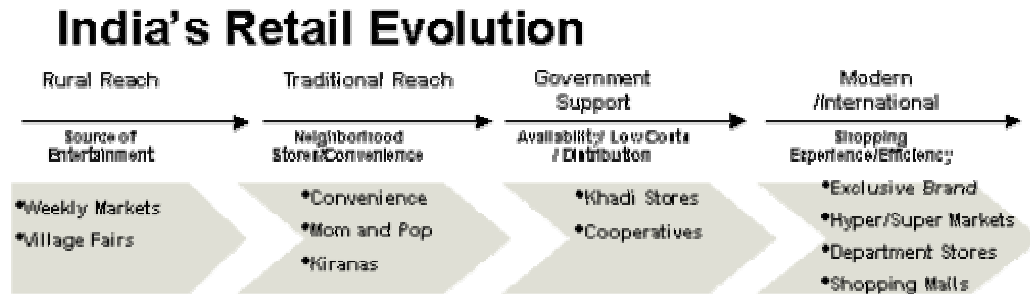


Retail – Indian Roadmap

As we understand, retailing involves all activities directly related to the sale of goods and services to the ultimate consumer for personal, non-business use. Simple retailing is maturing into a more microscopic and systematized process.



The era of rural retail industry could be categorized into two formats: **weekly markets and village fairs**. Primarily weekly formats catered to the daily necessities of villagers. Village fairs were larger in size with a wide variety of goods sold from food, clothing, cosmetics and small consumer durables. The traditional era saw the emergence of the neighborhood 'Kirana' store to cater to convenience of the Indian consumers. The era of government support saw indigenous franchise model of store chain s run by Khadi & Village Industries Commission. The KVIC has a countrywide chain of 7000 plus stores in India. This period also witnessed the emergence of shopping centers with car parking facility. The Modern era has a host of small and large formats with exclusive outlets showcasing a complete range of products. The department stores and shopping malls targeting to provide a complete destination experience for all segments of the society. The hyper and super markets are consistently trying to provide the customer with the 3 V's. (Value, Variety and Volume)

Over the last three years, this sector has witnessed an exorbitant growth due to the establishment of numerous international quality formats to suit the Indian purchase behavior, the improvement in retail processes, the development of retail specific properties and the emergence of both, domestic and international organizations.

Retailing sector is the second largest employer in the country with almost over 12 million retail outlets in India and only 4% of them being larger than 500 square feet in size. Although retailing in India is fairly fragmented, organized retailing is gaining momentum rapidly growing at almost 25-30% per annum and is forecasted to touch a figure of Rs. 1,50,000 crore by 2010. The economy is projected to grow at 8.1% in 2005-2006 having grown at a steady pace of around 6% over the last 10 years.

Organized retailers are the contemporary formats by which shoppers have the edge of a world class shopping experience. Fine examples of these formats are Pantaloon, Shoppers Stop and Trent. Organized retail may broadly be classified into the following formats-

- **Malls.** The largest form of organized retailing today. Malls are located mainly in metro cities, in proximity to urban outskirts, this format ranges from approximately 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof.
- **Hypermarkets.** They are typically large, starting from 40,000sq. ft plus are usually located outside the city limits. This format comprises of a multiple division layout, and usually has an " industrial- look" interior. Hypermarkets generally provide daily necessities and grocery like items. Pricing is competitive and they also offer volume discounts.
- **MBO's.** Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.
- **Super Markets.** Large self service outlets, catering to varied shopper needs are termed as Super markets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from a size of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.
- **Discount Stores.** As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non perishable goods.
- **Convenience Stores.** These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

- **Departmental Store.** Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments such as clothing, toys, home, groceries, etc.
- **Exclusive Store.** Ranging from a size of 500 sq ft to 5,000 sq ft. & above, this format is owned/ managed by the Company or through its franchise. These can offer single brand as well as multiple brands.
- **Specialty Store.** These formats focus on a specific product category, Medium sized layout in strategic location. Specialty stores provide a large variety base for the consumers to choose from.

Despite the presence of the basic ingredients required for growth of the retail industry in India, it still faces substantial hurdles that will retard and inhibit its growth in the future. One of the key impediments is the lack of FDI. This has largely resulted in limited capital investments in supply chain infrastructure, which is a key for development and growth of retailing and has also constrained access to world-class retail practices. Lack of proper infrastructure and relatively high cost of real estate are the other impediments to the growth of retailing. While the industry and the government are trying to remove many of these hurdles, some of the roadblocks will remain and will continue to affect the smooth growth of this industry.

Factors	Description	Implications
Barriers to FDI	<ul style="list-style-type: none"> • FDI not permitted in pure retailing • Franchisee arrangement allowed 	<ul style="list-style-type: none"> • Absence of global players • Limited exposure to best practices
Lack of Industry Status	<ul style="list-style-type: none"> • Government does not recognize the industry 	<ul style="list-style-type: none"> • Restricted availability of finance • Restricts growth and scaling up
Structural Impediments	<ul style="list-style-type: none"> • Lack of urbanization • Poor transportation infrastructure • Consumer habit of buying fresh foods • Administered pricing 	<ul style="list-style-type: none"> • Lack of awareness of Indian consumers • Restricted retail growth • Growth of small, one-store formats, with unmatched cost structure
High Cost of Real Estate	<ul style="list-style-type: none"> • Pro-tenant rent laws • Non-availability of government land, zoning restrictions • Lack of clear ownership titles, high stamp duty 	<ul style="list-style-type: none"> • Difficult to find good real estate in terms of location and size • High land cost owing to constrained supply • Disorganized nature of transactions
Supply Chain Bottlenecks	<ul style="list-style-type: none"> • Several segments like food and apparel reserved for SSIs • Distribution, logistics constraints – restrictions of purchase and movement of food grains, absence of cold chain infrastructure • Long intermediation chain 	<ul style="list-style-type: none"> • Limited product range • Makes scaling up difficult • High cost and complexity of sourcing & planning • Lack of value addition and increase in costs by almost 15%
Multiple Legislations	<ul style="list-style-type: none"> • Stringent labor laws governing hours of work, minimum wage payments • Multiple licenses/clearances required 	<ul style="list-style-type: none"> • Limits flexibility in operations • Irritant value in establishing chain operations; adds to overall costs
Customer Preferences	<ul style="list-style-type: none"> • Local consumption habits • Need for variety • Cultural issues 	<ul style="list-style-type: none"> • Leads to product proliferation • Need to stock larger number of SKUs at store level • Increases complexity in sourcing & planning • Increases the cost of store management
Availability of Talent	<ul style="list-style-type: none"> • Highly educated class does not consider retailing a profession of choice • Lack of proper training 	<ul style="list-style-type: none"> • Lack of trained personnel • Higher trial and error in managing retail operations • Increase in personnel costs
Manufacturers Backlash	<ul style="list-style-type: none"> • No increase in margins 	<ul style="list-style-type: none"> • Manufacturers refuse to dis-intermediate and pass on intermediary margins to retailers

Source: CII & Market Participants, Fitch

Factors estimated to propel the growth of the organized retailing

- **Increased Purchasing Power**

The National Council of Applied Economic Research classifies households into five categories—lower, lower middle, middle, upper middle and high. The movement of households within these income categories reflects the changing dynamics of the Indian market. 33% of Indian households are in the middle- to high-income category in 2004. This is projected to increase to 49% by 2010. The impact of increasing income levels is reflected in the sales trend for high involvement products like cars and multi-utility vehicles (MUVs) in the Indian market. The Society of Indian Automobile Manufacturers registered growth in commercial vehicle segment a rate of 10%. While the M&HCV segment has grown by 4.5%, the LCVs grew by more than 19% during 2005-06 as compared to 2004-05.

- **Changing Consumption Patterns**

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).

- **Young Indian Consumers**

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 group—up 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.

- **More Available Retail Space**

The boom in the retail sector is also associated with the rise of mall all across the country. There are 220 mall project in the pipeline till 2007, 139 in the big 8 cities including the metros and 81 in other Tier II cities. Developers are keeping in mind the astonishing pace with which the new supply is expected to enter the market and are developing 'specialty malls' and other propositions to offer a different experience to the changing consumer.

- **Easier Financing**

Interest rates have dropped down over a couple of years making it much easier for investors to develop a mall and economically viable for retailers to set up shops. The fall in real-estate prices as well as lower borrowing rates still ensure that current rental yields are attractive for developers.

- **Improved Logistics and Better Infrastructure**

Infrastructure spending has improved the state of India's roads and transport system. Connectivity has enabled the faster movement of goods, especially perishable goods, from one part of the country to another. Logistics has improved, enabling more efficient retail operations. Retailers have benefited from the improved infrastructure, and further improvements should only increase the benefits to retailers. As the retailers continue to grow their presence, there is going to be an imminent need for a single, enterprise-wide IT platform to manage operations.

At the close, it may be considered that organized retailing in India is a sunrise sector. Despite being at a fairly nascent stage of its evolution and facing certain hindrances posed by socio- economic factors, it has a fine promise to emerge as a front runner in times to come.