2011

INDIAN RETAIL SECTOR

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"Retail sector is a market where there is organized methodology for the sale of goods"

Retail is an extremely important sector in the economy, but has been overlooked by India's policy-makers. The sector, with reforms, is capable of creating 8 million jobs in the next 10 years and providing job opportunities for people transitioning from agriculture. Further, as the sector develops, prices of goods will fall, thereby raising the standard of living of people across the economy.

Productivity in the sector is low at present, largely because of the very low penetration (only 2 per cent) of modern formats like supermarkets and hypermarkets. These formats not only raise the productivity of the retail sector, they also drive the restructuring of the upstream supply chain – leading to the rapid development of sectors like food processing. Furthermore, by transferring the efficiency gains to consumers through lower prices, they stimulate demand in the economy and raise the standards of living. To unleash the potential of this sector, three reforms are essential.

First: FDI should be allowed in the sector. Experience across the developing world demonstrates that FDI plays a critical role in the development of modern formats. Global retailers, with the benefit of their experience, can rapidly expand operations and tailor successful formats to the local environment.

Second: Land market barriers that create an artificial scarcity of land, thereby raising land prices, should be addressed.

Third: Constraints in upstream sectors – such as SSI (small-scale industry) reservation and restrictions on food grain movement – should be removed to allow retailers to create efficient supply chains.

If these barriers are removed and the economy grows at 10 per cent per annum – which is possible if our recommended reform programme is pursued – the retail sector will experience dramatic growth and employment creation. In fact, output in the sector will increase approximately three and a half times and productivity will rise approximately two and a half times. India today standing in 2011 presents itself as a country of hopes and opportunities at a global level in all verticals on business zones. But India in its own boundary is facing a dearth of huge demanding consumers and the level of consumption. The need to create a value proposition for the consumers has created a more competitive market

.

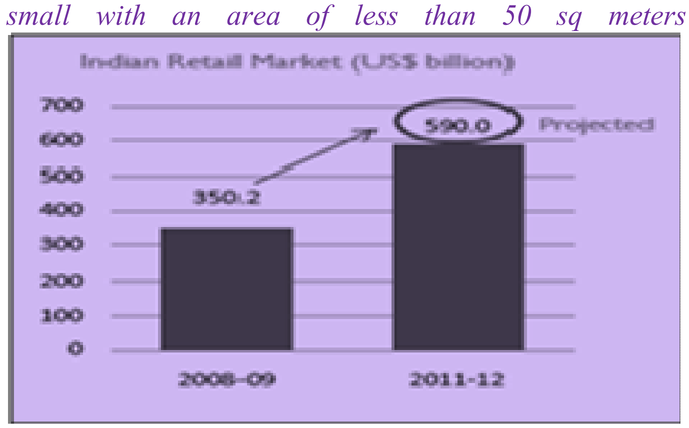
"In retail industry, India has emerged as a key market for investment valued from US$ 330 billion in 2007 to $640 billion by 2015."

India has topped AT Kearney's annual Global Retail Development Index (GRDI) for the third year in a row as the most attractive market for retail investment. Factors that make India a retail target market are:

- A stable democracy that provides economic and political assurance to the companies routing through FDI.
- Consistent 7% GDP growth.
- Availability of skilled labors at cheap price.
- Large unorganized retail sector.

With endless consumer choices, information penetration and fierce competitors have made things more complex. Unlike many other countries India is a fragmented market in terms of policy and economic laws and dealing with varying regulations. The study also pointed out that retailing in India is characterized by a high degree of fragmentation with street markets and convenience stores (kiranas). Accounting for more than 96% of retail business.

"There are over 10 million outlets, 96% of them are very small with an area of less than 50 sq meters".



The Indian retail industry is divided into organized and unorganized sectors.

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

India's retail sector is wearing new clothes and with a three-year compounded annual growth rate of 46.64 per cent, retail is the fastest growing sector in the Indian economy. Traditional markets are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike, introducing the Indian consumer to an unparalleled shopping experience. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers like the traditional family run stores and corner stores.

The organized retail however is at a very nascent stage though attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

Over the past few years, the retail sales in India are hovering around 33-35 per cent of GDP as compared to around 20 per cent in the US. The table gives the picture of India's retail trade as compared to the US and China.

Source: The Economist

The last few years witnessed immense growth by this sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the Government increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. In order to keep pace with the increasing demand, there has been a hectic activity in terms of entry of international labels, expansion plans, and focus on technology, operations and processes. This has lead to more complex relationships involving suppliers, third party distributors and retailers, which can be dealt with the help of an efficient supply chain. A proper supply chain will help meet the competition head-on, manage stock availability; supplier relations, new value-added services, cost cutting and most importantly reduce the wastage levels in fresh produce.

Large Indian players like Reliance, Ambanis, K Rahejas, Bharti AirTel, ITC and many others are making significant investments in this sector leading to emergence of big retailers who can bargain with suppliers to reap economies of scale. Hence, discounting is becoming an accepted practice. Proper infrastructure is a pre-requisite in retailing, which would help to modernize India and facilitate rapid economic growth. This would help in efficient delivery of goods and value-added services to the consumer making a higher contribution to the GDP.

International retailers see India as the last retailing frontier left as the China's retail sector is becoming saturated. However, the Indian Government restrictions on the FDI are creating ripples among the international players like Walmart, Tesco and many other retail giants struggling to enter Indian markets. As of now the Government has allowed only 51 per cent FDI in the sector to 'one-brand' shops like Nike, Reebok etc. However, other international players are taking alternative routes to enter the Indian retail market indirectly via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading (since 100 per cent FDI is allowed in wholesale trading).

The Indian Retail Revolution

With all the reforms in respective sectors, Indian retail market has been on a boom causing a Revolution:

Retail Trade – India, US and China

	Trade (US$ billion)	Employment (%)	Shops (million)	Organized sector share (%)
India	180-394	7	12	2-3
China	360	12	2.7	20
US	3800	12.6-16	15.3	80

- Increasing Productivity nearly 2.5 times,
- Increased output by 12 % a year,
- Produced 8 Million jobs.

Modern formats such as supermarkets can grow to take a 30 per cent share of urban output and reach 90 per cent of US productivity levels. Transition formats such as street vendors will keep an 80 per cent share of employment and will remain at 4 per cent productivity.

Retailer	Current Format	New Formats, Experimenting with
Shopper's 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	Hyper market, 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

As retailing in India is evolving rapidly, with consumer spending growing by unprecedented rates and with increasing number of global players investing in this sector. Organized retail in India is undergoing a metamorphosis and is expected to scale up to meet global standards over the next five years.

"In this land of about 15 million retailers, most of them owning small mom and pop outlets, we also have a modern retail flourishing like never before. There is little room for conflict as evidenced from the fact that India presents a unique case of consumption-driven economy: while the US reels under recession, where supply clearly outstrips demand, India confronts inflation, where Industry and retailers are as yet unable to provide what the consumer demands. "

Over the last few years Indian retail has witnessed rapid transformation in many areas of the business by setting scalable and profitable retail models across categories. Indian consumers are rapidly evolving and accepting modern retail formats.

Modern retailing has entered India in form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to specialty chains.

The organized segment typically comprises of a large number of retailers, greater enforcement of taxation mechanisms and better labour law monitoring system. The Government also stands to gain through more efficient collection of tax revenues. Along with the modern retail formats, the non-store retailing channels are also witnessing action with HLL initiating Sangam Direct, a direct to home service. Network marketing has been growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets.

In the coming years it can be said that the hypermarket route will emerge as the most preferred format for international retailers stepping into the country. At present, there are 50 hypermarkets operated by four to five large retailers spread across 67 cities catering to a population of half-a-million or more. Estimates indicate that this sector will have the potential to absorb many more hypermarkets in the next four to five years.

Traditionally, the small store (*kirana*) retailing has been one of the easiest ways to generate self-employment, as it requires minimum investments in terms of land, labour and capital. These stores are not affected by the modern retailing as it is still considered very convenient to shop. In order to keep pace with the modern formats.

Whereas, the organized retailing has helped in promoting several niche categories such as cosmetics,convenience goods and healt care and food products.

In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restructuring the tax regime, accessing and developing new skills and investing significantly in India. India's retail environment has changed in the last 6-7 years. There have been changes both on the demand and the supply front.

On the demand front, customers have begun spending more as incomes rise and brand consciousness increases. They have begun demanding a better shopping experience as global media exposes them to different lifestyles. Consumer research shows that households in metropolitan cities are gravitating towards supermarkets and other modern retail channels.

On the supply front, a number of organized retailers have entered the trade in the last 5 years. These include large Indian business groups such as the Tatas, RPG, and the Rahejas and Piramal, as well as MNC brands in apparel, footwear and durables. The entry into retailing by MNC brands has driven the growth of specialty chains and upgraded the standards of existing multi-brand outlets. South India – most notably Chennai, and, to a lesser extent, Bangalore and Hyderabad – has emerged as a centre of organized retailing. In fact in Chennai, nearly 20 per cent of food sales now flow through supermarkets and an equal share of "durables" is sold through specialty chains such as Viveks. Until now, competition in the sector has been largely local with large global retailers such as Carrefour and Wal-Mart absent.

Modern formats, such as supermarkets, department stores and specialty chains, have begun to crop up over the past few years.

"These formats have high productivity potential and are now found in Indian economy."

- **Supermarkets/Hypermarkets:** These are large (20,000 square feet plus) self-service stores selling a variety of products at discounted prices. The best practice chains in this format are Carrefour (France), Wal-Mart (US), Kroger (US), Tesco (UK) and Metro (Germany). This format is new to India and three supermarket chains exist – Foodworld, Nilgiri's and Subhiksha.

- **Department stores:** These large stores primarily retail non-food items such as apparel, footwear and household products. They stock multiple brands across product categories, though some of them focus on their own store label (e.g., Marks & Spencer's St. Michael). Department stores are found on high streets and as anchors of shopping malls. Several local department store chains have opened shop in India in the past 5 years (e.g., Shoppers Stop, Westside and Ebony).

- **Specialty chains:** These retail outlets focus on a particular brand or product category, usually non-food items, and are located on high streets and in shopping malls. While most specialty chains compete on service, a segment called "category killers" offers price as an advantage (Toys 'R' Us is a good example of a category killer). Examples of specialty chains include Gap, Levi's and Benetton. This format has seen the highest levels of adoption in India, with several chains establishing a strong presence, typically through franchising, e.g., Lacoste and Benetton.

- **Urban counter stores:** These small family-run stores dominate food and non-food retailing and are found in both residential and commercial markets in towns and cities. They typically have a loyal clientele bound to them by personal relationships and the convenience of credit and home delivery..

The experience of other developing economies suggests that the transformation of retail from an unorganized sector to an organized sector can be rapid. The key drivers of this change were entry of best practice foreign retailers, the freeing of real estate markets and growth in income. Online retail industry to reach Rs 7,000 cr by 2015. The market size of online retail industry in India is likely to touch Rs 7,000 crore by 2015 due to increasing internet penetration across the country. Currently, the online retail market stands at Rs 2,000 crore and is growing at an annual rate of 35 per cent. "India is set to become the third largest nation of internet users in the next two years. Next Retail eyes Rs 4K cr revenues by next 3 years.

The company plans to open 400 showrooms across the country in the next three months upping the total number of retail stores to 1,000 by the end of the fiscal year 2010-11. The Company expects to grow at the same rate in the coming years, expects to achieve Rs 4,000-crore revenues in the next three years. For this fiscal (FY 11),
The modern retail industry is expected to grow at a compounded annual growth rate of 20% which has its stores in 270 cities, wants to expand its base to 350 cities

Union Budget 2011- Retail Sector: Left disappointed & RAI demands non-fiscal & fiscal incentives

India's retail sector that has been anticipating some good news on allowing FDI in the multi -brand segment is left disappointed by Finance Minister

Pranab Mukherjee, who made no mention of it in his Budget speech. Although it has a lot of announcements on GST, DTC, UID, it has very little to show for the retail. The Economy had favoured a phased opening of foreign direct investments in multi-brand retail saying it could help address concerns of consumers and farmers, besides bringing in technical know-how. Last year also, the retailer had hopes of policy relaxation in the FDI policy for the sector, which, however, remained unfulfilled. At present 100 per cent FDI is allowed in cash and carry wholesale trading, while it is prohibited in multi-brand retail. Up to 51 per cent FDI has been allowed in single-brand retail since 2006.the government has been playing very safe in case of the FDI issue. It is already under pressure and has several bills to be passed going ahead, so it does not want to take up the FDI in retail issue. Global retail giants such as Wal Mart, Carrefour and Tesco have been pitching for opening FDI in multi-brand retail to tap the immense potential this country offers.The announcements made to strengthen the farm sector, cold chain investments and recommendations to amend the Agriculture Produce Marketing Committee (APMC) Act are all indicative of the government's will.

Retailers association of India has urged FM to include below mentioned financial & non-financial incentives for retail sector in the upcoming Budget: 2011-12.

- *NON FINANCIAL*

1) Recognize Retail as an industry

Retail deals with the consumers in the country and is the second largest sector after agriculture in the number of people it employs. We earnestly request that the same be specifically recognized since the growth of the retail sector can benefit the conventional retail trade, the Government's exchequer, consumers and farmers/producers. A Minister to look after the interests of the retail sector shall help the sector flourish and get a face-lift. This will also enable better financial processes due to benchmarking and enable prudent practices in retail. Retail will also become eligible for all support and incentives as applicable to other industries.

2) Retail Policy

A Retail Policy should be considered for promulgation by the government which will help modern retailing grow from strength to strength in India. RAI would be happy to work with the Government in setting up an empowered committee to guide and supervise implementation of the Retail Policy and take appropriate decisions. The empowered committee could comprise Government officials, representatives from the retail industry and consultants and experts. The Retail Policy could also provide for a single-window clearance system. The Single-window clearance will further streamline license processes associated with the establishment and management of retail stores. The State Governments could draw their guidelines for implementation from the National Retail Policy.

3) FDI in Retail

FDI in retail trading should be opened up to substantially improve productivity and distribution system through modern format retailing. The current distribution system is a big bottleneck to the rising GDP and growing consuming mass. Need to ensure efficient 'farm-to-fork' system. This would require huge capital, international know how and best practices. Hence, the need for FDI. The additional benefits are:

• Consumers: variety with best quality prices & convenience
• Producers: benefits from bulk orders/ minimizing market risks
• Industry: boost to exports & food processing
• Society: Increased employment through backward and forward linkages

As in the case of other industries (like banking, insurance, telecom, aviation, etc), there should be laid out a policy statement laying down the roadmap for modern retail and allowing Foreign Investment in retail.

- *FINANCIAL*

1) **Service tax** on renting of immovable property should be withdrawn.

2) In reverse charge mechanism service tax payment should be allowed by utilizing the **CENVAT Credit**.

3) "**SERVED FROM INDIA SCHEME**" should be made available for Retailers. Although, as per para 3.6.4 of FTP, Retailers are eligible to get license from DGFT under "Served from India Scheme (SFIS)" the same is being denied to retailers. Such ambiguity in the policy document should be clarified & retailers generating foreign exchange

inflows should be given the SFIS License. Serve for Food India Scheme (SFIS): The benefit of this scheme should be made available to retail players which at the moment are being denied. A suitable change to this extent would be needed in the EXIM Policy. Any sales using foreign currency / international credit cards must be counted against this and duty credit entitlements must be credited for retailers. This can be used for import of items.

4) **VAT Refund** for making India attractive for shopping tourism with the new GST regime it would be easier to monitor the tax paid on various goods and commodities. This also provides an opportunity to encourage foreign tourists to come into the country and experience the new and modern retail scenario in India. In line with practices worldwide India should also introduce a system of GST refunds for foreigners purchasing items in the country and taking it abroad (GST refund). This would also complement the 'Incredible India' campaign that has been run very effectively by the government.

5) **Customs Duty and other entry taxes**
A reduction in the customs duties relating to consumer items would greatly channelize funds to boost the economy. For eg: cosmetics hitherto are considered luxury and it attracts very high customs duty. However, it is known that cosmetics help in retaining visible health of individuals and the use of the same should not become the privilege of a few. We request the Government to have a re-look at the custom duties levied. Also, States, municipalities charging Octroi to be directed to abolish the same.

6) **Direct tax incentives**

Indian retail sector to grow by 9% to touch $521 bn by 2012 & about $900 bn by 2014

Apparel and FMCG segments will be the driving forces for the Indian retail sector, which is likely to grow annually by 9 per cent to touch $521 billion by 2012. In FICCI event, Bharti Retail President and COO Vinod Sawhny, FMCG and apparel sectors contribute the maximum to the growth of the retail market in India. FMCG in particular has a huge potential to grow and this will ensure a growth rate of nine per cent year-on-year for the retail sector, which is likely to touch $521 billion by 2012. The Indian retail market is estimated to be around $350 billion, of which modern retail or the organized segment has only four per cent share. Modern retail will grow much faster, at the rate of 30-35 per cent annually, than the traditional one in the coming years and will be at the size of $54 billion in the next three years. The growth can be attributed to the evolving consumer behavior, changing market dynamics as well as to easier access to capital by both the retailers and consumers. India has one of the largest retail industries in the world and is the second biggest employer in the country. In the coming years, developing countries like China and India will be attractive for global players.

With rising disposable incomes, expansion of stores and supporting economic factors, India's retail sector is expected to grow to about $ 900 billion by 2014. The retail and consumer products in Asia suggests that retail sales in India, currently estimated at about $500 bn in terms of volumes, retail sales in India would grow at an average of four per cent between 2010 and 2014. In India, Asia's third-largest retail market after China and Japan, high inflation in 2010 is expected to keep retail sales growth under two per cent, but annual growth will increase at an average rate of over four per cent in 2010- 2014. Retail sales in China will cross the USD 4,500 billion mark by 2014, India's will be around USD 900 billion. Rising incomes, increase in urbanization and a variety of new stores, including international brands opening their outlets in India, as the growth drivers. Expansion in the attractive Indian market will remain constrained by restrictions on foreign investment. In India modern retail accounts for only 5 per cent of the total retail sales compared to 65 per cent in the US, 55 per cent in Malaysia and 10 per cent in China.

In Asia as region retail sales are expected to grow to more than $ 8.5 trillion in 2014 from USD 5.4 trillion in 2010. Multinational retailers such as Wal-Mart, Tesco, and Metro will continue to expand their operations in Asia as modern retail outlets continue to rise in popularity. Demand in food, beverage and tobacco sector in Asia is expected to grow moderately at 3.4 per cent during 2010-2014, in value, sales of food are expected to almost double from $2.7 trillion in 2010 to USD 4.6 trillion in 2014. Demand growth will be strongest in China, where it is predicted to average 5.7 per cent in the forecast period. India will see 3.2 per cent average annual demand growths.

Logistics key to growth of retail

The retail sector in India, both organized and unorganized, is set to grow at a very rapid pace over the next few years. Indian retail is currently ranked as the fifth largest globally, contributing over 5% of the country's GDP. India has also been consistently ranked as the most attractive investment destination in retail among 30 emerging markets in A T Kearney's annual Global Retail Development Index (GRDI) for the past four years. FDI inflows between April

2000 and April 2010 to single brand retail trading stood at $195 million. Various estimates of potential growth in retailing in India are available. According to BMI India Retail Report, the total retail sales is expected to grow from $353 billion in 2010 to about $543 billion by 2014, with organized retail accounting for 5% of the sales. Organized retail in itself is expected to increase its share from 5% in 2008 to an estimated range of 14-18 % of the total retail market by 2015. With the nod to FDI in multibrand retailing anticipated by mid-2011, and with top retailers diversifying into destination retailing (i.e., offering various consumer-oriented services, in addition to products), organized retail sector, in particular, is expected to witness robust growth over the next decade. While the above projections are encouraging for the sector, its efficacy as the next growth driver it is contingent upon robust and consistent growth of the infrastructure sector, particularly a more reliable and efficient supply chain and logistics mechanism. Therefore, the following points merit attention. First, the rural market is projected to dominate the retail industry landscape in India by 2012, with total market share projected above 50%. The rapid growth of organized retail and the need to reach out to the large untapped rural markets will necessitate massive capacity addition to rural infrastructure and the development of strong and diversified back and front-end supply and logistic networks. Second, an expanding pan-Indian presence of retail businesses and huge diversity in India's topography will require supply chain networks to not only add capacity on a continuous basis but also to become increasingly multi-modal and efficiency-driven. The national highways form a meagre 2% of the total roads in the country, but carries 40% of the load. Almost 80% of the roads are, in effect, unsuitable for commercial vehicular movement. The average speed of such vehicular movement in India is a mere 20 miles/hour, compared with 60 miles/hour in developed countries. Currently, about two-thirds of agricultural produce in India moves on conventional carriers. The inadequacy and inefficiency of the logistics infrastructure is evident. Third, international benchmarks suggest that the cost of logistics (warehousing and transportation costs) for a retail chain, as a percentage of the cost of goods sold (COGS), is about 4% or 5%. However, in India, logistics costs as a share of COGS are three to five times higher. According to a report published by CII and Amarthi Consulting, supply chain costs as ashare of GDP are five percentage points higher than other developed countries (7-8 %). The unorganized logistics structure, insufficient capacities, diseconomies of scale, multiple and complex tax structures, long inventory 'lead time' , dearth of trained manpower and substandard quality benchmarks are driving the cost incompetencies in logistics, and in turn, adversely impacting the competitiveness of the organized retail sector in India.

Bar on FDI hits & positive moves for retail industry

Despite the presence of basic ingredients for growth of the retail industry in India, it still faces major hurdles that can retard and inhibit its growth in the long run. A key impediment is the bar on FDI in retailing. This has largely limited capital investments in supply chain infrastructure, which is important for the development and growth of food retailing. It has also constrained access to global practices. Multiplicity and complexity of taxes, 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 hurdles, some of the roadblocks are expected to remain and will continue to affect the smooth growth of this sector. Retailing in organized form is only 2%, with total sales estimated at Rs 17,500 crore. While the market share of organized retail is expected to grow and become significant in the next decade, this growth would however, not be at the same rapid pace as witnessed in other emerging markets. The small size of operations, coupled with high levels of fixed costs for back-office and back-end infrastructure, had resulted in financial pressures on the existing companies, which had earlier embarked on aggressive expansion plans, in the last few years. The key factors that had affected companies are the lack of robust internal processes to successfully withstand the pressures of growth. Over the last two years, most established players like Pantaloon Retail, Shoppers Stop and Trent have revamped their internal processes to cope with their aggressive growth plans. Additionally, these companies have also implemented and stabilized the information technology (IT) required to deal with future expansions. Many companies have also begun to look at funding sources beyond their existing businesses to finance their growth plans. given the nascent and rapid growth phase of the industry. Fitch in its latest "retailing" report said most of the initial investment to be primarily in the form of equity, with the more established players raising debt to finance marginal or incremental investments. However, after some of the players achieve a critical mass, internal cash accruals would be sufficient to meet a major proportion of their investments.

The Committee of Secretaries has given a go ahead on the FDI proposal and has allowed 51 percent foreign direct investment in the politically sensitive multi-brand retail. The news has come as a relief to many modern retailers.

All the existing leading retail players are optimistic about this new move. With the opening of FDI, retail will become a capital intensive industry. There could be possibilities of strategic tie-ups, FII (Foreign Institutional Investor) investments, and strategic investments. Retailers are hopeful that this development could open up capital flow, mostly from the strategic players.

While retailers have surely won from this pragmatic move, even consumers can look forward to more choices from an entire host of retail chains that are expected to enter the Indian market. The industry will be able to fund large scale expansions when retail is finally opened up to FDI.

Apart from opening the doors for big players Wal-Mart and Carrefour, who have been waiting for this opportunity for several years, this move will also benefit small and marginalized farmers and mom-n-pop stores.

Retail leaders moot segment-wise FDI

At a close gathering of top industry retailers, Future Group CEO Kishore Biyani looks segment-wise FDI in the food and non-food segment is important for the retail sector which was attended by the who's who of Indian retail. FDI should be looked at differently for food and non-food sectors, where the social and political implications are relatively insignificant. If some sections want to restrict the inflow of foreign retail, they should not restrict the availability of foreign funds, both equity and debt. The government's consent to 51 per cent foreign investment in multi-brand retail, that will open up the sector to international retail giants like Walmart, Carrefour, Tesco and others who have already inked partnerships with top domestic retailers. The retail sector's need for an industry status was also stressed upon at the event, attended by Ajit Joshi, CEO of Infiniti Retail, Bijou Kurien, president & CEO, Reliance Retail—Lifestyle, Gaurav Mahajan, COO of Westside, Thomas Verghese, CEO of Aditya Birla Retail, among others. The retail real estate scenario is likely to worsen over the next 2-3 years, with declining returns and short-term focus of developers. The panel agreed that it was difficult managing the retail business in the absence of an industry status due to conflicting rules and lack of information. They hoped that the introduction of GST would help the industry to serve better. Retail industry leaders further pointed out that the most significant challenge was the dearth of good quality retail space.

Delhi Duty Free services raise the profile of retail in India and globally

Delhi Duty Free, India's duty free operator at T3 at IGI Airport in Delhi, has announced the successful completion of one year of operations. Commemorating the anniversary, it has announced several attractive offers, discounts, free gift offers and promotions across their product categories for travelers for the entire month of August. The duty free operator is giving assured gifts on every purchase of $100 and above. The surprise gift options include strolley bags, beach wear, shot glasses, designer ties, magic torch to name a few. DDFS has been recognized among the Duty Free Industry as the largest duty free operator in India, offering world class shopping experience to its customers. In the last one year, Delhi Duty Free ran several 'first time' promotions such as the 'Beetle in a Bottle' (Chivas) which entitled one winner to win a brand new Volkswagen Beetle, presenting a life-size statue of Mahatma Gandhi along with an entire range of Gandhi souvenirs at the 'India Bazaar' section during Gandhi Jayanti and recently the 'Beauty Festival' to promote international cosmetics and perfume brands.

DDF's also saw exclusive launches being held by leading brands such as Diageo (XR21), Chanel (Bleu De Chanel), Beam Global (Laphroigh 18), Wemyss Malts, Pernod Ricard(Royal Gun Salute 62 YO), Diro (Aqua Franheit) and LVMH (Veuve Clicquot Fridge Pack). The company expanded its portfolio to include luxury fashion stores such as Hugo Boss, Mont Blanc, MCM, Samsonite Black and Swarovski. DDF offers more than 130 malts including the premium single malt whiskies from distilleries which are now closed and only a couple of bottles are left in the world. It also sells variety of Cuban cigars. Delhi Duty Free Services (DDFS) is a joint venture between DIAL (Delhi International Airport Limited), IDFS (Indian Duty Free Services) and ARI (Aer Rianta International). The company was awarded the concession to manage and operate the Duty Free Shops at Terminal 3, Indira Gandhi International Airport in Delhi

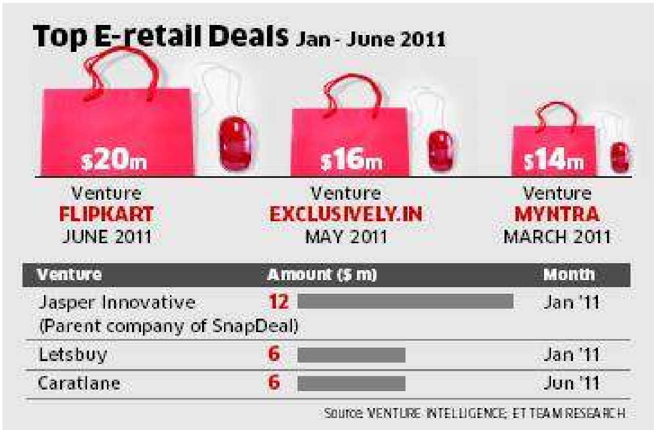
E-Retail – Building a Bubble

"Focus on Nos., Not Profit, Isn't a Sustainable Model"

An entrepreneur in online retail is almost as old as online retail in India. For nearly a decade and a half, he nursed his ecommerce startups, waiting for the business of selling things on the internet to grow big. Now that the moment has come, he is finding to his consternation that he is in the middle of what has all the makings for a perverse fight in

India's online retail business.
There is hype now for topline growth with no thought of making money. The lessons of the previous dotcom crash have not been learnt. An ecommerce portal that started life in 1999 as Fabmart.com, the country's first e-retailer.
Flush with cash from venture capital and private equity funds, online retailers are pursuing a singleminded strategy of acquiring as many customers as they can as soon as they can. To stake out the largest possible territory, they are cutting prices so deep that even costs are not being covered. When it launched, it offered buyers a 25% discount from the nearly 35% margin that it made on every book and charged them shipping costs. Today if discounts alone go up to 40% and shipping is free, how can this model be sustainable? In February 2011, it raised $5 million (. 22 crore) to grow the topline and volumes. It results shipments to rise to 500,000 this year from 150,000 last year. Profits Come in Once Business Scales Up. Finally this is why ecommerce is hot. The growth is there and profits too — when businesses scale after 3-4 years.
One of the country's largest online retailers for books and electronics is Flipkart.com. Which races to set up a delivery network that will ship goods to the doorstep of customers? In the next few weeks, Flipkart Logistics will start operations in 15 cities, shipping items such as television sets and washing machines. This flurry of activity will raise revenues at his four-year-old firm to. 500 crore at the end of March 2012 from. 70 crore in the previous year. Flipkart too was a profitable company in the first two years when it had invested own money and were selling books with transactions of. 30-40 lakh every month. Soon after the company raised private equity money (Flipkart has raised over $30 million) and with internet penetration growing, growth took precedence over profitability. 'E-retail is a multi-billion-dollar opportunity', so it is better to invest in growth and acquire as many customers as possible now rather than target a few million in profits, investors and entrepreneurs are completely aligned on this model.
Entrepreneur's plans to launch an internet logistics company for warehousing and shipping of goods sold online as well as portals to sell jewellery and products for babies. These are capital-intensive businesses. Setting up a full-fledged internet logistics firm with 300 delivery points will take up to $50 million. Group-buying portal Snapdeal.com is raising fresh capital of. 200 crore, with investors valuing the firm at about. 1,000 crore.
As growing numbers of Indians in cities, towns and villages get connected to the internet, the expectation is that they will leapfrog from organized offline retail to e-retail. Such exuberance is reflected in the valuations being commanded by ecommerce firms and causing fears of another dotcom meltdown of the type when investors poured money into startups without any clear plan to earn returns. One of networking firm Microland and one of India's earliest internet entrepreneurs to raise nearly $50 million of private equity money for a string of internet businesses, including tech news portal ITspace-.com and lifestyle website Indya.com. In the year 2000 it gets a single cheque for. 243 crore from an investor in Indya.com without even a business plan. At that time online businesses hawked only news and content and the race was to grab the eyeballs of the around 3 million Indians who were online. With no clear revenue model & tech portal shut shop and Indya.com was sold to Star TV. This time, the conditions for ecommerce are much better than they were a decade ago. The number of internet users is estimated to triple from 80 million in 2010 to 235 million by 2015. Of these, nearly 7.4 million are shopping online from the top 15 cities alone. And in contrast to content portals in the dotcom era, today's crop of ecommerce companies are selling real goods and services online that customers are paying money for. But in the rush to get an early share of this rapidly expanding pie, investors are driving up valuations of e-retail startups that some argue could lead to a dangerous bubble.
Flipkart, for example, was able to raise additional capital by selling less than 10% of its equity, valuing the company at about $300 million. Typical valuations depend on the product mix. So in a low margin business like travel, it can be 1-2 times revenue and very early stage e-retail companies can be valued at five times revenue. Such scepticism comes because of the huge gaps in the business model. Mape Advisory Group, an investment banking firm that tracks the sector take logistics is still a black hole. If they spend. 60-70 to deliver each book they sell, they are losing money on every sale. But Accel Partners, an investor in a clutch of ecommerce firms including Flipkart and apparel e-retailer Myntra, believes that what is important now is the opportunity. 'The total is likely to be very large, and therefore many players, even some that haven't even started yet, are likely to succeed.'
Online travel has dominated the internet commerce industry in India, accounting for nearly 80% of the. 46,000-crore market, according to a report by the Internet and Mobile Association of India. But as consumers begin to buy everything from books to electronics, clothes and consumer goods online, the share of retail ecommerce currently at about 8% will grow to $20 billion in the next five years.
But the real growth that online retailers are betting on in India is an increase in buying in smaller towns and cities that have no access to modern retail. Nexus Venture

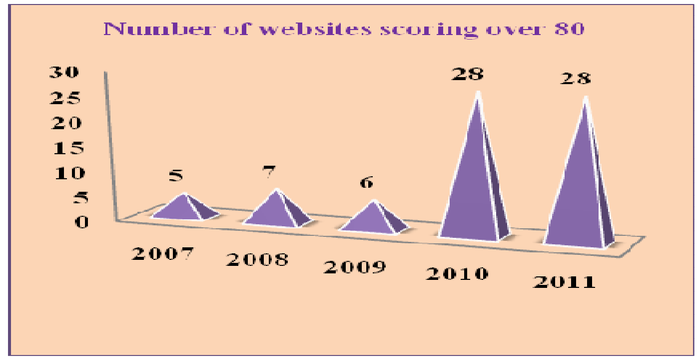
Partners, which is a repeat investor in group-buying portal Snapdeal.com, the opportunity is not to replace offline retail but to just deliver products to first-time customers.



Venture	Amount ($ m)	Month
Jasper Innovative (Parent company of SnapDeal)	12	Jan '11
Letsbuy	6	Jan '11
Caratlane	6	Jun '11

Online Retail Satisfaction Index

As the online retail business slowly rebounds from the challenges of the last few years, the web channel has become a more important influence than ever before on the relationship between retailers and customers. With this evolution comes the need for a more sophisticated, forward-looking set of customer metrics that will enable retailers to gauge not just the success of a single visit, but how well the website supports the entire customer experience across all channels. The following chart provides satisfaction scores for the Top 100 retailers on Internet Retailer's Top 500 list. Scores are reported on a 100-point scale. The following chart shows scores for the last two years.



Other findings include:

• **Apparel and Accessories**: The aggregate satisfaction score for the apparel and accessories sites was 76, down one point from last year (77). Scores in the category ranged from 70 to 81, and the only two retailers in this category to score over 80 were L.L. Bean (81) and Coldwater Creek (80). With 22 websites included in this category, it is the largest.

• **Books/Music/Video:**
- Amazon (85)
-Scholastic (81)
-BN.com (80).

• **Computers and Electronics**: Four websites in this category scored over 80:
- Newegg (83),
- TigerDirect (81),
- Apple (80)
-Best Buy (80).

• **Food and Drug:** Eleven food and drug e-retailers averaged a score of 78. Swiss Colony, Keurig, and Weight Watchers all tied at the top with 81.

• **Hardware/Home Improvement**: There are only four e-retailers classified in the category and none scored over 80. Individual scores ranged from 76-79.

• **Health & Beauty**: The four heaths and beauty sites ranged in scores :
-Avon (84)
-Vitacost (81)

Housewares/Home Furnishings: There are only three e-retailers in this category and their scores ranged from 77 to 80.

• **Mass Merchants:** Another large and well-performing category :

-Amazon (86) - JC Penney (80),
- QVC (84) - Costco (80).
- HSN (82) - Kohl's (80)

• **Specialty/Non-Apparel:** The six sites in this category had the highest category score:
- Shutterfly (82),
-Vistaprint (81),
-Musician's Friend (81)
-Oriental Trading (80).

• **Sporting Goods**: Two of the four scored over 80:
-BassPro (82)
-Cabelas (81).

The purchase intent metrics shows a site visitor's likelihood to purchase online or offline. Looking at purchase intent sheds light on some key competitive situations by showing which websites have a greater impact on their site visitors' likelihood to purchase from any channel.

URL	Purchase Intent (any channel)
Amazon.com	93
Kohls.com	90
Costco.com	90
Walmart.com	89
JCP.com	89
QVC.com	89
Scholastic.com	88
Target.com	88
Avon.com	88
Vitacost.com	88

Deal Seekers Help Big Retailers Grow

Modern trade, or western style shopping, has made its biggest stride yet in the Indian FMCG space with an increasing number of Indians now buying their noodles, household cleaners and detergents from big retailers who offer attractive deals and promotions.

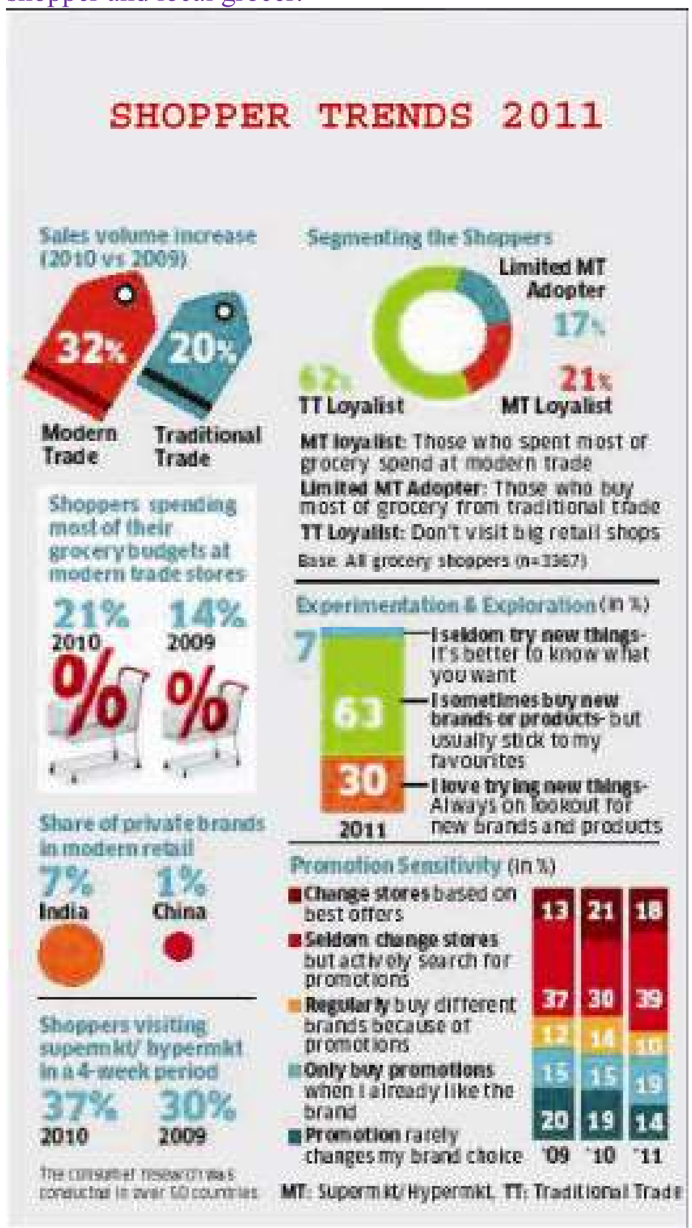
The modern trade in India is recovering from the slump of a year ago and is growing faster than traditional trade. The growth in organized retail sector accounts to 4 key reasons:

- Higher number of store openings,
- Consumers moving to premium categories,
- Clearly differentiated products
- Consumer promotion & value offers.

Retail is growing 60-70% faster than the unorganized sector.

We are now beginning to see the emergence of a modern trade loyalist, a shopper who might shop at both formats but prefers to allocate most of their spend to purchases made at modern trade.

Despite the rise of modern trade, traditional grocery stores continue to be strong, driven by convenience, availability of home delivery and trusted relationships between the shopper and local grocer.



Conclusion

- ***Organized retailing in India is at present in its initial stages and experiencing high growth*.**
  - The market is expected to grow or less the same price till it reaches the stage of maturity. Almost all modern retail formats in various product verticals are poised to grow fast during the next few years.

- ***Changes will also come over the due course of the industry's evolution*.**
  - If retailers want to succeed in today and tomorrow's environment, they will need to continuously focus on generating more value for the consumer. And until some of the core fixes are implemented much of that value is being lost in the system.
  - Under the wake of present global slowdown, organized retail market in India has seen some corrections in entry and growth plans by the prospective and existing players. However, most of them continue to be and plan huge investment with an intention to make early mover advantage and increase their presences pan India.

"The future for organized retail in India is a bright one. The demographics, the sense of optimize and deep rooted entrepreneurial cultures are already ingredients for success."

Sources: Economics Times, Wikipedia, India Retailing, Economy Watch, India FDI, Indian Retail Forum, CCI & NASSCOM, India Retail Sector

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