not necessarily mean the same thing. Large-scale refers to the scale of operation of retail business – which in turn implicitly refers to a chain of stores. Modern-format basically refers to self-service. However, many of the self-service stores which call themselves “Supermarkets”, are in the range of 500 square feet or less in size and are nothing more than independent mom-and-pop stores. And organized retail typically means large-scale chain stores which are corporatized, apply modern-management techniques and are very likely to be self-service in nature. Most of the estimates of organized retail market size refer to only large-scale retail. For us, modern-retail in this paper means self-service in both large-scale as well as small-scale. Contrary to the popular view where-in all credit for growth of modern retail goes to the consumer and their increasing purchasing power, it is found that consumers manufacturers and retailers – all three – have been impacting the evolution process.
Retailing in India before Liberalization, Privatization and Globalization

In the pre liberalization period the retail sector in India was highly unorganized. It comprised of small grocers, father son shops open in every neighborhood in the area as small as two by two feet. It was a structure, mostly owner operated, had negligible real estate and labour costs and little or no taxes to pay. The unorganized sector was having an advantage of consumer familiarity that runs from generation to generation. Then the lesser quantity was purchased at higher prices which led to sales at higher price. There were no policies to control costs or monopoly or restrictive trade practices. Even customers were not having any platform to raise their voices, which was later solved through Consumer Protection Act. As these small shopkeepers could invest only a small amount of money, the inventory maintained was also low and the customers had to choose from a limited variety. Apart from this the use of technology was almost negligible, which later on helped the companies in the business.

Retailing in India after Liberalization, Privatization and Globalization

Things had begun to look up since the late 1990s, with a boom in the consumer durable industry, and improved services. With rising income and changes in life style, demand for better products became insistent. Big industrial houses, such as the Tatas, the RPG group, ITC, HLL, realising the potential of the retail business, are now scrambling for a place in this segment. Over the last five years, these groups have set up a number of chain stores. For instance, West Side by Tatas, Foodworld by RPG, Shoppers' Stop (Rahejas), and so on. Organised retailing is also emerging as an important gateway for the sale of food products. In Chennai, about 17 per cent of food sales flows through supermarkets. In the metros, most women have shifted to supermarkets from streetcorner grocers. India offers vast potential in retail business and this potential must be fully realised by exploited by making the country an attractive destination for FDI.

The significance of the retail business has increased with the fast growth in the service sector. There has been a dramatic change in the economy's structure post-liberalisation. While agriculture continues to be the main springboard for the economy, the manufacturing sector has slumped on demand recession and liberalised imports.
Due to India's restrictive policy, which has constrained the flow of funds and technology, the retail sector remains fragmented, unorganised and small in size. Most retail outlets are family-owned and offering limited products and finance facilities. Even banks are reluctant to provide finance facilities to the retail sector, which is considered non-viable due to its small size. Change is happening, but only in the metros and big cities. Competition is growing in the retail business and super stores are being set up, in the rural areas, customers are entirely at the mercy of retailers. Things had begun to look up since the late 1990s, with a boom in the consumer durable industry, and improved services. With rising income and changes in lifestyle, demand for better products became insistent. Big industrial houses, such as the Tatas, the RPG group, ITC, HLL, realising the potential of the retail business, are now scrambling for a place in this segment. Over the last five years, these groups have set up a number of chain stores. For instance, West Side by Tatas, Foodworld by RPG, Shoppers' Stop (Rahejas), and so on. Organised retailing is also emerging as an important gateway for the sale of food products. In Chennai, about 17 per cent of food sales flows through supermarkets. In the metros, most women have shifted to supermarkets from streetcorner grocers. India offers vast potential in retail business and this potential must be fully realised by exploited by making the country an attractive destination for FDI.
Early days of Organized Retailing Environment in India

The Indian retail segment is one of the largest in the world but has a long way to go as far as organised retailing is concerned. A joint report by McKinsey and the Confederation of Indian Industry (CII) has pegged the Indian retail market at $180 billion. The market, according to the report, is growing at a steady rate of 11-12 percent and accounts for around 10 percent of the country’s GDP. There are two levels that are identified in the retail segment where huge growth opportunities are there—shops like Akbarally’s and Shopper’s Stop which have branches across the country and small chain stores found in most metros are key target segments of retailers. The products can also be used in standalone stores with large operations. Most of the shoes and apparel stores in the country, especially in the smaller towns and cities, belong to this category. The rapid pace of organized retailing is fueled by changing consumer habits in both cities and large town by (DINKS) Double income no kids group and increased aspirations caused by exposure to the satellite television, cable and other channels. The growth for the changing habit patterns would be affected by the mobile telephones (new product categories like ring tones estimated at INR 400 crore) and increasing credit-card usage (estimated to reach 21mn the end of 2006).

The Indian consumer segment is the youngest in the world with a median age of 24 as compared to other developed nations. With fertility rates at an estimated three children per woman and a population growth rate at 1.6% pa, the population is expected to continue to grow to 2050. There should also be a big surge in the 20-34 age groupup from 210m (25%of the total population) in 1991 to an estimated 312m (27% of the total population) by 2010. This increase in population would lead to acceleration of demand of personal care products and personalized financial services.
**EARLY DAYS FOR ORGANISED RETAIL**

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<tr>
<th>Country</th>
<th>Time from fragmented stage</th>
<th>Organised retail's share of total market</th>
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<tr>
<td>India</td>
<td>5-15 years</td>
<td>3-5%</td>
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<td>China</td>
<td>10-25 years</td>
<td>5-30%</td>
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<td>Brazil</td>
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<td>Singapore</td>
<td>&gt; 25 years</td>
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- Dominance of mom and pop stores
- First few organised local retailers appear

- Large-scale innovation in formats and value propositions by local retailers
- First few global retailers enter

- Global retailers start acquiring

- 3-4 winning local retailers survive and flourish
- Multiple global retailers in the top 10

Organized Retailing at Present in India

Six factors were simultaneous triggers globally: Increased disposable income, as rapid growth of per capita income coupled with low interest rates, stoked consumption. Labour costs rose, as it became uneconomical to employ staff in mom-and-pop shops. The changing family structure with double-income families with fewer children meant less frequent grocery shopping with more purchases per visit.

India Income Pyramid

Penetration in tier II and III cities and improvement in business models and operations will be the top themes of growth for the organized sector. Tier-II and tier-III cities such as Jaipur, Nagpur, Ludhiana, Vadodara, Aurangabad, Kochi etc., are emerging as the new “hot spots” of consumption. Organized retailers are increasingly setting up stores in these smaller cities.
The formal financial system allowed for the possession of bank accounts and inexpensive credit, which boosted consumer power. Changing real estate prices meant people moved to suburbia and stores with parking and food stalls could open in modestly priced, big spaces. Finally, with the development of infrastructure, new roads and better mobility made shopping easier.

In India, the development of these factors has been far from uniform or concurrent. Nonetheless, synchronicity is not required for organised retail to produce big opportunities. A uniquely Indian model could be developed through business model innovation. The penetration of organised retail (specifically supermarkets and chain stores) in India has been
low. Organised retail accounts for only 7 per cent of India’s $435 billion grocery retailing business, much lower than some other countries, including India’s BRICS partners of Brazil, Russia and China.

Mushrooming of the organized retail stores is making marketers think about the ways to entice customer and increase their footfalls. One of the most used tools is running sales promotion schemes for the same. These days’ marketers have found that running the sales promotion offers by preparing the bundles of products (combining two or more product together) is generating the highest sales.

With the end of season sale coming up twice (spring-summer and autumn-winter) in a year, it is interesting to see the mad rush in the stores for getting the best deal. It helps consumers to get premium and aspirational brands at affordable price and works well for retailer in stock clearance. Discounts in general work on first in first out basis in order to keep the stock moving. They offer as much as 80 per cent discount on their merchandise to clear inventories and meet the working capital requirement. Different brand use different discounting schemes and levels in desire to sell more than competitors. It is seen that discounts or promotional activities undertaken by the retailers do not have any long term impact on the volume of the brand but temporarily expand the category (Dawes 2004).

So in case if the consumer is sure of the quality of the apparel he/she is buying consumers are willing to mix and match discounted and non-discounted apparel when they feel that the "quality" and "looks" are similar. Going in at the end of season sale there is an expectation that there will be 40-70% discount - and then within a budget consumers will mix and match. And while they will mix and match the items there might be a case that one of the item is from a consumers’ preferred brand and other might be just accompanied in the bundle.

The Indian retail industry has experienced growth of 10.6% between 2010 and 2012 and is expected to increase to USD 750-850 billion by 2015. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by Apparel at 11% and Mobile segment at 6%.
Within the organized retail sector, Apparel is the largest segment. "Food and Grocery" and "Mobile and telecom" are the other major contributors to this segment. Of the 8% of organized retailing in India, the apparels category is the major contributor with 33% followed by food and grocery at 20% and mobile and telecom and consumer electronics at 11% each. Rest categories like food services, jewelry, footwear and others contributes between 4-8%.
FDI Policy in Multi-brand Retail Trade

The FDI policy conditions will have a different impact on the various sub-segments of the retail industry in India. A policy condition might have a low impact in one segment but could be a major stumbling block for another segment. Minimum FDI of USD 100 million and a constraint of maximum 51 per cent stake of the foreign entity imply that the minimum investment required by both, the foreign and the Indian partner together, is more than INR 1000cr. Mass Grocery and Apparel are two of the fastest growing organized retail segments. In both these segments there are large domestic retailers who could be potential joint venture partners for foreign retailers.

Timeline for FDI in Retail Sector

Factors influencing the growth of retail sector in India

- Regulatory – Liberalization of FDI policies in retail couples with the expected roll-out of the good and service tax

- Supply-side factors – Rapid real estate and infrastructural development, easy availability of credit, innovative physical and online channels, increased service orientation
• Demand-side factors – Rising disposable income, increasing urbanization, highly aware and affluent young population, growing number of working women and changing consumer preferences
Overview of Major Organized Retail Houses In World

a.) Wal-Mart Stores

Wal-Mart Stores, Inc. is an American public corporation, and is currently the world's largest retailer and the largest corporation. It was founded by Sam Walton in 1962, incorporated on October 31, 1969, and listed on the New York Stock Exchange in 1972. It is the largest private employer in the United States (US) and Mexico. Wal-Mart is the largest grocery retailer in the United States, with an estimated 20% of the retail grocery and consumables business, and the largest toy seller in the United States, with an estimated 45% of the retail toy business, having surpassed Toys "R" Us in the late 1990s. As of April 12, 2007, net sales for the nine-week period ending April 6, 2007 was $61.049 billion, up 10.1% from the previous year's results.

Internationally, Wal-Mart operates in Mexico as Walmex, in the United Kingdom (UK) as ASDA and in Japan as The Seiyu Co., Ltd.. Wholly owned operations are located in Argentina, Brazil, Canada, Puerto Rico, and the UK. Wal-Mart's investments outside North America have produced mixed results. In 2006, Wal-Mart sold its retail operations in South Korea and Germany.

b) Marks & Spencer

Marks & Spencer plc (known also as M&S, Your M&S and sometimes colloquially as Marks and Sparks, Marks or Marks's) is a British retailer, with several branches outside of the UK. It is one of the most widely recognised chain stores in the UK and is the largest clothing retailer in the UK, as well as being a multi-billion pound food retailer. Most of its shops sell both of these categories. It also has a third line of business selling homewares such as bedlinen, but this is far smaller than the other two.

In 1998 it became the first British retailer to make a profit before tax of over £1 billion [1], though a few years later it plunged into a crisis which lasted for several years. As of 2007 it is growing again, and rapidly increasing profitability, but it is now less than one quarter of the size of the UK's largest and most profitable retailer, Tesco.
c) Sears

Sears, Roebuck and Company is an American mid-range chain of international department stores, founded by Richard Sears and Alvah Roebuck in the late 19th century. It operates in Canada under Sears Canada and Mexico under Sears Mexico. From its mail order beginnings, the company grew to become the largest retailer in the United States by the mid-20th century, and its catalogs became famous. Competition and changes in the demographics of its customer base challenged the company after World War II as its rural and inner city strongholds shrunk and the suburban markets grew. Eventually its catalog program was largely discontinued. Sears merged with Kmart in early 2005, creating the Sears Holdings Corporation. The company competes on an average price level on par with J.C. Penney and Kohl's. Sears has also recently rivaled with Belk, Dillard's, and Macy's. The largest Sears store in the world, operated by Sears Canada, is 817,850 square feet, in the Toronto Eaton Centre. The largest American store is located at Woodfield Mall in Schaumburg, Illinois, a suburb of Chicago. It has 416,000 square feet of retail space.

d) Metro Inc.

Metro Inc. is a food retailer operating in the Canadian provinces of Quebec and Ontario, as well as a store in Happy Valley-Goose Bay, Newfoundland and Labrador. The company is based in Montreal, Quebec. Metro is the second largest grocer in Quebec, after Loblaw Companies Limited. There are 243 namesake stores in Quebec, averaging 22,300 square feet (2,000 m²). With combined sales of $2.7 billion, Metro is the largest supermarket chain in the province. Metro acquired 48 of 112 Steinberg's Supermarkets when that company went bankrupt in 1992. These stores were re-branded as "Super C" and "Metro" stores. It acquired Loeb Stores from Loblaws in 1999. Some of the stores were converted to "Super C", while others continue to operate as Loeb. There are now 34 Loeb stores in Ontario while the Super C stores have been converted to Food Basics in Ontario.

e) Carrefour

Carrefour SA is an international hypermarket chain founded in France, with a global network of outlets. It is the second largest retail group in the world in terms of revenue and sales figures after Wal-Mart. Carrefour operates mainly in the European Union, Brazil, Argentina
and Colombia, but also has shops in North Africa and Asia. Carrefour means cross-roads in French.

f) ALDI

ALDI is a discount supermarket chain based in Germany and one of the largest retail chains in its home market. The chain is made up of two separate groups, ALDI Nord and ALDI Süd (calling itself ALDI SÜD), which operate independently from each other in specific market claims. The individual groups were originally owned and managed by brothers Karl Albrecht and Theo Albrecht, although both have retired by now. However, they are still Germany's richest men, earning an estimated €1.5 billion per year. Aldi's German operations currently consist of Aldi Nord's 35 individual regional companies with about 2,500 stores in Northern and Eastern Germany, and Aldi Süd's 31 regional companies with 1,600 stores in West and Southern Germany. Internationally, Aldi Nord operates in Denmark, France, the Netherlands and others, while Aldi Süd operates, among others, in the United Kingdom, Austria, the United States and Australia. According to a survey conducted by the German marketing research institute Forsa in 2002, in Germany 95% of blue-collar workers, 88% of white-collar workers, 84% of public servants and 80% of the self-employed shop at Aldi. Aldi's main competitor, nationally and internationally, is Lidl.
Overview of Major Retail Houses in India

a) Globus

Launched in January 1998, Globus is a part of the Rajan Raheja group. The company opened its first store in 1999 at Indore followed by the launch of its second store in Chennai (T-Nagar). Soon to follow was another in Chennai located in Adyar. The flagship store in Mumbai was opened on 1st November 2001 followed by a swanky new outlet in New Delhi in South Extension Part-2. The sixth & seventh stores are in Bangalore in Koramangala & Richmond Road respectively. The Eighth store in Ghaziabad at Shipra Mall followed by the ninth, tenth and eleventh in Kalaghoda, Mumbai, Thane and Ghaziabad and the twelfth store at Kanpur. Coming soon to Ahmedabad

b) Pantaloon Retail India Ltd

Pantaloon Retail announced that it will be targeting younger customers with its Top 10 brand for college students. The brand has been inspired by Top 10 music and movie chartbusters. The first of these stores will be launched in Mumbai next week. According to Zahid Shaikh, chief of marketing, "Top 10 brand will have a special collection dedicated to colleges in Mumbai. It is well known that campus rivalry exists among college students and one always takes pride in wearing the college batch on their sleeves."

Pantaloon's other brand Indus League Clothing, opened its first Jealous 21 store in Mumbai. Jealous 21 offers casual, club and denim wear for women from 17-24. The company plans to offer Jealous 21 through department and lifestyle stores along with 120-130 standalone outlets in the next three years.

c) Shoppers' Stop

The foundation of Shoppers' Stop was laid on October 27, 1991 by the K. Raheja Corp. group of companies. Being amongst India's biggest hospitality and real estate players, the Group crossed yet another milestone with its lifestyle venture - Shoppers' Stop.

From its inception, Shoppers' Stop has progressed from being a single brand shop to becoming a Fashion & Lifestyle store for the family. Today, Shoppers' Stop is a household
name, known for its superior quality products, services and above all, for providing a complete shopping experience.

With an immense amount of expertise and credibility, Shoppers’ Stop has become the highest benchmark for the Indian retail industry. In fact, the company’s continuing expansion plans aim to help Shoppers’ Stop meet the challenges of the retail industry in an even better manner than it does today.

d) Mudra Group

Mudra Group, started our operations in 1986 and are in the textile industry having facilities for fabrics & garments manufacturing, processing, design development and sampling etc. We manufacture fabrics and garments for domestic and export market. The brand “MUDRA” has built a strong goodwill for itself in the domestic market and commands a premium. We are gradually moving towards garment manufacturing mainly in the designer shirts and ladies wear segments to capitalize on the huge opportunity unleashed by the removal of quotas.

e) ITC’s Lifestyle

Over the last five years, ITC’s Lifestyle Retailing Business Division has established a nationwide retailing presence through its Wills Lifestyle chain of exclusive specialty stores. Beginning with its initial offering of Wills Sport relaxed wear from the first store at South Extension, New Delhi in July 2000, it has expanded its basket of offerings to the premium consumer with Wills Classic formal wear, Wills Clublife evening wear and a tempting range of Designer accessories that complete the Look.

With a distinctive presence across segments at the premium end, ITC has also established John Players as a brand that offers a complete fashion wardrobe to the youth of today. With its brands, ITC aspires to build a dominant presence in the apparel market through a robust portfolio of offerings.
f) Westside

Established in 1998 as part of the Tata Group, Trent Ltd. operates Westside, one of India's largest and fastest growing chains of retail stores. The Westside stores have numerous departments to meet the varied shopping needs of customers. These include Menswear, Women’s wear, Kid’s wear, Footwear, Cosmetics, Perfumes and Handbags, Household Accessories, lingerie, and Gifts. The company has already established 26 Westside departmental stores (measuring 15,000 - 30,000 square feet each) in Mumbai, Bangalore, Hyderabad, Jaipur, Chennai, Pune, Delhi, Noida, Gurgaon, Ghaziabad, Kolkata, Nagpur, Indore, Ahmedabad, Lucknow, Surat & Mysore. The company hopes to expand rapidly with similar format stores that offer a fine balance between style and price retailing. Trent ventured into the hypermarket business in 2004 with Star India Bazaar, providing an ample assortment of products made available at the lowest prices, aptly exemplifying its ‘Chota Budget, Lambi Shopping’ motto. Star India Bazaar, presently has one 50,000 square feet store in Ahmedabad and plans to extend its presence across all major metros. This store offers customers an eclectic array of products that include staple foods, beverages, health and beauty products, vegetables, fruits, dairy products, consumer electronics and household items at the most affordable prices. Star India Bazaar also includes a large range of fashionable in-house garments for men, women and children, exclusively available at the store. In addition, Trent recently acquired a 76% stake in Landmark, one of the largest books & music retail chains in the country. Landmark began operations in 1987 with its first store in Chennai with a floor space of 5500 sq. ft. At present Landmark has 7 stores, varying in size from 12,000 sq. ft. to 45,000 sq. ft, 3 in Chennai and 1 each in Bangalore, Gurgaon, Mumbai and Vadodara.
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<th>Retailer</th>
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<tr>
<td>Pantaloon Retail Ltd (Potter Group venture)</td>
<td>Over 2 million sq ft of retail space spread over 35 cities with 65 stores and 21 factory outlets</td>
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<tr>
<td>Shoppers Stop (K Raheja Group venture)</td>
<td>Over 3.21 million sq ft of retail space spread over 23 cities with 51 stores</td>
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<tr>
<td>Spencers Retail (part of RP-SG Group)</td>
<td>Retail footage of close to 1 million sq ft across 45 cities with 200 stores</td>
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<tr>
<td>Lifestyle Retail (Landmark Group venture)</td>
<td>Approximately 15 lifestyle and eight Home Centre stores</td>
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<tr>
<td>Bharti Retail</td>
<td>74 Easyday stores with plans to invest about 2.5 billion USD over the next five years to add about 10 million sq ft of retail space in the country</td>
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<tr>
<td>Reliance Retail</td>
<td>700 stores with a revenue of 7,000 crore INR</td>
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<tr>
<td>Aditya Birla 'More'</td>
<td>575 stores with approximate revenue of 2,000 crore INR. Recently, purchased stake in Pantaloons Retail</td>
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<tr>
<td>Tata Trent</td>
<td>59 Westside stores, 13 Starbazaar hypermarkets and 26 Landmark bookstores</td>
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Source: The Indian Kaleidoscope, September 2012, FICCI