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Economic Recovery and Preparedness of Indian Retail

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Abstract: Since 1989, with onset of Pantaloons in Kolkata, the Indian retail has gone through a progressive transformation. Given with a width of demographics in a nascent market various formats of retail from Supermarkets to discounted stores, Luxury retailing profiles to rural retail set-ups Indian conglomerates have been up to mark their presence. This retail off-take, basically from 2003 onwards have seen many new retail brands establish themselves on a firm footing baring a few like Subhiksha, Vishal were not able to consolidate then. Further, the Government allowing for 100% FDI in Cash n carry ventures and later controlling stakes in single brand retail, the competition started but the fears of the economic slowdown were yet to recede. This cash and labour intensive industry, which had just witnessed the initiation of the growth phase of its life cycle, required free cash flows to mitigate the high rental costs from real estate developers, got convoluted. Now, diagnosing the Indian retail Industry on the current economic situation from a global perspective, this paper envisages strategies and focal areas to work upon to mitigate the current situation besides getting prepared for better approaching times.

Keywords: Indian Retail, Organised Retailing, Growth Strategies, Customer Retention, Economic Growth.

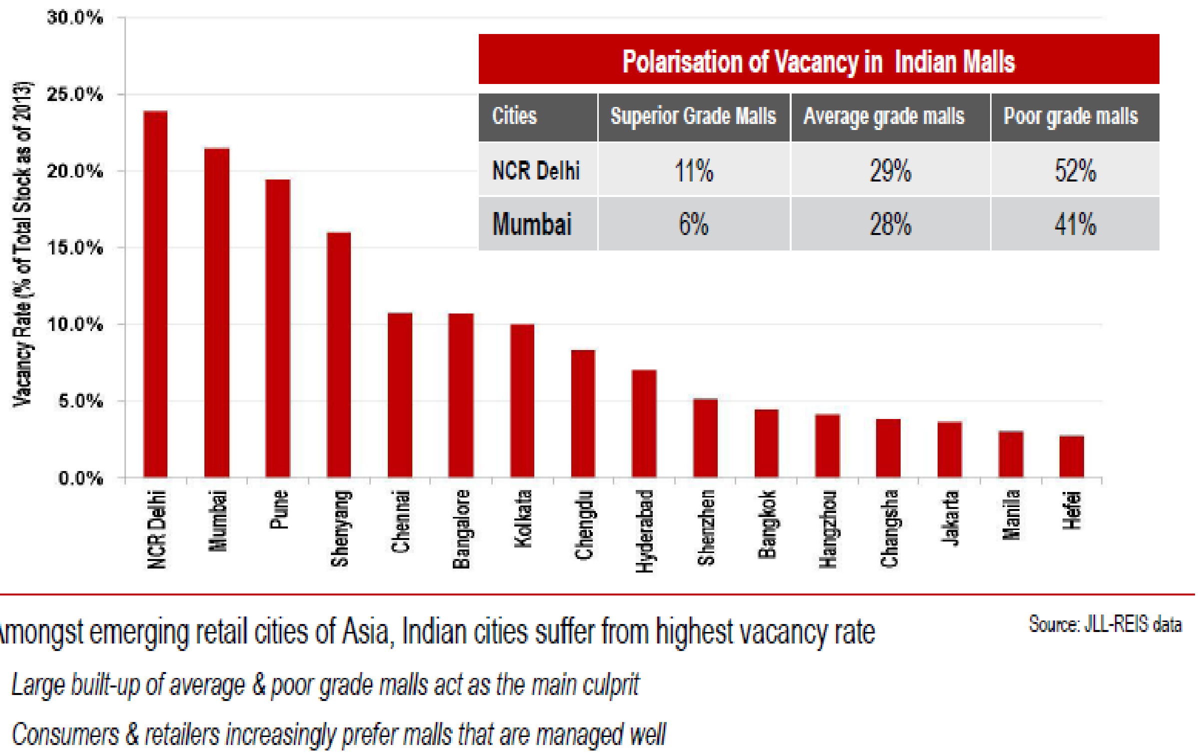
I. INTRODUCTION

It was year 2000 when the things started changing thick and fast in the retail scenario of India. The paradigm shift in high street shopping trends, customer profiles, brands and HNIs turning the heat, the limping GDP correction is what economists are watching for. Though, India has the history of Shopping malls from Spencer's Plaza in Down town Chennai (1863-64) & was reconstructed in 1983 (GLA 5.3L), The Ansal Plaza at Khel Gaon, Delhi (1999) and later Sahara mall at MG road, Gurgaon in 2001 went on to define the organised retail destinations in India.

II. THE QUALITY AND AMOUNT OF RETAIL SPACE AS THE DISCERNING FACTOR

The enormity of the organised retail destinations though started with 5 lacs odd sq. ft but went on to 17 lac sq. ft with Lulu International Shopping Mall, in Kochi, Kerela in 2013. Industry estimates have recorded 170, 220, 300, 100 and 40 thousand sq mtr retail space supply in year 2009 to 2013 wherein another 33 thousand sq. mtr is expected to come up in 2014 itself in Delhi region. For Mumbai the retail supply was in tune of 125, 220, 330, 80 and 70 thousand sq. mtr. Supply in year 2009 to 2013 wherein just 60 thousand sq. mtr is expected to come up in 2014. As the saying goes-when the going gets tough the tough gets going. In the retailing scenarios where supplies had been much more than the demand, the occupancy rates have refused to come down indicating a retail off-take in the near future. JLL reports' Delhi has highest vacancy rate among emerging Asian cities. "These cities witnessed considerable build-up of retail stock during the past 6-7 years on the back of high economic growth and the large influx of investment into retail," reports Jones Lang LaSalle (JLL) on Wednesday at the Retail Leadership Summit in Mumbai (05th Feb'14). Delhi NCR had the highest vacancy rate in malls at close to 25%, followed by Mumbai at nearly 20%. These two metros lead the rest of the country in terms of the highest concentration of shopping malls, accounting for 62 per cent of pan-India mall stock. They are followed by Chennai and Bangalore, which together constitute around 20 per cent of built-up mall space in the country. In 2013, net addition of approximately 5.2 million sq feet of mall space was registered, translating into a 22 per cent increase in comparison to the previous year. Chennai led with creation of nearly 2 million sq feet of fresh supply, followed by Mumbai and Pune. But in 2014, Delhi is expected to be the driver for net addition of shopping malls in the metros. Net addition to mall space in Chennai, Delhi, Bangalore, Mumbai, Kolkata, Hyderabad and Pune is set to more than double to 11.6 million square feet in 2014. This will take up the mall stock across India's metropolitan cities to 87.7 million sq feet by the end of the year, according to a new report by real estate consultancy firm Jones Lang LaSalle.

At the end of 2013, the built-up mall area across these seven cities stood at 76 million sq feet. It is estimated this will cross the 100 million sq feet mark in 2016, touching 107.8 million sq feet in 2017. It is suggested by JLL that the average size of malls is likely to increase in the coming years as developers are focusing on project sizes that allow for a critical mass in terms of various formats and categories under one roof. In 2014, the average size of malls is estimated at around 3.8 lac square feet, which is expected to increase to 4.7 lac square feet in 2015 and further to 6.6 lac square feet in 2017.



The importance of formulating an optimal tenant mix to ensure maximum utilisation of retail space is now recognised and accepted by major mall developers. This will enable them to cash in on retailer interest in upcoming projects that offer not just a good location, but have been optimised in terms of design and their trade and tenant mix.

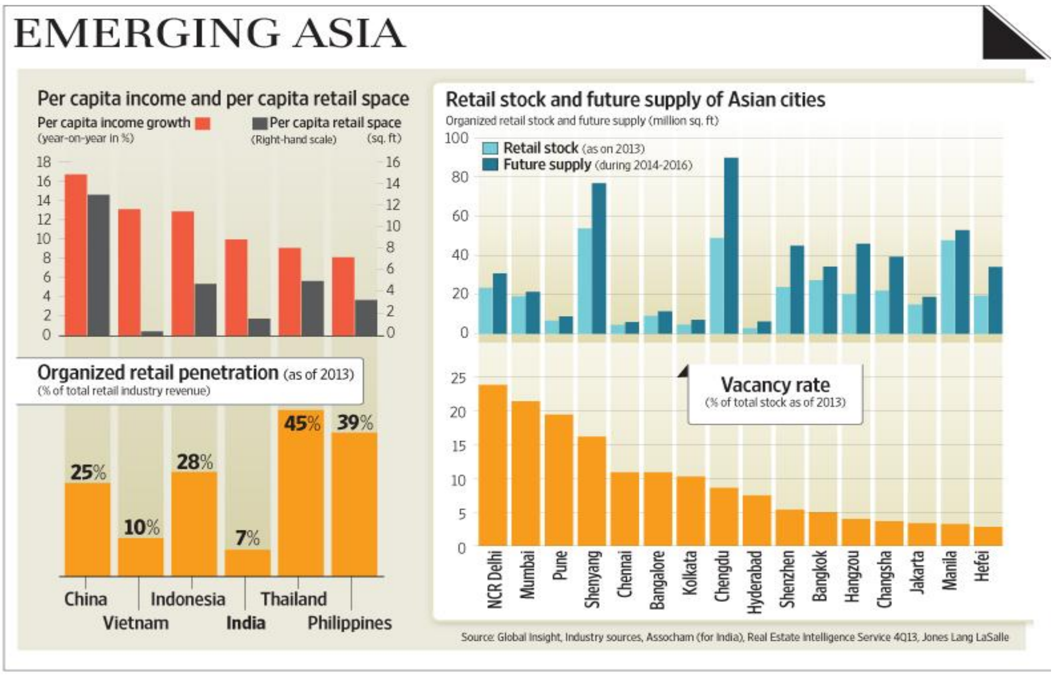
Now, with the kind of supplies coming for the political and commercial capitals of India known for their upbeat fashion sense and lifestyles, the only question is when's the retail economic upturn is coming. Business certainly suggests that it's still not here, but assures us it is on the way.

III. Objective of the Study

- To study the growth of retail sector in India
- To study about the major and emerging formats of retailing
- Study the recent trends in Indian retail industry and its challenges & opportunities.
- To recommend various strategies, trends and opportunities in retailing

IV. CURRENT SCENARIO OF RETAIL INDUSTRY

1. According to 2012 Global Retail Development Index India has secured 5th rank in market attractiveness.
2. India remains a **high-potential market** with accelerated retail growth of 15 to 20 percent expected over the next five years. Growth is supported by strong macroeconomic conditions, including a 6 to 7 percent rise in GDP, higher disposable incomes, and rapid urbanization. Yet, while the overall retail market contributes to 14 percent of India's GDP, organized retail penetration remains low, at 5 to 6 percent, indicating room for growth.
3. **Expanding Middle Class:** By 2030, 91 million households will be middle class, up from 21 million in 2010 (McKinsey's India's Urban Awakening, 2010).
4. India's large and aspiring middle class of 75 million households or 300 million individuals want products that are value-driven. The country's 500 million people under the age of 25 have access to more money that has additionally resulted in independence, aspirations and a demand for products.
5. **Rise in Income Levels** The per capita income in 2013 more than tripled to USD 1208 from USD 348 in 2000–01
6. **Investment in Infrastructure:** India expects to invest about USD 500 billion in infrastructure, mainly in power, telecommunication, roads, railways and oil pipelines, in the five years ending March 2012
7. **Rapid Urbanisation:** By 2030, 570 million people will live in cities, nearly twice the population of United States today
8. Low share of organized retailing
9. Falling real estate prices
10. Bank rate cut(s) on the helm
11. Controlled inflationary trends
12. More retail brands and organisations entering India with low exits.
13. A steep increase in the no. of billionaires in 'Forbes' list.



Modern retailing has entered into India as is observed in the form of sprawling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof. The Indian retail industry has experienced growth of 10.6% between 2010 and 2012 and is expected to increase to USD 750-850 billion by 2015. Various estimates put the share of organized retail as 20% by 2020. The growth pattern in organized retailing and in the consumption made by the Indian population may follow a rising graph helping the newer businessmen to enter the India Retail Industry. The country's traditional retail industry is expected to grow at an average annual rate of 5% over the next year, while the organised retail is estimated to register a growth rate of around 25% during this period.

V. EXPECTED FUTURE TRENDS

FDI in specialty stores: Multi-brand organized retail in specialty stores such as Consumer Electronics, Footwear, Furniture and Furnishing etc. are expected to expand and mature in the next few years. However the policy condition on sourcing will continue to be a major bottleneck for FDI in many of these segments.

Dominance of unorganized retail: Flexible credit options and convenient shopping locations may help traditional retail to continue its dominance in retail sector.

Growth in small cities and towns: Stiff competition and saturation of urban markets is expected to drive domestic retail players to tap the potential in small cities (tier II & III).

THE PROPOSITION

In tough economic environments, longsighted corporate prefer to reinvest in their core businesses and prepare to capitalize the opportunities that of the customer coming back in swing. In downtimes, companies built the infrastructure to expand confidently from its base into every corner of the country and, ultimately, around the world.

Here’s a gist of thoughts on what should be done to prepare the businesses for the coming recovery.

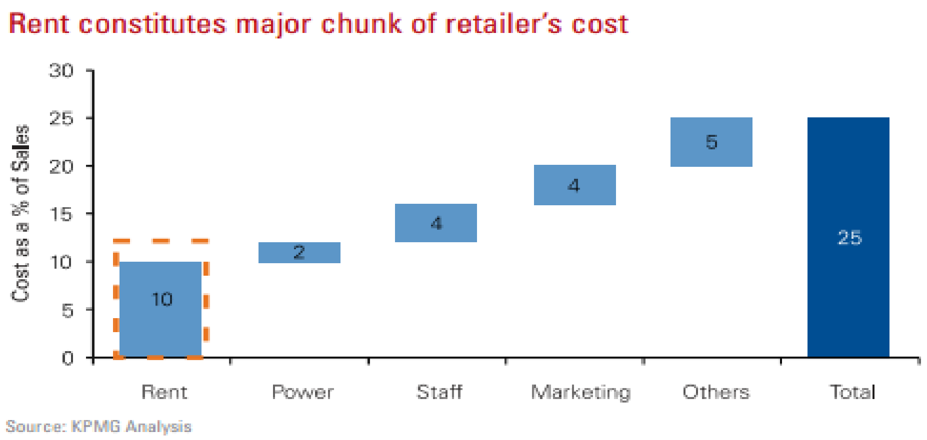
1. **Updating the customer Database:** Many small retailers haven’t preferred to find time for updating this. Retailers require upgrading on ways & means to get in touch with their customer in various novel ways. A better timed and inexpensive way to stay in touch is with e-mails and phone. When the recovery arrives, we will be able to announce its arrival by pitching to our right set of customers.
2. **Updating the website:** A new era is about to dawn and a retailer doesn’t want to portray itself with a website stuck in the previous era. It may require a complete makeover, or merely improve on the navigation. The product width and depth requires reworking besides putting more product information or rewriting text for better search engine optimization.
3. **Invigorating salespeople's skills:** For every retailer, the personal touch is becoming an ever more important point of differentiation with the competition, large and small. Training programs improve salespeople's selling skills and help them connect more effectively with the customers. Salespeople require to be updated on their accumulated product knowledge so that it remains state of the art.
4. **Watch competition and set benchmarks:** vigil ting the competition gives for those innovative ideas that can be applied to the business. This not only gives new customer relationship thoughts, visual merchandising and marketing lacunae it also makes us aware of new vendors who have initiated their businesses or had been overlooked in the past.

There have been many instances in India, where the top management has not been not been able to anticipate the consumer trends and behavioural patterns thereby going wrong to hit the profitability and market share. For eg. Nokia has paid a hefty price of not adopting the dual-sim technology besides sticking to the Symbian technology vindicating the Android one. This led to market share erosion to Samsung. On the contrary, third quarter 2013 financial performance comparison between Shopper stop and V2 (erstwhile Vishal Retail) –

Company	Q3'13 Revenue	Profit After Tax
Shopper stop	712 cr	17.34 cr
V2 Retail	70 cr	3.26 cr.

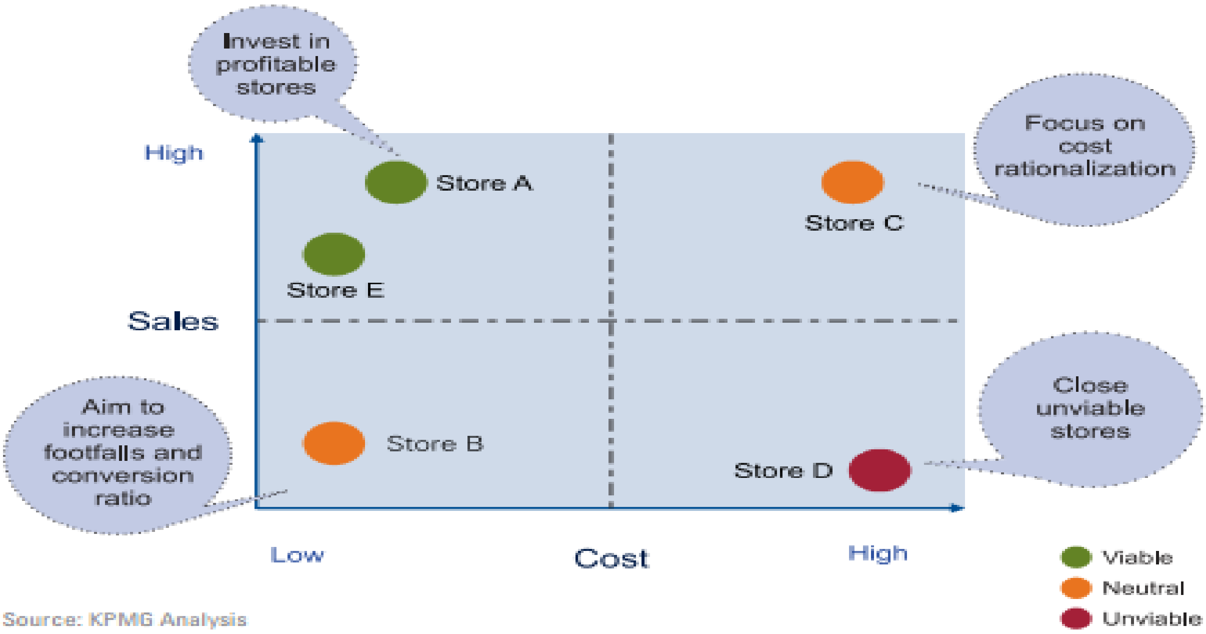
Above is an example of fighting the odds and reinvesting the learnings to foster business efficiencies.

5. **Reviewing Product assortments:** When times are good, assortments have a habit of growing when there's more money circulating, marginal items and categories appear to have more potential than they really do. These slake times require reviewing the product assortments. Ageing of the merchandise is the right way to target that stuff which requires to be liquidated thereby bringing in cash for it. Besides the retailer would be able to attract the customers on discounts.
6. **Build up the customer experience:** The retailer continuously requires monitoring whether its customers are exceeding the expectations and/or getting surprised with the things they never thought to expect in the first place. What new services can be developed that can address the customers' needs, this shall be requiring a whole new set of capabilities, expertise, and skills to possess which can leverage to further distinguish the retailer in its customers' mind. Loyalty and memberships cards add a new dimension to retain the customers. This is the right time to use the opportunity to revisit the 'customer touch points' in your store. This should be done with a fresh, unbiased, empathetical and exquisite approach as how a customer would be feeling treated at fresh rooms, baggage rooms, sales- security & housekeeping staff behaviour, cash tills, trial rooms etc. In recent times, the CRM customer calling exercise requires to get more professional and ensure smooth, logical, structured and a two way conversation without an element of customer irritation.
7. **Revamping:** Retail stores tend to have a bent of growing stale right under the retailer's eye. Walls may get dingy and carpets wear thin. Lighting that were thought were fresh and bright several years ago just doesn't illuminate the merchandise like it once seemed to. Display fixtures start to feel dated, and the cash wrap starts to show its mileage. As we look at the store, inside and out a retailer seriously requires asking that what needs to be done to make it feel new, fresh, and exciting again. While doing so, it is equally important to use these times to re-negotiate the rentals to bring down the costs. Future group, Reliance retail and Aditya Birla group are furiously renegotiating the rentals.



8. **Thinking Laterally:** The Recessionary trend like the one going thru' not only signifies a natural retrenchment of an overextended economy, but also certain staleness in retailer's thinking. In an overall sense, the current approaches are no longer as riveting as they once were. This is a moment for fresh thinking, for reinvention, reinvigoration, an out of the box approach. These times are to seriously introspect from our customer's perspective- and in-turn what can be done not only to reconnect with the customer but approach a larger set of creating aspirational customer for our business. For long, the retailers were caught in the vicious cycle of reducing stock-outs, bargain hunting, inventory

turnover and controlling shrinkage. The next level requires focusing on getting the right customer. This requires having a deeper approach on which products, services, and experiences would capture their imaginations as they begin to venture forth to come out for shopping. A revenue-sharing model has been getting well accepted between the developers and the retailers as a fair way to share the risks between these two critical shareholders. The model is specifically important during the current downturn scenario as the retailers don't get the hit alone.



9. **'Indianisation' and 'localisation'** are increasingly becoming differentiators of success with new consumers in new markets. Big retail brand names are no longer dealing with just the elite and well-traveled urbane customer. New segments having varied profiles now are potential targets for retailers; examples include segments such as farmers selling their lands to developers and entrepreneurs experiencing premium gains. Brands are responding by introducing local, Indian elements to their products - lifestyle brands are signing up with Indian designers, hiring relationship managers who speak local languages and tweaking offerings for Indian festivities, weddings, to name a few.
10. **Processes and Focus Areas:** CIO India, reports that 15% of net worth of Shoppers Stop is invested in IT. Their MD BS Nagesh has elucidated that 50-55% of their customers' experience revolves between Merchandise Availability and ease/speed of billing process. This has resulted into one of the lowest shrinkage levels in the industry (0.4%).

The IT infrastructure is further leads to CRM capabilities and better customer analysis and understanding (data warehousing and data mining) this will further result into investments at up scaling, SKU management, network/logistics and Infrastructure management and disaster recovery.

11. **Develop own Brands and labels:** In economic slowdown times, a retailer requires to encash on the opportunity to look for surplus production capacities available and get into strategic arrangements for round the year supplies to the retailer. These leaner periods can further be prospected to find struggling brands for a possible takeover or buy-outs. It makes a business sense to develop and add new brands to your portfolio to work up better margins and a robust supply chain structure.

VI. Posed Constraints

Better said than done, practically, from a business perspective the above context require resource deployment, which, in a cash strapped environments are tough. It requires being a visionary to envisage the critical factors with evolving competency levels to avoid getting into debt traps and being left with perplex located stores. A detailed analysis of operational parameters and Gross margins, merchandising, occupancy costs and inventory holds the key to success. In a country like India, which is variably seasoned and festified, Visual merchandising and marketing is of immense importance to be relevant to the customer throughout the year. But futurists take this as an opportunity to upscale them as the cost of resources also remains low say manpower, funds, rentals etc. now is the time when successful retailers set themselves up for future success. Retailers have to reinvent themselves to offer customers a fresh and compelling experience. Budgets decide what needs to be done and then to keep a close eye on cash but prioritisations holds the key.

Mistakes done by Retailers in India

1. **Inability to compete with un-organised retail:** especially the hypermarkets are yet to find a solution to the high business capacities of the traditional (Kirana) owners. Also, Mom & Pop stores offer a cost efficient and an already running successfully running model preferred by customers.
2. **A blind expansion mode:** a poor choice of locations added with the business model has led to clustering of the retail centres in India. Consumer feels that the retailers are not present where they actually should be.
3. **Dependence on Debt:** the first two factors have led to this third problem in an aggravated stage. Large no of retailers are highly leveraged thus battling with high interest payments. Business Standard has reported on 21st February'2014 that Flagship Company of Mr. Kishore Biyani, Future retail has paid 99.09% (149.3 cr of 150.6 cr) of its PBIT as interest on loans in Q3 ending Dec'13.

VII. Conclusion

In 2013, several players expanded their business in the Indian market and we expect 2014 to be equally - if not more - buoyant for the industry. We also expect competition in the 'bridge to luxury' segment to intensify with increasing number of consumers joining the luxury segment. While some of the foreseeable challenges include those related to shortage of quality staff and real estate, the industry is already trying some business models whose success is likely to overcome them. The sector has also witnessed the emergence of Indian players who have risen to fame by capitalising on traditional Indian strengths in areas such as arts, crafts and medicine.

The retail industry in India will fare well in the long term and will be bustling with opportunities. However, going forward the prevalent retail landscape will undergo a sea change. Today, several retailers, both domestic and foreign, are exploring opportunities for branching out in Tier II and III cities as well, which remain largely untapped in spite of their mushrooming purchasing power.

Collaboration is the way forward for the stakeholders in the retail industry. Developers, retailers and authorities have to come together to orchestrate a superior retail experience for the new-age Indian consumer. Indian retail today stands at an inflexion point where the future looks promising albeit very different from the present-day scenario blue skies again.

Challenging economic conditions and increasing concern over the burden of regulation and legislation are significant obstacles standing in the way of more robust industry growth.

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