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Research Paper Marketing

Retailing in India : An analytic view of the sunrise Industry

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ABSTRACT

This paper is aimed at analyzing the various issues pertaining to the sunrise sector "Retail Industry". It studies the various aspects like its evolution, its emergence, its spread and its salient features etc. It focuses on various factors like changing demographics and the lifestyle of the Indian consumers which are primarily responsible for it. Also probable emerging trends too are observed and what strategies the Indian players need to adopt are suggested.

Introduction :

Retailing is the final step in the distribution of merchandise - the last link in the Supply Chain - connection between the bulk producers of commodities and the final consumers. It covers diverse products such as foot ware, apparels, consumer durables, financial services and leisure. In short a retailer is a person responsible for making available the desired product in desired size at desired times to a customer. That's his value proposition to customers. The retail industry has developed into a full-fledged industry in almost all developed countries. Invariably 80% of retailing is carried out via the organized sector. Large retail chains like Wal-Mart, Carre-four Group, Sears, K-Mart, McDonalds, etc. have now replaced the individual small stores. Large retail formats, with high quality ambiance and courteous, and well-trained sales staff are regular features of these retailers.

Top Ten Retailers Worldwide

Rank	Retailer Name, Country	2007 Retail Sales (USD)
1.	Wal-Mart Stores, Inc., USA	374,256
2.	Carrefour, France	112,604
3.	Tesco Plc, UK	94,760
4.	METRO AG., Germany	87,586
5.	Home Depot, USA	77,349
6.	Kroger Co., USA	70,235
7.	Scwarz,Germany	69,346
8.	Terget,USA	63,367
9.	Costco wholesale, USA	63,088
10.	Aldi Gmbh, & Co, HGg	58,487

*Source: Global Powers of Retailing study 2009

Broadly the organized retail sector can be divided into two segments, In-Store Retailers, who operate fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers, and the non-store retailers, who reach out to the customers at their homes or offices. Apart from using the internet for communication (commonly called e-tailing), non-store retailers did business by broadcasting of infomercials, broadcasting and publishing of direct-response advertising publishing of traditional and electronic catalogues, door-to-door solicitation and temporary displaying of merchandise (stalls).

Formats : Major formats of In-Store Retailing have been listed as given below:

- Branded Stores: Exclusive showrooms either owned or franchised out by a manufacturer. The Value Proposition : Complete range available for a given brand, Certified product quality.
- Specialty Stores: Focus on a specific consumer need, carry most of the brands available. Greater choice to the consumer, comparison between brands possible

The Value Proposition: Greater choice to the consumer, comparison between brands possible.

- Department Stores : Large stores having a wide variety of products, organized into different departments, such as clothing, house wares, furniture, appliances, toys, etc. The Value Proposition: One stop shop catering to varied consumer needs.
- Supermarkets: Extremely large self-services retail outlets.The Value Proposition: One stop shop catering to varied consumer needs.
- Discount Stores: Stores offering discounts on the retail price through selling high volumes and reaping the economies of scale. The Value Proposition: Low prices.
- Hyper-mart : Larger than a Supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city . The Value Proposition: Low prices, vast choice available including services as cafeterias.
- Convenience Stores: Small self-service formats located in crowded urban areas.

The Value Proposition: Convenient location and extended operating hours.

- Shopping Malls: An enclosure having different formats of in-store retailers, all under one roof. The Value Proposition: Variety of shops available close to each other.

Retailing Formats In India : Some of the prevalent relating formats in India include:

Speciality Stores: Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

Departmental Stores: Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop!.

Branded Stores: Exclusive showrooms run by premium brands have been the catalysts in pushing up the Indian retail scenario. This concept is now being used to introduce organized retailing to the second rung towns. Madura Garments has started setting up exclusive outlets in cities like Trichy and Thanjavur.

Malls : Most malls give floor space out to individual shops on lease, and these are enticed by the economies resulting from the sharing of costs. India's largest shopping arcade Spencer Plaza (600,000-sq-ft) in Chennai is an example. In malls like these, the combined brand pull of all outlets is used to create a pull for the mall.

Absence of discounting as a dominant format of retailing in India is a glaring peculiarity. The reasons are two-fold. Unlike most Western countries, Indian retailers have much less bargaining power. They thrive as small store and don't have the clout to negotiate terms with the manufacturers. The other reason is that the retailers themselves have no economies of scale to offer discounts on their own. However, the scenario is now changing. Increased investments and the entry of big business houses in retailing is leading to the emergence of bigger retailers, who can both bargain with the suppliers, as well as, reap economies of scale. Hence, discounting is becoming an accepted practice.

The emergence of new sectors has been accompanied by changes in existing formats as well as the beginning of new formats:

- Hyper marts:
- Large supermarkets, typically 3,500-5,000 sq. ft.
- Mini supermarkets, typically 1,000-2,000 sq. ft.
- Convenience stores, typically 750-1,000sq. ft.
- Discount/shopping list grocer

The traditional grocers, by introducing self-service formats as well as value-added services such as credit and home delivery, have tried to redefine themselves. However, the boom in retailing has been confined primarily to the urban markets in the country. Even there, large chunks are yet to feel the impact of organized retailing. There are two primary reasons for this. First, the modern retailer is yet to feel the saturation' effect in the urban market and has, therefore, probably not looked at the other markets as seriously. Second, the modern retailing trend, despite its cost-effectiveness, has come to be identified with lifestyles.

In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. In a sense, this trend is already visible with the emergence of stores with an essentially `value for money' image. The attractiveness of the other stores actually appeals to the existing affluent class as well as those who aspire for to be part of this class. Hence, one can assume that the retailing revolution is emerging along the lines of the economic evolution of society.

The Evolution of Indian Retail Industry:
For Indian retailing, things started to change slowly in the 1980s, when India first began opening its economy. Textiles sector (which companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim) was the first to see the emergence of retail chains. Later on, Titan, maker of premium watches, successfully created an organized retailing concept in India by establishing a series of elegant showrooms.

For long, these remained the only organized retailers, but the latter half of the 1990s saw a fresh wave of entrants in the retailing business. This time around it was not the manufacturer looking for an alternative sales channel. These were pure retailers with no serious plans of getting into manufacturing. These entrants were in various fields, like - FoodWorld, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.

Indian retail market scenario:
"The real GDP is expected to grow at 8 to 10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from USD 322 billion in 2006-07 to USD 590 billion in 2011-12," states the findings of the report furnished by the Indian Council for Research on International Economic Relations (ICRIER).

The study also shows that the unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from USD 309 billion in 2006-07 to USD 496 billion in 2011. "Given the relatively weak financial state of unorganised retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail," analyses the ICRIER report. "Hence, organized retail which now constitutes a small 4 % per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12."

The latest McKinsey study titled "India's Retailing Comes of Age" has predicted a definite retail revolution in India.. Out of this huge retail market organized retailing is only 2 %. More than 15 million retail outlets, mostly run by small shopkeepers, constitute the remaining 98 %. The retail sector is growing at the rate of 20% per annum and more important, the organized retail sector is estimated to grow from 2% of the total retail market in 2001 to 22% in 2005. Most of this rapid growth will be in the large metropolitan cities. The various segments that make up the organized retail industry along with their size are in table given below.

Segment	Market Size (Rs. Crore)
Textiles and clothing	4050
Jewellery	2,000-2,500
Consumer Durables	1500
Footwear	1,300-7,500
Food and personal care	1000
Non-Store retail	900
Luggage, watches and tyre	500
Books and music	390

Retailing is the most active and attractive sector of the last decade. Very rightly it is hailed as the "sunrise sector". As such the retailing industry has been present through history in our country, but it is of lately that it has witnessed a tremendous growth. As a reason it has attracted hordes of players to this sector. Increasing purchasing power of Indian consumers is one of the prime reasons for its dynamic rise.

Especially post-liberalization India has witnessed a great variety in the products, increasing economies of scale, and use of modern technology in supply and distribution chain which has helped greatly. Several conventional stores have been upgrading themselves to today's modern retailing. Also new players have joined the band wagon as a chain of retail stores to meet changing needs of customers as well as the manufacturers. The key offerings from these chains are Attractiveness, accessibility and affordability.

The emerging sector :
Retailing, one of the largest sectors in the global economy, is going through a transition phase not only in India but the world over. For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains (Food World, Nilgiris, Apna Bazaar), convenience stores (ConveniO, HP Speed mart) and fast-food chains (McDonalds, Dominos).

It is the non-food segment; however that foray has been made into a variety of new sectors. These include lifestyle/fashion segments (Shoppers' Stop, Globus, LifeStyle, Westside), apparel/accessories (Pantaloon, Levis, Reebok), books/music/gifts (Archies, Music World, Crosswords, Landmark), appliances and consumer durables (Viveks, Jainsons, Vasant & Co.), drugs and pharmacy (Health and Glow, Apollo).

Spread of organized retailing:
Organized retailing is spreading and making its presence felt in different parts of the country. The trend in grocery retail-

ing, however, has been slightly different with a growth concentration in the South. However, the Mecca of retailing is undoubtedly Chennai. What was considered a `traditional', conservative' and `cost-conscious' market, proved to be the home ground for most of the successful retail names - Food-World, Music World, Health and Glow, Vitan, Subhiksha and Viveks -to name a few. The choice of Chennai as the `retail capital' has surprised many, but a variety of factors acted in its favour. Chennai, in spite of being a rapidly growing metropolis offers reasonable real estate prices, one of the most critical elements for the industry. Chennai has been witnessing a high industrial growth and increasing presence of the MNCs, both in the IT sector as well as outside it. The industrial boom has led to the emergence of new residential areas with aggregation of professionals as well as a rapid increase in the number of `double-income' households and growth of the nouveau riche/upper middle class with increased purchasing power. This has been combined with the increasing need for touch and feel shopping (especially for the large migrant population). All the factors have acted favourably in nurturing the industry.

Consumer- the prime mover:
A variety of factors seem to influence the growth in the retailing industry. `Consumer Pull', however, seems to be the most important driving factor behind the sustenance of the industry. In this context, A. F. Ferguson & Co. had carried out a brief survey among consumers across income segments to understand their spending pattern. An analysis of the `monthly purchase basket of the consumers surveyed indicated that the average monthly household spend on food and grocery related items varied across income segments. For instance, in the case of upper income households, the average spend was around Rs 4,200 per month. As against this, the average spend in the case of a middle income household was around Rs. 2,850 and lower income households Rs. 1,250 per month. (This is computed from a sample of 100 customers having an average family size of four.) .

Based on the distribution of the more than 15 lakh households in Chennai across income segments and the average spend, a conservative estimate of the grocery retailing potential at Chennai will be around Rs. 300 Crores. Besides increasing purchasing power, a variety of other factors also seem to fuel the retailing boom. With increase in double-income households and working women, there is an increasing pressure on time with very little time being available for leisure.

In this scenario, consumers are seeking the convenience of one-stop shopping, whereby they could have better utility of time. They are also seeking speed and efficiency in processing, as a result. Being more aware, consumers are on the look-out for more information, better quality and hygiene as well as increased customer service. These changes in consumer behaviour also augur well for the retailing industry.

However, in India there are no uniform trends with respect to consumer buying behavior. There are visible differences in the shopping pattern of consumers across income segments as shown in the table. Organized retailing has definitely made headway in the upper class. However, even in this segment, items such as milk, fruits, vegetables and a significant portion of `through-the-month' purchases seem to be done at traditional outlets. The middle income class prefer shopping for processed food and personal care in supermarkets and fall back on traditional outlets for bulk shopping. Organized retail outlets seem to be associated with branded items/special purchases. Organized retailing does not seem to have made an impact on the lower class, except for `curiosity' shopping. The biggest question before organized retailers therefore, is whether this really means a huge untapped potential for the organized retailers and whether the conversion in mindset going to be easy.

Salient features of Retailing in India: The retail market size in India is estimated to be around $180 billion. Retailing provides jobs to almost 15 percent of employable Indian adults and it is perhaps the largest contributor to India's GDP. But the flip side of the coin is that the average size of each of the retail outlets in India is only 50 square feet and though a large employer, the industry is very unorganized, fragmented and with a rural bias.

1. The Indian retail industry is unorganized. : There are nearly twelve million retail outlets in India and the number is growing. Two thirds of these stores are in rural location. The vast majority of the twelve million stores are small "father and son" outlets. According to the "Retailing in India" report published by the PwC Global Retail Intelligence Program, share of the unorganized sector is 98%.
2. The Indian retail industry is fragmented. Retail stores in India are mostly small individually owned businesses. The average size of an outlet is 50 s.q. ft. and though India has the highest number of retail outlets per capita in the world, the retail space per capita at 2 s.q. ft per person is amongst the lowest in the world.
3. The Indian retail industry has rural bias. Nearly two thirds of the stores are located in rural areas. The retail industry in rural India has typically two forms: "Haats" and "melas". Haats are the weekly markets: they serve groups of 10-50 villages and sell day-to-day necessities. They are frequently used as replenishment point for the small village retailer. Melas are larger in size and more sophisticated in terms of the goods sold. Mela merchandise would include more complex manufactured products such as televisions.

Even in urban areas, organised in India is restricted to the top few cities of the country as shown in Table given below:

Cities	Top 6	Next 4	Top 6	Next 4
	1999		2005 (Expected)	
Distribution of organized retailing	88%	12%	66%	20%

4. Retail management skills.: It is a fact that the retailing industry is in its starting phase in our country. The benefits of organised retailing will only be felt once an equitable scale is achieved. This to a large extent depends on the store size, the walkthroughs, bills per customer per year, average bill size and the revenue earned per sq. ft. But besides resources and bottom line, a variety of other aspects need to be in place for tasting success. The need for qualified and trained manpower is of utmost importance. The need for specialised skills is increasingly felt in the areas of:

- Strategic management - strategising, targeting and positioning, marketing and site selection, among others.
- Merchandise management - Vendor selection, inventory management, pricing and so on
- Store management - Layout, display, CRM, inventory management, etc.
- Administrative Management - Human resources, finance, marketing and so on.

With the need for specialized skill set, retailing has become a specialized area of knowledge and training. The RPG School of Retailing and the introduction of specialized retailing courses at various business schools, including the IIMs, stand testimony to this.

Technological Concerns :
The other important aspect of retailing relates to technology. It is widely felt that the key differentiator between the successful and not so successful retailers is primarily in the area of technology. Simultaneously, it will be technology that will help the organized retailer score over the unorganized players, giving both cost and service advantages.

Retailing is a `technology-intensive' industry. It is quoted that everyday at least 500 gigabytes of data are transmitted via satellite from the 1,200 point-of-sales counters of JC Penney to its corporate headquarters. Successful retailers today work closely with their vendors to predict consumer demand, shorten lead times, reduce inventory holding and thereby, save cost. Wal-Mart pioneered the concept of building a competitive advantage through distribution and information systems in the retailing industry. They introduced two innovative logistics techniques - cross-docking and electronic data interchange.

Today, online systems link point-of-sales terminals to the main office where detailed analyses on sales by item, classification, stores or vendor are carried out online. Besides vendors, the focus of the retailing sector is to develop the link with the consumer. `Data Warehousing' is an established concept in the advanced nations. With the help of `database retailing', information on existing and potential customers is tracked. Besides knowing what was purchased and by whom, information on softer issues such as demographics and psychographics is captured.

Retailing, as discussed before, is at a nascent stage in our country. Most organised players have managed to put the front ends in place, but these are relatively easy to copy. The relatively complicated information systems and underlying technologies are in the process of being established. Most grocery retailers such as FoodWorld have started tracking consumer purchases through CRM. The lifestyle retailers through their `affinity clubs' and `reward clubs' are establishing their processes. The traditional retailers will always continue to exist but organised retailers are working towards revamping their business to obtain strategic advantages at various levels - market, cost, knowledge and customer.

With differentiating strategies - value for money, shopping experience, variety, quality, discounts and advanced systems and technology in the back-end, change in the equilibrium with manufacturers and a thorough understanding of the consumer behavior, the ground is all set for the organized retailers. The bottom-line could look brighter, after all! It would be important to note, however, that the retailing industry in India is still a `protected industry'. It is one of the few sectors which still has restrictions on FDI. Given the current trend in liberalization, it will not be long before the retailing sector is also thrown open to international competition. This will see a further segregation of the international retailing brands and the domestic retailers, thereby injecting much greater dynamism into the market. That will be when the real action will begin. In the second article on retailing, we uncover a model for retailers to handle the emerging scenario.

Technology in Retail :
Over the years as the consumer demand increased and the retailers geared up to meet this increase, technology evolved rapidly to support this growth. The hardware and software tools that have now become almost essential for retailing can be into 3 broad categories.

1 Customer interfacing systems
Bar coding and scanners : Point of sale systems use scanners and bar coding to identify an item, use pre-stored data to calculate the cost and generate the total bill for a client. Tunnel Scanning is a new concept where the consumer pushes the full shopping cart through an electronic gate to the point of sale. In a matter of seconds, the items in the cart are hit with laser beams and scanned. All that the consumer has to do is to pay for the goods.

Payment: Payment through credit cards has become quite widespread and this enables a fast and easy payment process. Electronic cheque conversion, a recent development in this area, processes a cheque electronically by transmitting transaction information to the retailer and consumer's bank. Rather than manually process a cheque, the retailer voids it and hands it back to the consumer along with a receipt, having digitally captured and stored and image of the cheque, which makes the process very fast.

Internet : Internet is also rapidly evolving as a customer interface, removing the need of a consumer physically visiting the store.

2 Operation support systems
ERP System: Various ERP vendors have developed retail-specific systems which help in integrating all the functions from warehousing to distribution, front and back office store systems and merchandising. An integrated supply chain helps the retailer in maintaining his stocks, getting his supplies on time, preventing stock-outs and thus reducing his costs, while servicing the customer better.

CRM Systems: The rise of loyalty programs, mail order and the Internet has provided retailers with real access to consumer data. Data warehousing & mining technologies offers retailers the tools they need to make sense of their consumer data and apply it to business. This, along with the various available CRM (Customer Relationship Management) Systems, allows the retailers to study the purchase behavior of consumers in detail and grow the value of individual consumers to their businesses.

Advanced Planning and Scheduling Systems : APS systems can provide improved control across the supply chain, all the way from raw material suppliers right through to the retail shelf. These APS packages complement existing (but often limited) ERP packages. They enable consolidation of activities such as long term budgeting, monthly forecasting, weekly factory scheduling and daily distribution scheduling into one overall planning process using a single set of data. Leading manufactures, distributors and retailers and considering APS packages such as those from i2, Manugistics, Bann, MerciaLincs and Stirling-Douglas.

3 Strategic decision support systems:
Store Site Location: Demographics and buying patterns of residents of an area can be used to compare various possible sites for opening new stores. Today, software packages are helping retailers not only in their locational decisions but in decisions regarding store sizing and floor-spaces as well.

Visual Merchandising : The decision on how to place & stack items in a store is no more taken on the gut feel of the store manager. A larger number of visual merchandising tools are available to him to evaluate the impact of his stacking options. The SPACEMAN Store Suit from AC Neilsen and ModaCAD are example of products helping in modeling a retail store design.

Trends in Retailing :
Retailing in India is at a nascent stage of is evolution, but within a small period of time certain trends are clearly emerging which are in line with the global experiences. Organized retailing is witnessing a wave of players entering the industry. These players are experimenting with various retail formats. Yet, Indian retailing has still not been able to come up with many successful formats that can be scaled up and applied across India. Some of the notable exceptions have been garment retailers like Madura Garments & Raymonds who was scaled their exclusive showroom format across the country.

1 Experimentation with formats: Retailing in India is still evolving and the sector is witnessing a series of experiments across the country with new formats being tested out; the old ones tweaked around or just discarded. Some of these are listed in Table below.

Retailer	Current Format	New Formats. Experimenting With
Shoppers' Stop	Department Store	Quasi-mall
Ebony	Department Store	Quasi-mall, smaller outlets, adding food retail
Crossword	Large bookstore	Corner shops
Piramyd	Department Store	Quasi-mall, food retail
Pantaloon	Own brand store	Hypermarket
Subhiksha	Supermarket	Considering moving to self service

Vitan	Supermarket	Suburban discount store
Foodworld	Food supermarket	Hypermarket, Foodworld express
Globus	Department Store	Small fashion stores
Bombay Bazaar		Aggregation of Kiranas
Efoodmart		Aggregation of Kiranas
Metro		Cash and carry
S Kumar's		Discount store

Retailers are also trying out smaller versions of their stores in an attempt to reach a maximum number of consumers. Crossword bookstores are experimenting with Crossword Corner, to increase reach and business from their stores. FoodWorld is experimenting with a format of one-fourth the normal size called FoodWorld Express.

2 Store design: Irrespective of the format, the biggest challenge for organized retailing is to create an environment that pulls in people and makes them spend more time shopping and also increases the amount of impulse shopping. Research across the world shows that the chances of senses dictating sales are as much as 10-15% for certain categories. This reason is good enough for organised retailers to bring in professional designers while developing a new property. And, that is why retail chains like MusicWorld, Baristal, Piramyd and Globus and laying major emphasis & investing heavily in store design.

Music World spent three months in college campuses and metros studying the market and talking to youngsters before starting work. The brand identity was created after extensive research: a logo was designed and the look of the stores across the country was decided upon. Apart from the visual impact, the functionality of the store design was also taken care of. Listening posts have been created for people to listen to their favorite album and an area in the center of the stores has been earmarked for celebrity visits and promotions.

3 Emergence of discount stores: What does Subhiksha In Chennai, Margin Free in Kerala and recent entrants like Bombay Bazaar in Mumbai, RPG's - Giant in Hyderabad, Big Bazaar in Kolkata, Hyedrabad and Bangalore have in common? Their products are below MRP.

Discount stores have finally arrived in India and they are expected to spearhead the revolution in organisation retailing. Though this segment is growing, it is small compared to international standards where around 60 per cent of the business comes from this format. Internationally, the largest retailer in the world Wal-Mart is a discounter. These discount stores have advantages of price, assortment dominance and quality assurance and have the ability to quickly build scale and pass on the benefits. However, the success would be for retailers who are able to build the scale fast and manage their operations efficiently while offering value to the customer consistently.

4 Unorganized retailing is getting organized: To meet the challenges of organized retailing that is luring customers away from the unorganized sector, the unorganized sector is getting organized. 25 stores in Delhi under the banner of Provision mart are joining hands to combine monthly buying. Bombay Bazaar and Efoodmart have also been formed which are aggregations of Kiranas. In a novel move, six Delhi based restaurants have come together and formed a consortium: NFC, to promote New Friends Colony, a posh locality in the Capital, as a branded place in town. The aim is to increase footballs in the area, which is fast losing its sheen to its closest and upcoming destinations such as large cineplexes, and malls, which are backed by the corporate house such as 'Ansals' and 'PVR'.

5 Not all stories are a success: A lot of activity is happening in retail and though we do have may success stories, not all ventures have been successful. Shoppers' Stop, for example, implemented JD Edwards ERP, but could not reap much benefit due to less than optimal number of operating locations. A few references of other such less successful ventures is given below:

- Franchising, as a way to grow has not worked out well for Vitran, the second oldest food supermarket. More than two third of its 19 odds outlets have either folded up or snapped up ties with the parent.
- The foray of organized retailing in the small towns of India has met with limited success. The notable example being Shoppers' Stop foray in Jaipur. The retailers are now focusing their energies on the top six cities.
- India's oldest food supermarket chain, the Bangalore based Nigliris has been up for sale for a few months now but yet to find takers.
- In Delhi, the Escorts group-promoted Nanz, a food supermarket has shut down after being unable to find a white knight. (Source: Pwc Analysis)

These failures and limited successes have happened both due to a lack of experience and understanding of issues.

6 Investment will increase: Retail sector will see huge investments in the next 4-5 years. Newer chains will come in and the present players will increase their penetration. By 2005, the established players would have reached saturation levels in metropolitans and will shift the focus of their investments to other Class 1 cities. By 2010, there will be little difference between the metros and the next 20 cities (the present million plus cities). However, the investments would largely be private investments, or at best secondary markets. This will happen because expansion will happen through investments by business houses that will not sell their stakes. If any purely retailing company exists, it will be an exception. However, if the ban on foreign players holding a controlling stake is lifted, the sector could see drastic movements. The entry of foreign players will undoubtedly result in buying and selling and some businesses might withdraw their money in anticipation. The entry of foreign players, if allowed, will not only affect ownership, but also change the basics of business. Huge investments in stores and their supply chains can transform the entire scenario. But the lifting of ban is a policy issue that cannot be predicted, and can only be decided by the government.

7 Demographical changes to affect OR: In the next 10 years, Indian population is expected to grow by about 14 per cent. But this increase will not be even. Important trends that will affect retailers are listed below.

The number of children (0-15 years) will remain stable at 30 million: This will mean a lesser growth for toys, games and some apparel segments. But given the current nascent stage of the growth, these sectors will still offer high growth rates.

The number of people in 40-60 years of age will go up by 30%: Sales of cosmetics, skin care, hair dyes, and other youth inducing products will rise. More consumer resources would be spent on retirement planning and saving for retirement. Home improvement and financial services firms would benefit from this trend.

The number of households will increase by 25%: This would lead to a higher growth in the household-decor items vis-a-vis personal items as apparel and fashion accessories.

8 Regional differences will stay : Although a few players will be able to form pan-Indian retail supply chains, the retail market is unlikely to be a single entity. For example, food retailing in Chennai, Kolkata and Chandigarh is vastly different in terms f shopping habits and consumer tastes. Many such differences will remain. Though a few national retail chains will develop, they would have to coexist with strong regional players, who would excel in this understanding of the customers and strong brand names. The national players would primarily be is sectors like Apparel, Fashion, Food and Music. Importance of local supplies for grocery sector would ensure the regional chains would reign supreme in these sectors. The key to success for national players will to maintain the efficiencies that come from their large-scale operations while retaining the

ability and the flexibility to satisfy different needs of different consumers. However, organized retailing, in some cases, will change and harmonize consumer habits, purchasing patterns and consumer behavior. McDonalds and Barista have already been successful in doing this.

9 Retailers would adapt more than one format. Today, internationally all top-retailers (except Kmart and Aldi) operate 3-4different formats, with companies like Metro AG operating 13 formats. This diversity of formats allows the company to utilize its brand value across different segments and categories of customers. Signs of such a development are visible in India as well. A movement towards Class-I cities necessitates modification of operating format5s to suit different needs. By 2010, top retailers would be operating at least 3-4 formats.

The biggest challenge that the retailers will have to face would be of maintaining different brand images, and though clashing images would be formed, a few retailers would be able to use Brand Extensions to establish different images in different cities.

10 Dual focus on costs and time. With more dual income families consumer ability to spend will increase, but the time available for shopping will go down. Customers will become more demanding in terms of rapid and friendly service. Retailers would develop shopping as an entertaining experience, but the more successful ones will be the ones who provide faster service. On the other hand, increasing competition would push the prices down. Efficiencies in supply chain and economies of scale would allow retailers to reduce their prices without compromising either on the shopping experience or on their own profitability.

11 24 hours retailing. Time stressed consumers will also ask for round the clock retailing. As these consumers will be ready to pay a premium for service at odd hours, the timings of shopping will have to adapt to needs of these consumers. A number of 24 hours retail stores would emerge to cater to this need. The assumption here is that the current administrative restrictions on running shops at nights will be lifted. It is expected that in the face of increasing demand from both the consumers and the industry fora, regulations regarding retailing will be eased.

12 Small retailer will coexist. Within a decade, large organised retailers would be controlling a substantial portion of the retail trade. Yet, it is not to say that small, independent and unorganised retailers will disppear in large numbers. They will survive on their core strengths of personal relations with customers and closeness to residences. The experiences of South East Asian countries has been that even after 10 to 15 years of allowing FDI in retailing, unrganised retailers still control a sizeable chunk of the retailing market. The Indian experience in retailing is expected to be no different. However, to compete with the big retailers on price, small retailers will form cooperatives for purchasing, just as the once in France, spain and Italy have already done. This trend has also started in Delhi, and is only expected to increase.

13 Supply chain dynamics. The balance of power between retailers and manufacturers will shift towards the retailers. The bigger retailers would be able to seek the lowest prices, require their suppliers to assume greater business risks, and colloborate with suppliers to achieve overall cost reduction in their operations.

Scale economics would help in operating optimized supply chains and logistics network with investments in information technology enabling process efficiencies and effectiveness. Increased volumes would enable investments in specialized equipment for transportation of goods. Retailers with large chains would negotiate and get central procurement but local dispatches from their suppliers.

14 Internet. Internet retailing will thrive in the coming decade. It may not be apparent now because internet access is far behind the US and west, and high usage charges represent a serious impediment to frequent consumer usage. The Government has already shown intent to deregulate the telecommunications sector. Deregulation would increase Internet usage in the country and also the trading on the net. However, it is expected that the bricks and mortar stores converting to clicks and mortar model would dominate the Internet sector. ? This is because of their already existing brand names and economies of operations that they would be able to reap.

Regulation in Retail Industry

Despite the size and the phenomenal potential that exists, retailing is among the lesser-evolved sectors of the Indian Industry. Retailing as an industry is yet to be recognised in India. The policy environment is currently seen to be unfavourable to organised retailing. Given the huge investments that need to be made, a look on the Foreign Direct Investment Policy in the sector might be needed. Complex sales tax rates, octroi and excise structures are major deterrents. Other impediments to growth of retail include the bureacuracy, inflexible labour laws and multiple licensing requirements. Real estate in India is also not geared to facilitate organised retailing.

1 Restrictions on FDI : The Indian economy is highly regulated and the most significant regulation is the restriction of foreign ownership. A strong FDI presence in retail sector is expected to not only boost the retail scenario, but also act as a driving force in attracting FDI in upstream activities as well. This will be more prominent in food processing and packaging industries because many large retail chains also promote their own brands by way of backward integration/contract manufacturing. The status of orgnised retailing in some South East Asian countries that allowed FDI in retailing has been given in Table below:

Country	Organised Retailing	Traditional Retailing
Malaysia	50%	50%
Thailand	50%	50%
Phillipines	35%	65%
Indonesia	25%	75%
South Korea	15%	85%
China	10%	90%
India	2%	98%

In view of the demands made by industry and the need to boost the retail trade, the Government is actively considering removing the restrictions. A recent note circulated by the Ministry of Commerce has proposed permission for FDI up to 100 per cent in retail trade subject to Government approval on a case-to-case basis. However, this permission, if it is given, will be with lots of strings attached. Besides following rules on minimum capitalization, the foreign entrants will be expected to neutralize the outflow of foreign exchange (repatriation of dividends) by way of export earnings on a year-to-year basis. The biggest opposition to allowing 100% FDI is the feared exit of the small retailers. Currently, moves are on to counter these apprehensions and the players are keenly awaiting the final decision from the Government.

2 Land and property Laws

- There is a shortage of good quality retail space and rents are high for what is available. Compounding these shortages are the following problems.
- One of the drivers of property prices is the high demand for space in the cities. This demand is exasperated by the flow of black money (undeclared for tax purpose) that is generally invested in the property sector.
- Only Indians can own property in India, which complimenting the restrictions placed on FDI, restrict the entry of foreign players.
- Stamp duties on property deals are significant (12.5% in Gujarat and 8% in Delhi). The lease alone can cost up to 6-10 per cent of sales while it's just 3-5 per cent globally.
- The initial urban planning of cities was done with smaller

plots in mind which along with rigid building and zoning laws make it difficult for procurement of retail space.

· The urban land ceiling act and rent control acts have distorted property markets in cities, leading to exceptionally high property prices.
· The presence of strong pro-tenancy laws makes it difficult to evict tenants and make people reluctant to give real estate on rent. The problem is compounded by problems of clear titles to own

3 Labor laws: The labor laws instituted to protect store workers are not flexible enough to support the modern formats of retailing. These rigidities in the law constrain the operations of modern retail outlets. Working hours are restricted, with shops required to close one day of the week and the hiring of part-time employees is difficult, However, in Bangalore, the State Government has permitted flexibility in the use of labor without doing away with the associated benefits accruing to it.

4 Taxes. Corporation tax is 38% and this would be even higher at 45% for a foreign business.

1. Even essential basic foodstuffs are taxed (8% on milk).
2. The varying sales tax rate across states make supply chain management an even more difficult task for retailers.

With the expected introduction of Value Added Tax (VAT) in April 2003, some of the sales tax anamolies in the supply chain could get correct over a period of time. However, retailers might also be additionally burdened as given below:-

Changing tax structure: Retailer margins to come under VAT net. In the tax regime contemplated from April 1 2003, VAT will be imposed at every stage between the manufacturer and the final consumer. Thus, margin payable to the distributor and the retailer will also be taxed. As retailers and wholesalers would be taxed under VAT, their margins will decline. Companies, in turn, will come under pressure to increase trade and distributors margins to the extent of the tax being paid by them, thus pushing up the cost of the product. The MRP could therefore increase in order to neutralize the impact of VAT on margins. Goods with a long distribution chain between the manufacturer and final consumer, such as FMCG items and consumer durable, would be the worst affected

Conclusion : The past 4-5 years have seen increasing activity in retailing. Various business houses have already planned for few investments in the coming 2-3 years. Though the retailers will have to face increasingly demanding customers and intensely competitive rivals, more investments will keep flowing in and the share of organised sector will grow rapidly. Organised retailing in India is surely poised for a takeoff and will provide many opportunities both to existing players as well as new entrants.

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