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Retailing in India-changing landscape

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ABSTRACT

As India changes and reinvents itself at a remarkably accelerated pace, the retail patterns of its population have been transformed. What is new about these changes in retail patterns is not only the change in consumer behaviour of 1.15 billion individuals but also changes in the outlook of retailers in India. Historically, change has been a gradual and largely predictable process, allowing industry experts to reasonably forecast consumption patterns and consumer behaviour in the near future based on the current and immediate past. Those days are history. The fundamental shifts in consumer spending patterns have far-reaching implications not only for manufacturers, marketers and retailers of consumer products and services, but for all of India and Indian society as a whole. This paper highlights and analyses these shifts in the retail sector and the implications for manufacturers, marketers and brand owners, and retailers. The key lies in understanding the nature of these changes in the retail landscape and thereby the changes in the wallet-share of Indian consumers. Today's reality consists of many new, unique and disparate factors that have come into play simultaneously

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Introduction

Changing priorities in retail consumer spending

India is expected to have seen a spending of almost US\$ 435 billion at current prices in 2009 (assuming a GDP growth rate of 6 per cent). Further, factoring in 5 per cent inflation and assuming that GDP will further grow at 6 per cent, consumer spending is likely to cross US\$ 485 billion in 2010. A deeper analysis of this gross data on consumer spending throws up some very interesting insights. For as long as we can remember, roti, kapada aur makaan have been the primary needs and drivers of private consumption. Now, with the impact of the sustained economic growth of the last two decades, it seems that for a large part of the population, consumption has moved beyond these basic survival needs. While food and grocery continue to account for the largest quantum of spending (about US\$ 260 billion in 2009, followed by healthcare (about US\$ 34 billion) and then textiles and clothing (about US\$ 31 billion), the surprise inclusions on this list in 2009 have been spending on mobile phones and talk-time (about US\$ 25 billion), jewellery and watches (about US\$ 25 billion), and personal transport, comprising two/four-wheelers and related spending on fuel and repairs/maintenance (about US\$ 24 billion). More interestingly, spending on non-basic needs is growing much faster now and so it is likely that by 2012 spending on textiles and clothing could be relegated to the sixth spot (from the current third) and the hierarchy (excluding healthcare) will be roti, mobile, personal transport, and jewellery and watches.

However, beyond these broad estimates of spending by Indian consumers in 2009, it is interesting to see how Indian consumers' spending priorities have changed over the last 18 years and how they may further change in the next five. Based on a tracking of consumer spending patterns over these years, we find that in 1991, the average Indian household spent 80 per

cent of its discretionary income across just seven categories (Fig.1). In 2009, there are as many as 19 categories that account for this discretionary spending budget. The next five years may see further additions of two or three more categories to this spending basket.

Fig:1 Categories of consumption

1991	2009	2015
1. Food and Grocery	1. Food and Grocery	1. Food and Grocery
2. Clothing	2. Clothing	2. Clothing
3. Footwear	3. Footwear	3. Footwear
4. Consumer Durables	4. Consumer Durables	4. Consumer Durables
5. Home Lites	5. Expenditure on DVD and VCD's	5. Expenditure on DVD and VCD
6. Movies and Theatre	6. Home Lites	6. Home Lites
7. Eating Out	7. Home Accessories	7. Home Accessories
	8. Accessories	8. Gifts
	9. Gifts	9. Take-away/FTE meals
	10. Take-away/FTE meals	10. Movies and Theatre
	11. Movies and Theatre	11. Eating Out
	12. Eating Out	12. Entertainment Parks
	13. Entertainment Parks	13. Mobile Phone and Services
	14. Mobile Phone and Services	14. Household Help
	15. Household Help	15. Travel Packages
	16. Travel Packages	16. Club Memberships
	17. Club Memberships	17. Computer Peripherals & Internet
	18. Computer Peripherals and Internet	18. Beauty and Spa
	19. Personal Transport	19. Gaming
		20. Personal Transport
		21. Children's/Trained services

Source: The Indian Retail landscape: Now and Beyond, Technopak Prespective, Vol.1,p 21

The changing face of Indian consumer is best depicted in Fig which depict that the share of food and grocery in the consumer wallet continues to drop-releasing money for discretionary spending leading to amore evolved consumer(Fig:2)

Source: "India Growth Story: Pyramid to Diamond-Rise of Consuming Class", Tecnopak Report,2009

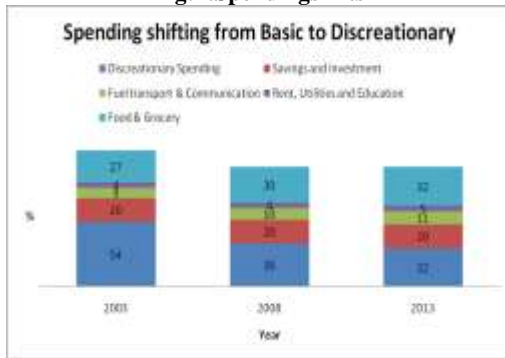
However, these shifts in consumer spending patterns have several implications. Though income levels have been growing in the country, they have not kept pace with aspirations and desires. As a result, competition now and in the future will not only be from businesses that are operating within the same category but also from those in other categories.

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Fig:2: Spendingshifts



For example, a soft drink brand will need to understand that its competition will come not only from the rival brand or a local substitute like lemon water but also from across categories like mobile services.

A young consumer with limited pocket money is being equally targeted by Airtel/ Vodafone/Coke/Pepsi, etc. This category collide has to be dispassionately understood, and business strategies reoriented.

This has major implications for categories such as food and grocery, clothing and textiles, and others

Leveraging information technology

Organized retail in India faces many hurdles in the absence of proper supply-chain infrastructure and development of effective electronic payment and delivery channels. The technologies that retailers have deployed over the years, to serve their distributed networks, are without standards.

Going forward, Technology is likely to be a key differentiator to bring about efficiencies, Save on costs and offer better services to customers. The problem with old technology is that there are no standards and in many instances, one does not integrate with another.

All the elements within the retail industry right from data warehouses, logistics, supply chain, store management, point of sale, etc. are likely to get impacted positively with the usage of technology be it RFID, GPS, intelligent video analytics, point-of-sales terminals or sensor-based shop carts etc.

Indian retail chains have started deploying these technologies, There still exists a challenge to implement them simultaneously and make The process more efficient.

Supply chain to get its due consideration

Till date, the retail investments were focused more on the front end than on the back-end. As a result though most players have several stores in place, they have no rigorous supply chain to generate the cost efficiencies and fill rates needed to improve the bottom line and improve customer experience.

Retailers are increasingly realising that it can be handed over to specialists.

This is leading to rise in Third Party Logistics (3PL) industry, thus enabling retailers companies to leverage their resources, bring down fixed and working capital investment, spread risks and concentrate on core business matters vital to survival and future growth.

Besides modern retail growth, other factors which have fuelled up 3PL growth are simplification of tax structure, increasing investment in infrastructure, increased incentives by Government through logistics parks, free trade are housing zones coupled with correction in real estate prices which will lead to availability of retail space at cheaper cost and large investment in setting up big warehouses.

Sale of branded products: increasing private label share in indian retail

With the growing retail sector, private labels or store brands are a rising phenomenon in the Indian organised retail market. Though shoppers have been migrating toward private labels long before the economic slowdown started, the slowdown has significantly increased the pace of this shift, thus favourably affecting the private label sales of almost all large retailers like Reliance Retail, Aditya Birla Retail, Bharti Wal-Mart Retail, Infiniti Retail, Pantaloon Retail, Shoppers Stop etc., that have private labels in their stable.

This migration is not only linked to price play, with an average private label in India priced 5–10 per cent below national brands, but also to various factors like improvement in product quality, packaging, presentation and retail experience that private labels have graduated to offer. Added to that is the fact that while many product categories like mobile phones, small home and kitchen appliances, etc. were traditionally the strongholds of brands, large-scale commoditisation over the last few years has significantly reduced the power of the brand. Interestingly, consumers will continue to witness heightened competition between national brands and the private labels or store brands in the years to come, with private labels continuing to grow as a painfully visible symbol of retailers' growing control over consumers and the supply chain. By diminishing the power of traditional brands, private labels are slowly but surely diluting a key source of manufacturers' influence over consumers, and in turn, their leverage over retailers

The rise of private labels has thus resulted in many conflicts between retailers and brands owing to issues like margins, display and shelf space. Retailers are more inclined to push sales of private labels as it offers them higher margins, enables them to differentiate themselves from other stores in the vicinity and gives them a chance to have more bargaining power and compete with the national brands rather than just being their customers. The brands view private labels as category killers that make consumers more price sensitive, and are favoured by the retailers in terms of shelf space. Brands are hesitant to offer higher margins to retailers as organised retail still contributes to a very small percentage of their overall sales, and there is also the option of growing the brand through unorganised retail, as the market is largely under-penetrated. While Indian retailers and brands are still learning to manage this conflict, globally, there exists a fine balance wherein both private labels and national brands coexist, creating a win-win situation.

Retailers need to understand that brands attract consumers to the retail store through advertising and promotion, thereby creating demand for the category. Private labels also benefit in the process as it gives them an opportunity to be picked up by consumers. If private labels are the only available products in the store and national brands are phased out, then it could alienate consumers from that store. Another way in which both entities can benefit is if brand manufacturers offer their excess plant capacity and production/product development expertise to retailers for manufacturing of private labels, thus helping retailers to improve their private label quality standards. In global markets, brands regularly work with retailers to introduce co-branded product lines.. National brands need to understand that private labels are and will be a part of life and in many ways provide them with unique opportunities. If a private label is launched in a new product category then the national brand marketers should consider it as a market test amongst consumers

and can collate learnings from it to create new products. Further, in-store branding of private labels attracts footfalls towards the category shelves, hence providing more sales opportunities to national brands too. However, the question is whether the Indian market is mature enough to understand the basis of this mutually beneficial relationship and then create and sustain the same. A case in point is that of a large retail group in India that decided to phase out a famous international cereal brand from its stores owing to margin disputes and is instead pushing sales of its private label. It will take some time to prove how right this strategy is, but taking a cue from the global players Indian retailers need to understand that private labels can flourish more alongside national brands, rather than in isolation.

Franchising: The New Engine for Retail Expansion

The spillover from the subprime financial crisis of 2009 weakened both consumer confidence and consumer spending. Uncertainty prevailed, but amidst the chaos, the franchise industry in India presented itself as a promising business opportunity witnessing a +20 per cent growth. However, with the global economy yet to recover from the ongoing slowdown and changing consumer's habits, the retail franchising industry witnessed changes which focused on the franchisee-franchisor relations and expectations and the very basics/structure of franchising.

In a market sapped of funds, franchising presented a great opportunity to grow faster without deep pockets and without losing that entrepreneurial streak so important to grow sales, while efficiently managing cost. Thus, more and more brands and retailers actively sought franchisees that could open stores and help the brand grow. However, the brands acted a little more cautiously and radically changed their working style with the franchisees. MGs (minimum guarantees), which had become the order of the day, went out of the window, and while retailers offered various incentives to the franchisees to sell more, sales responsibility shifted largely to franchisees. With the fall-back option of MG no longer being valid, franchisees had to take responsibility for sales, while the brand took care of the product and the branding aspects. The franchisee - franchisor relation became a little fairer in that sense.

For many brands and retailers, franchising also became a way to get regain their capital investment in real estate and retail infrastructure and to utilize the same in brand-building and marketing. A large number of brands and retailers hence converted company-owned, company-operated stores to franchisee-owned, franchisee-operated stores and subleased their stores to entrepreneurs who were willing to run those stores as franchisees. So, while the franchisee got a running store with established business, the retailers/brand owners got back the money they had invested in the store, while still retaining that store for the brand.

Going forward, the retail franchising industry would gain further prominence. Brands and retailers will continue to see franchising as an efficient expansion route. However, the trend will favour larger franchisees/ master franchisees rather than the traditional single-store franchisees, as brands would find it difficult to deal with numerous individual franchisees. The franchising sector would also become more organised as more brands and retailers begin to understand the importance of presenting a uniform brand experience to the consumers, even though the stores would be owned and managed by different franchisees. Finally, as the gloom in international markets is dispelled, international brands will again start searching for

franchisees to start their Indian operations. The franchise systems that will perform best will focus on the quality of the franchisee, the franchisor's systems and processes for managing a franchise business and continued thrust on the underlying business economics.

India: The New Destination for Luxury

With the European and American markets reaching saturation point, leading players have started concentrating on the BRIC (Brazil, Russia, India, China) countries and the focus is shifting to India-one of the fastest growing luxury markets. According to our estimates, the market opportunity for luxury in India is estimated to be US\$ 3.3 billion (2009). Though this forms less than 1 per cent of the global share, the promise and potential have attracted some 50-odd luxury brands like Armani, Chanel, Aigner, Christian Dior, Louis Vuitton, Cartier, Piaget, Tiffany, Moschino, Kenzo, Jimmy Choo, Tod's, La Pearl, Canali, Paul Smith and Just Cavalli to cater to the Indian consumer. The Indian luxury market is expected to grow at 25-30 per cent per annum to reach US\$ 30 billion by 2015.

Factors like changing consumer attitudes, real estate and regulatory environment are important for the growth of the luxury market and these are improving in the country

Paradoxically, though the Indian consumers want to buy the best brands, even at the luxury end of the market they are quite 'value conscious', like to be discreet and see the overseas luxury shopping experience as superior to that in India. This has forced the brands to price their products in India at not more than a 10-20 per cent premium, in spite of the heavy import duties. Some of the brands have in fact taken a hit and have actually priced their products at the same price as in the rest of the world. Most brands have also emphasized on their bridge lines and entry-level price points to attract new customers into their fold. Further, successful brands have tried to maintain the same retail standards in their Indian stores as anywhere else in the world.

Going forward, the luxury market has excellent potential for players with a long-term strategy and patient to see results. International retailers will have to understand the Indian environment and culture and will have to engage with consumers at a local level. With brands striving to increase their footprint, and luxury retail spaces still taking time to come up, we will see many luxury retailers moving out of the luxury malls, to high street locations and premium malls. The Indian luxury market is a story waiting to be told India will be a lot more significant to the global luxury majors in the years to come.

Retailers are targeting the next level of cities

The urban consumer has overwhelmingly accepted the modern retail format and now expects newer brands and concepts to enter. Rising affluence levels among the urban consumers, along with an increase in international travel are factors that fan these expectations. The retailers seem to be rushing in to target, what are termed, Tier 2 cities like Chandigarh, Bhopal, Ludhiana and Tier 3 cities like Surat, Lucknow, Dehradun, Coimbatore, Nasik, Indore and Vadodra for items like personal computers, mobile phones, consumer durables and financial services. Table 2 gives the classification of towns in India

Rural areas – show potential

The potential of growth in metros as well as rural areas is immense. Metro cities and other urban areas already have been exposed to western formats of stores and will take to international entrants with ease. A large majority of the

population still lives in rural areas and simply due to its size, this area contains huge opportunities. The process will take time, as the rural customer need to be educated on these formats. But, once the utility and convenience of such retail stores come to be appreciated, one can expect phenomenal growth.

According to the Census of India, 'rural' is defined as any habitation with a population density less than 400 per sq. km, where 75% of the male working population is engaged in agriculture and where there is no municipality or board established. Most FMCG companies consider any place with a population of less than 20,000 as rural and consumer durable companies define any town with less than 50,000 as rural

Rural malls have made a beginning

Rural retailing is an important segment of the retail industry and it is only lately that companies are making investments in this area. ITC launched Chaupal Sagar, the first rural mall, with a variety of products and offering farmers tools to adapt to new technologies and methods of farming and selling their produce. The DCM Sriram Group has opened a Hariyali Bazaar, offering farm-related services and plans to increase their product line to a full-fledged grocery store. Godrej Group has opened Adhaar, a one-stop shop for farmers, focusing on farm related products. Escorts and Tata Chemicals are also in the process of setting up agri-stores targeting the rural market.

Food and apparel retailing likely to drive growth

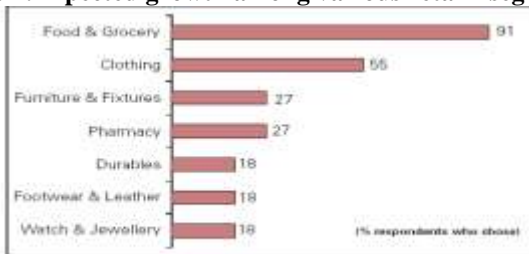
With various factors impacting growth in retail, some segments are bound to grow faster than others. For instance, increasing affluence is driving growth in the watches and jewellery segment, while awareness of health is driving growth in lifestyle pharmaceuticals.

The retailers who participated in the KPMG Retail Survey expect growth in retail segments across the board; however, food and grocery is expected to see the highest growth with clothing emerging as the second fastest growing segment

Conclusion

India, currently, is the hottest retail destination. The Indian retail sector is highly fragmented with 95% of its business being run by the unorganized retailers like the traditional family run stores and corner stores.

Fig:4 :Expected growth among various retail segments



Source: KPMG Retail Survey

The organized retail is at a very nascent stage though attempts are being made to increase its proportion to 15-20% by the year 2010 bringing in a huge opportunity for prospective new players.

"Retail Revolution" is just beginning in India. This presents a unique opportunity in time to "organized" retailers in the western world to leverage and scale-up in India utilizing their well defined and proven processes, procedures and controls. The supply chain, procurement systems and understanding of global trends & fashion will enable them to succeed.

Indian retail market is today at the same inflection point as China in the mid-1990s. Considering similar per capita GDP and economic growth, the Indian organized retail market has

exponential growth potential over the next decade. Multinational companies are not leaving any stone unturned to ride the retail wave since India is being seen as the last retail destination with such a huge consumer base. While established global players are already in India, the market is still wide open. Smaller companies with vision, drive and energy have a unique window of opportunity to enter this nascent market, establish their roots and even dominate their segment.

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Table 1: Companies with high focus on franchisee stores

Companies	Total No. of Stores	Company Owned stores	Franchised Stored	% of stores Franchised
KidZee	697	-	697	100%
Adidas	500	-	500	100%
Domino Pizza	270	--	270	100%
McDonald	160	--	160	100%
Baskin Robbins	300	10	290	97%
Koutons Retail	1400	59	1341	96%
Liberty	570	70	500	88%
Reebok	800	150	700	82%
Archie's	550	100	450	82%
Numero Uno	120	55	65	52%

Source: "New Found Optimism in Retail Sector: Trends for 2010" Technopak Perspective, Vol.3,p.32

Table 2 : Classification Of Cities

Classification Of Cities		
Classification	Characterstics	Cities
Tier-1	Premier destinations, high skill availability, infrastructure capabilities and quality of life	Bangalore, Mumbai, New Delhi
Tier 1-1	Similar capabilities as Tier 1 cities but with lower visibility	Hyderabad, Chennai, Pune, NOIDA, Gurgaon, Navi Mumbai
Tier 2	Emerging cities, attracting new and high tech industries	Kolkata, Mangalore, Ludhiana, Chandigarh/Mohali, Bhopal
Tier 3	Cities focusing on IT as a key growth industry but do not have the requisites of infrastructure, facilities and quality of life geared as yet.	Ahmedabad, Thiruvananthapuram, Coimbatore, Mysore, Nasik, Kochi, Nagpur, Jaipur, Indore, Shimla, Lucknow, Kanpur, Panaji, Srinagar, Patna, Bhubaneshwar

Source: The Retailer, April 2009, Ernst & Young