

Understanding Retail Challenging Issues

Making the right choices is critical in maximising the diverse opportunities of the retail sector, says **S.V. Divvaakar**

India's retail sector is on the verge of a massive boom. There exist opportunities for all formats – be it supermarkets, discount stores, cash and carry players or single brand outlets. However, in order to maximise this opportunity retailers need to make the right choice about location and pricing. This article sheds light on the experiences, challenges and trends in organised retail.

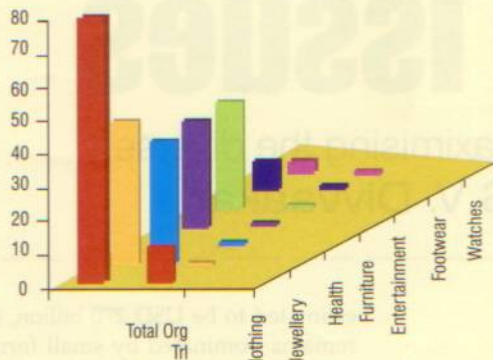
Organised retail in India is still a nascent industry. The estimated revenue turnover of USD 12 billion in 2006, accounted for less than 5 per cent of total retail consumption in India. Presently, the market is

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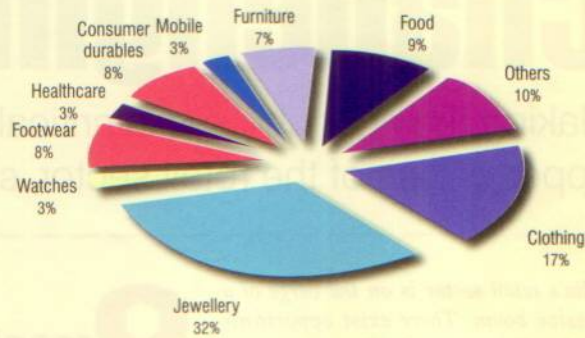
estimated to be USD 270 billion, but remains dominated by small format retail outlets. Yet, organised retail is among the fastest-growing sectors and has grown nearly 40 per cent per annum over the past three years. Further, by 2010, organised retail is projected to have revenues of USD 45 billion. Underlying this potential explosion are approximately USD 30 billion in investments from India's largest conglomerates. These include the Reliance Group, the house of Tatas, the Birla group, and Bharti, among others. Furthermore, while today organised retail formats have an estimated floor space of 100 million sq ft, spread over less than 200 malls, 100 hypermarkets,



Organised Retail Share Category, Rs bn



Organised Retail Breakup by Category



500 department stores and 2000 super markets – this retail space is expected to rise five-fold by 2010. In order to avail of the opportunities that the organised retail presents, players will

have to understand the challenges presented by each format.

Location is the key when a retailer is seeking to provide a convenient and elegant supermarket experience. Un-

fortunately, for players in this format, the ideal location has gotten impossible to procure. Rapidly changing zoning laws in major metros - and demolition drives - have often restricted the location options and thereby altered the economics of this format. One must not forget that supermarkets are a low margin high volume business and costs are important to control. Indeed, a good location is so scarce that the value proposition offered by a supermarket – its easy to access location and spacious shopping experience – is now increasingly undermined. The first reaction of certain segment of retailers has been to set up shop in what are, arguably, 'second choice' locations. This is the reason we increasingly see supermarkets amidst offices, in basements, in warehouses, and adjoining the local wholesale fruit markets, etc. Retailers must realise that in the long

Single brand outlets and foreign brands

In matching product/brand with format, exclusive single brand outlets represent the best option for foreign brands. This is especially true for high end luxury brands. Combining the two gives the retailers' four advantages:

First, the luxury retail industry thrives on its premium and exclusive evocations and not its ubiquitous-ness. The setting for such brands is more likely to be confined to hotel lounges, or ultra premium down-town real estate, with not more than three-four outlets per city. For instance, the clothing brand Zegna has indicated that there would not be more than 3 stores each in Mumbai and Delhi. As a result, these formats would not drive up real estate prices and demand, unlike the mass retail formats, which have been major buyers of commercial land in Delhi and Mumbai.

Second, given their enormous brand premium, luxury brands do not need to poach on the value chain, unlike other large format retail models, which depend on mass disintermediation from farmer to consumer, and can often involve exploitative negotiations. One hears that the sourcing strategy of India's most aggressive emerging retail chains is threateningly simple: 'your quantity, our price...' On the other hand, luxury goods marketers, by virtue of the premium prices of their wares, bring larger retailer margins per unit.

Third, luxury brand retail ventures are most likely to be dealing in proprietary luxury goods sourced internationally and not from the domestic market. For instance, Cartier accessories, (sunglasses, pens, lighters, watches) sold in any outlet worldwide, are most likely to be supplied out of global manufacturing facilities in France, Italy or Hong Kong. Therefore, they are not expected to impact domestic markets significantly, unlike experiences emerging from mass retail formats.

Fourth, FDI in single brand retail is an effective way to reduce smuggling and resultant loss of customs revenues, and also counter the problems faced due to import and sale of spurious goods, a major concern of the ultra luxury brands.

If the real value of Cash and Carry format is grasped then this segment is poised to be a strong contender in rural markets, particularly for second-tier brands



