

Indian Retail Industry

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Executive Summary

The Indian retail sector is witnessing tremendous growth with the changing demographics and an improvement in the quality of life of urban people. The growing affluence of India's consuming class, the emergence of a new breed of retail entrepreneurs and a flood of imported products in the food and grocery space, has driven the current retail boom in the domestic market.

As the foreign direct investment policy expressly forbids FDI in retailing, no major foreign chain could be contemplating entering this field. Foreign investors are keen to enter the Indian retail market, which has been ranked fifth out of 30 such markets for retail investment attractiveness by AT Kearney. Meanwhile, Indian retailers are still trying to obtain industry status, which will give them easier access to bank funds and simplify day-to-day operations.

At this moment, it is still premature to say that the Indian retail market will replicate the success stories of names such as Walt-Mart Stores, Sainsbury and Tesco but at least the winds are blowing in the direction of growth.

The report analyses the Indian retail industry taking into perspective the growth of the Indian economy and the sustainability of this sector in this scenario. PEST and porter's Five Forces Analysis have been employed to present a clear picture of the functioning of the retail sector. In this report, we have analyzed the factors that are driving revolutionary changes in the retail sector. The business model that works perfectly in the Indian scenario has been assessed and the mechanics of this business evaluated. Further, various segments of the retail industry have been individually evaluated. The competition among the retailers within this industry is a major focus area of this report.

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1. India: Macro Economic Overview

1.1. Overview

Macroeconomic Trends over the Past Two Decades

	1980s	1990s	1992/93- 1996/97	1997/98- 200/02	2002/03
GDP growth (% per annum)	5.6	5.8	6.7	5.5	4.4
Agriculture	3.4	3.0	4.7	1.8	-3.1
Industry	7.0	5.8	7.6	4.5	6.1
Services	6.9	7.6	7.5	8.1	7.1
Investment rate (% of GDP)	22.0	23.0	23.3	22.5	22.1
Public	10.0	7.8	8.0	6.6	6.3
Private	12.1	15.2	15.3	15.9	15.7
Inflation (WPI, % per annum)	8.0	8.1	8.7	4.9	2.5
General government deficit (% of GDP)	8.1	7.8	7.2	9.3	10.4
Current account balance (% of GDP)	-2.1	-1.4	-1.2	-0.7	1.0
External reserves (months of goods and services imports, end of period)	3.3	5.6	5.9	7.0	11.0

Sources: FICCI, Government Agencies

1.3. Changing Demographics

It seems inevitable in modern times, that the engines of spread and growth of economies are the middle-classes and their consumptive instincts. The transformation of the poor into ever-enlarging middle classes is the course for large countries like India. One way of measuring change is to chart these changing numbers. India with a population of more than 1 billion has the potential to be among the biggest consumer markets of the world next only to China. The country has a large middle class segment of about 350 million consumers. Sheer size in terms of population and geographical area with growing number of metropolitan and cosmopolitan cities displaying high spending capabilities make it a ripe target for retailing.

3. Indian Retail Sector: Industry Analysis

3.2. Organized Retail Markets

After 50 years of unorganized retailing and fragmented *kirana stores*, the Indian retail industry has finally begun to move towards modernization, systematization and consolidation. Today, modernization is the catch phrase and the key to understanding retail in the next decade. Traditionally retailers have had localized operations. This localized nature of the industry is changing as retailers face lower growth rates and threatened profitability in home markets. New geographies help them sustain top line growth in addition to enabling global sourcing and encashing on global advantages of getting the best products at optimum prices. There has been a boom in retail trade in India owing to a gradual increase in the disposable incomes of the middle class households. More and more players are entering the retail business in India to introduce new formats like malls, supermarkets, discount stores, department stores and even changing the traditional looks of bookstores, chemist shops, and furnishing stores.

3.2.1. Organized retail formats prevalent globally

Supermarkets: Self-service 4000-20000 sq ft stores with shopping carts typically focused on regular groceries, household goods and personal care products. Tesco, Ahold and Safeway are key players in this format.

Hypermarkets: Huge stores over 40000 sq ft situated outside the town with ample parking space aimed for bulk purchases stocking electronics, furniture and clothing. Carrefour is the global major in this format.

Mass merchandisers: Large destination stores that sell everything at competitive prices. They have cross-country chain operations with centralized sourcing and a hub-and-spoke distribution. Makro and Sam's Club are leading players in this format.

Discounters: Aimed at bargain buyers offering less choice but deep discount on bulk sourcing deals through controlled inventory. Aldi is the world leader in this format.

Convenience Stores: Small stores located at convenient points like petrol stations working round the clock.

Specialties Stores: These stores offer consultative shopping experience with skill that cannot be duplicated.

Mom-and-Pop Stores: Traditional small family owned format.

4. Indian Retail Sector: Business Analysis

During the last 10 years, many retail start-ups promised a lot. A few folded up even before they really got started, a few others struggled and then burnt out before they could develop a sustainable business model and others are still evolving. However, a significant number of new (and some not so new) retail businesses have broken rank and seem poised to surge ahead with renewed vigor, optimism, confidence and capability. Shoppers' Stop, Lifestyle, Westside, Giant and Tanishq are the current torch-bearers of the modern Indian retail sector, flanked creditably by FoodWorld, Nilgiris, Big Bazaar and Pantaloon, and The Home Store.

4.2. Business Opportunities in the Indian Retail Sector

The current players have just touched the tip of the total potential of over Rs 8, 50,000 crore of annual consumer spending in India through various retail channels. There is an outstanding opportunity in other product categories, in new formats, and in new geographical territories. For example, let us consider new product categories that are under-represented in India in terms of reach of efficient, organized retail channels.

Opportunities in wide range of consumer durables

On the top of this list is the opportunity to establish national retail chains for a wide range of consumer durables including appliances, home entertainment products and home information technology/communication products. International models can be Best Buy (the US) and Darty (France). The market size in these categories alone is over Rs 50,000 crore and increasing at a healthy clip every year. Real estate is not really a major hurdle in this category since these items are 'high value, premeditated' purchases and customers can travel a significant distance if the value proposition is good. Hence, there is no need to locate these outlets in expensive city centers or main markets.

4.3. Market Trends

Change in consumer behavior

The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Rising income levels, falling real estate costs and a greater exposure to media and international trends have fuelled retail growth. Consumer spending in India is estimated to have grown at an average rate of 11.5% per year over the past decade. While retailers have improved their offerings, many attribute their better fortunes to a change in consumer behavior.

5. Indian Retail Sector: Segment Analysis

5.3. Footwear Retail

For all the hype surrounding them, the trinity of Nike, Reebok and Adidas still has a lot of ground to cover in the domestic footwear retailing market. If a dipstick study conducted by Futurescape Netcom, an Rs.6.5-crore Customer Relationship Management (CRM) service organization is to be believed, the trinity faces a mixed consumer perception in terms of retailing in the domestic market. According to the findings, customer experience remains a neglected area of retailing. Experience at the retail store remains the primary differentiator, which is the key reason why two stores at the same location may have varying sales. While the quality of service helps in repeat purchases, attractive and well-lit premises generate higher walk-ins. To convert these people into customers is a function of the people manning the store. Major players in the Indian market include quality brands like Bata, Gaitonde, Woodland, Lotus Bawa, Liberty, Reebok, Nike, Adidas, Red Tape, Rockport, Lee Cooper, Tuffs, Phoenix, Clarks, Barker, Florshiem, etc.

5.5. Forecourt Retail

The new-look petrol pumps, apart from dispensing fuel, now offer the best of retail chains providing a value added service to busy consumers. These include departmental stores, coffee kiosks, cybercafés, laundry services, pizza joints, courier services, pollution check, ticketing, music shops, auto LPG stations, auto service centers, kerosene distribution, photo studios, pay by card, telephone directory distribution, automated teller machines (ATM) counters and round-the-clock drug and general stores. These services are already offered in various cities. This trend is in circulation in the international markets and big petrol station convenience stores earn more than 30 to 40 per cent of their profits from non-oil activities. The range of value-added services is all beneath one roof. The new-look petrol pumps are now the more advanced multi-purpose dispenser petrol pumps. The demand for shelf space in these fuel filling stations is thus on the increase. The petrol pumps are computerized, thus reducing waiting time. This not only ensures accuracy, but also saves a lot of time for customers and avoids misconceptions and arguments.

6. Forces that could make or break the industry

6.1. Challenges facing the industry

The unorganized nature of retailing had stunted its growth over several years. Lack of industry status affects financing prospects and stunts growth of the industry. In the current scenario, only players with deep pockets have been able to make it big. In addition to the advent of Internet, there are many other challenges that retailers have to address.

Human Resources

Availability of trained personnel and retaining the human resources is a major challenge for these big retailers. The bigwigs like Crossroads offer high compensation and create a cohesive environment that makes an employee proud to be a part of such big retail chains.

Space and Infrastructure

To establish a retail shop / mall, the real estate and the infrastructure are very vital. The expenditure and availability on both the accounts do hinder the growth of the retail chain. The lack of secondary infrastructure also affects the logistics and supply chain management for retail companies.

Labor Laws

Existing labor laws in India forbid employment of staff on contractual basis that makes it difficult to manage employee schedules especially 365-day operations.

7. Competitive Landscape

Retailer	Current Turnover (Rs. Crore)	Targeted Turnover (Rs. Crore)	Outlets	Projected Outlets
Pantaloon	700	1200	31	74 (by 2005)
RPG	550	1600-1700 (FY 05)	1	12 (by March 2006)
Shoppers Stop	400	NA	13	40 (by 2005)
LifeStyle	230	650 (FY06)	7	15 (by 2005)
Westside	120	NA	13	21-23 (by 2005)
Ebony	85	150 (FY05)	8	14 (by 2005)
Piramyd	72	190 (FY05)	3	19 (next 4 years)
Globus	NA	NA	7	15-17 (by 2005)

Source: News and Company Sources

7.3. International Companies

7.3.1 Wal Mart

Wal-Mart is the world's largest retailer and the world's largest company with more than \$256 billion (USD) in sales annually. Wal-Mart employs more than 1 million associates in the United States and more than 300,000 internationally.

Bigger than Carrefour, Royal Ahold, and Kroger combined, it is the world's #1 retailer, with about 4,700 stores, including 2,900-plus discount stores (Wal-Mart), combination discount and grocery stores (Wal-Mart Supercenters and ASDA in the UK), and membership-only warehouse stores (Sam's Club). Most of its stores are in the US, but Wal-Mart is expanding internationally; it is the #1 retailer in Canada and Mexico. Wal-Mart also has operations in South America, Asia, and Europe. Founder, Sam Walton's heirs own about 38% of Wal-Mart.

Current Presence in India

Wal Mart currently has no retail store in India. But they may open their retail store up in future as part of their international expansion plans and if the Foreign Direct Investment (FDI) regulations are relaxed in India.

Alliances / Strategic Partnerships in India

Wal-Mart currently has collaboration with Trident Group and Welspun India Ltd for supply of terry towels. Trident group is a Ludhiana based company and Welspun is a Mumbai based company.

Market Strategies

- Wal-Mart has experienced success internationally because of its ability to transport the company's unique culture and effective retailing concepts to each new country. Associates get involved in the local communities and adapt to local cultures. They respond to customer needs, merchandise preferences and local suppliers. By serving each hometown in its own unique way, Wal-Mart International has realized significant growth with potential for much greater development worldwide.
- Despite obvious cultural and business challenges, Wal-Mart International has experienced success because of its ability to transport the company's unique culture and effective retailing concepts to each new country. The division makes a concerted effort to become involved in the local community and to adapt to local cultures. Associates respond to customer needs, merchandise preferences and local suppliers. By serving each hometown in the same way, Wal-Mart International has realized significant growth with potential for much greater development worldwide.
- This year, Wal-Mart International plans to open 120 to 130 units in existing markets. The announced units include two restaurant formats, specialty apparel retail stores and supermarkets in Mexico.

8. Major Retail Centers in India: City-wise Analysis

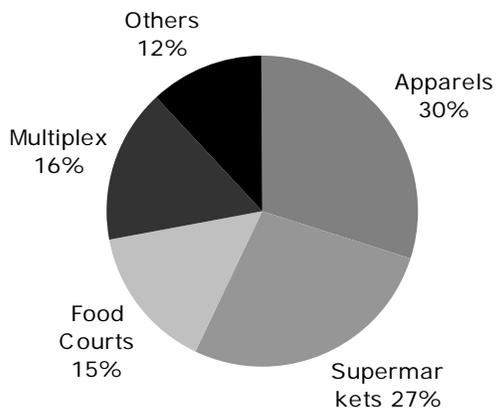
Mumbai, Delhi, Bangalore and Pune rank amongst the top cities in the country for retail growth. Though other metros and Tier 2 cities will grow in prominence over the next few years, this section of the report is focused on these four cities.

8.1 Mumbai

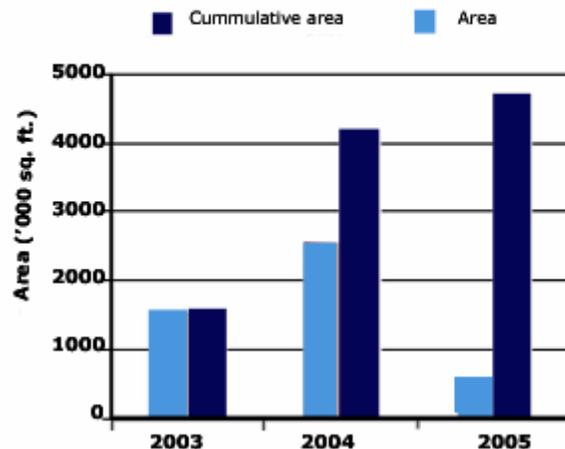
8.1.1 Overview

The commercial capital of India, Mumbai is one of the fastest growing cities in the country. Currently ranked as the most populated city, Mumbai has witnessed a population growth of 3% p.a. (national average is 2.13% p.a.) over the past decade. Mumbai residents have a high propensity to spend. The average annual household expenditure of 36% of the population lies in the range of Rs.50,000-100,000, according to the Central Statistics Organization. This, coupled with the fact that close to 36% of the population falls in the age group of 20-45 years, indicates a favorable environment for a majority of the retailers.

Tenant Profile: Mumbai Malls



Estimated New Retail Space in Mumbai



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