

New Retail Models in India: Strategic Perspective Analysis

Sita Mishra

The last few years have witnessed a revolution in the Indian retail market. With a growing economy, improving income dynamics, rising awareness, and a youth-heavy customer base, India is well on its way to become one of the most prospective markets for the Global retailers. Given this scenario of fervent activity, this paper aims to strategically analyse the Indian retail Industry. It looks at the factors which affect the growth of the Indian retail market, the retailers responses to the same and the manner in which the changing consumers' aspirations towards traditional retail models have been translated into effective, sustainable business for retailers To understand these pertinent issues it is important to study the evolution of retailing in India and carry out the SWOT and Porter's analysis of these new organized models.

Introduction

Globalization has played a major role in the growth of the retail sector in India. It has brought in its wake increasing competition resulting in the creation of new markets .in the retail arena, such as India and China replacing the saturated western markets. This is a significant development in the global retail scenario. According to a survey conducted by Euromonitor International (Aug 2007), Indian retailers are finding a place in the list of Top 500 retailers in Asia Pacific. Notably, there is great confidence in India's potential to sustain a period of high growth in the retail sector. Although India lost its top position in this year's Global Retail Development Index (GRDI) and slipped to second position it remains an important

retail investment destination (A T Kearney's report, June 2008). According to Goldman Sachs report (Feb, 2005) India's economic growth could actually exceed that of China by 2015 and the country has the potential to record the fastest growth over the next 50 years. The Indian retail market is expected to grow to US\$ 833 billion by 2013 and to \$1.3 trillion by 2018, at a CAGR of 10 percent (A. T. Kearney Report, 2008).

The Government of India seems to be pursuing a policy of gradually allowing foreign retailers to enter the country. The easing of the retail FDI regulatory environment in India is also making the country an increasingly attractive target for international players. Significantly, the Indian retail market is attracting a large

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Last few years witnessed an explosion of organized retail formats in an otherwise fragmented market in India. According to the Federation of Indian Chambers of Commerce and Industry (FICCI report, 2007), the organized retail sector is likely to increase its share from the current 4% to over 20% by 2010. The organized retail sector is on a high growth trajectory, and is expected to grow by around 27% per annum in the next 5-6 years (CRISIL report, 2007). The organized retail sector has witnessed tremendous revenue growth over the last few years with existing players scaling up with new models, verticals, markets and larger store sizes. In order to capitalize on the huge growth potential of these new retail models, large Indian conglomerate and International players are joining the bandwagon. Malls are also coming up not just in the metros but in Tier II, Tier III cities, introducing the Indian consumer to shopping experience like never before. According to the FICCI retail report (2007) over \$30 billion of investment is likely to be made in the next five to seven years in these new retail models, 92% of which is slated for urban areas. Indian consumers are rapidly evolving and accepting modern retail models overwhelmingly.

number of international players in anticipation of explosive growth. As per the new study by the McKinsey Global Institute (Beinhocker, Eric D. et al 2007), an economics research arm of McKinsey's, India is becoming the world's 12th Trillion dollar economy, and further predicts that the country is well on its way to become the world's fifth-largest consumer market by 2025.

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the market and design strategies for delivering these values.

In modern retailing, a key strategic choice is the format: retailers are coming up with various innovative formats to provide an edge to retailing. *The success of Indian retailers will not be determined by simply imitating the western models but by the manner in which they will customize these models keeping in mind the tastes and preferences of Indian consumers. Each of these retailers needs to strategically analyze the enablers and deterrents for succeeding in the marketplace.*

The focus of this paper is on examining the various factors which affect the growth of the Indian retail market how have retailers responded to these factors? How have changing consumers' aspirations towards traditional retail models been translated into effective, sustainable business for retailers? To answer these questions it is important to study the evolution of retailing in India and examine the SWOT analysis of new models. Further, the factors and strategies that are most relevant in gaining competitive advantage have been evaluated by carrying out Porter's five forces' analysis of the retail sector of India. The analysis of these forces determines the intensity of competition and hence the profitability and attractiveness of the retail industry. In this paper, we have followed the concept as mentioned by Reynold et al. (2007), which states that the differences between retail formats and business models are largely semantic. Formats developed out of successful business models – the two go together.

Value Drivers behind Growth of Organized Retail Market

There are multiple factors which affect the

growth of the Indian retail market., which to a great extent, is dependent on the size of the country's consuming class, the rate of growth of GDP, the level of income, especially disposable income, urbanization and changing demographics and consumer profile. These factors are discussed below:

Economic Growth

India is the world's second most populous country and its GDP growth is likely to surpass that of China by 2015. Despite rising inflation which has touched 11.5%, India can maintain its 9% GDP growth. The country's real GDP is expected to grow at an impressive 9.5 per cent in FY 09 (Financial Express, 2008). At a constant value (CAGR) of just under 7% for 2006-2011, the value sales growth for retailing in India would be a trifle slower than in other emerging economies such as Thailand and Vietnam. Therefore, the sheer potential of the country makes India one of the hottest retail locations globally.

Demographics

The Indian consumer is also witnessing some changes in its demographics marked by a large working population in the age group of 24-35, an increase in the number of nuclear families, and an increase in the working women population with the emerging opportunities in the service sector during the past few years, which has been the key growth driver of the organized retail sector in India.

India's advantage lies in the fact that it has the largest young population in the world—, approximately 60 per cent of the Indian population is below 30 years of age and the median age is 25 years. The low median age of the population means a higher level of current consumption vs. savings as a younger population has both, the ability and

willingness to spend. Higher consumption levels coupled with an increase in the percentage of working women who are more avid shoppers compared to men folk, together provide a big boost to the retailing sector.

Increasing Income and purchasing power

The increasing number of double income families who have more disposable incomes is an important contributory factor behind the growth of the retail sector in India. The rapid pace of organized retailing in both cities and large towns is fuelled by changing consumer habits of the Double Income No kids (DINKS) group. The Goldman Sachs report (October 2003) states that "Rising incomes may also see these economies move through the 'sweet spot' of growth for different kinds of products, as local spending patterns change". The changing habit patterns in terms of the increasing use of mobile telephones and credit-cards has further contributed to the retail boom.

India's rapid growth in urbanization has led to higher customer density areas and aggregation of demand that helps a retailer in reaping the economies of scale. As per India's Marketing Whitebook (2006) by Business world, it has around 192 million households, of which only a little over six million are 'affluent' – that is, with a household income in excess of INR215,000—= and. another 75 million households are in the category of 'well off'—immediately below the affluent category, earning between INR45,000 and INR215,000. This is a sizable proportion which offers an excellent opportunity for the growth of organized retailing.

Changing Indian Consumer

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In the last few years, Indians have gone through a dramatic transformation in lifestyle. Due to increasing literacy in the country and the exposure to developed nations via satellite television or by way of the overseas work experiences, consumer awareness about the quality and price of the products/services has increased several-fold, which, in turn, has heightened the aspirations of consumers to consume more and to shop in a more congenial and luxurious environment. Consumers' spending is witnessing a shift from traditional expenditure on food, groceries and clothing to that on lifestyle categories that deliver better quality and taste. Today's informed consumer seeks more and more reliable sources for making purchases and hence the logical shift to purchases from the organized retail chains that have a corporate background. These organized retailers, through their highly efficient procurement and distribution systems, are able to offer consumers lower prices, greater convenience, higher quality and safer products/ services in an increasingly complex, often congested, urban markets.

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Thus, India's impending growth in urbanization, unprecedented consumption boom, and other demographic and social factors are boosting the rapid development of Indian retailing market. These factors are propelled by increased expectation of consumers, who now value convenience and choice on a par with getting value for their hard-earned money. As a result, the last few years have witnessed an explosion in the range of modern retailers in an otherwise fragmented and unorganized Indian retail market. These new organized retailers are attempting to tap the emerging growth opportunity and serve the needs of the 'new' Indian consumer. In this effort they use different value propositions to remain competitive in the market and design

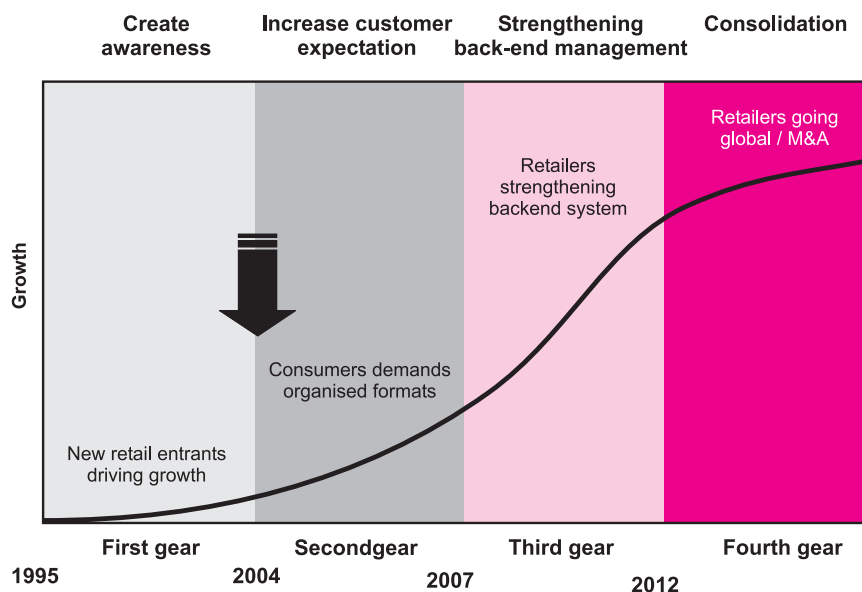
strategies for delivering these values. The emergence and growth of the organized retail segment comprising of a large number of retailers, necessitate better enforcement of taxation mechanisms and introduction of an efficient labor law monitoring system. In a word modern retailing is no longer a matter of just stocking and selling but that of efficient supply chain management, developing vendor relationship, quality customer service, efficient merchandising and timely promotional campaigns.

Evolution of the Indian Retail industry

The Indian retail industry is evolving in line with changing customer aspirations across product groups, with the emerging modern formats of retailing. . This is in line with what has been observed in other developed markets.

Organised retailing in most economies has typically passed through four distinct phases in its evolution cycle. In the first phase, new entrants create awareness of modern formats and raise consumer expectations. The second phase Is one in which consumers demand modern formats as the market develops – thereby leading to strong growth. As the market matures, intense competition forces retailers to invest in back-end operating efficiency. In the final phase, retailers explore new markets as well as inorganic opportunities as growth tapers off.

India is currently in the second phase of this evolution, with Indian customers becoming more demanding with their rising standard of living and changing lifestyles. Change in customers' focus from just buying to shopping (buying, entertainment and experience) has led to a pick up in momentum in organised formats of retailing.



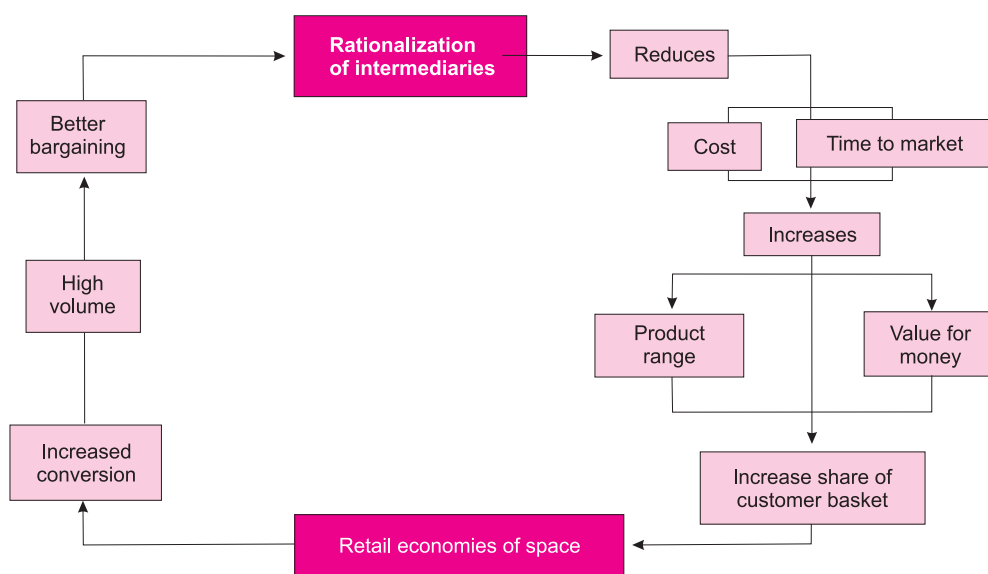
Source: KSA Technopak

As the sector enters the third phase of evolution, supply chain management will assume top priority. Fierce competition will force retailers to quickly respond to changes in the market –bringing to the fore the importance of supply-chain management in managing stock availability, supplier relationships, new value added services and cost cutting. Traditional retailers are expected to enhance their investments in supply chain, whilst new entrants are likely to look at supply chain first before rolling out their national reach.

Dynamics of organized retailing

Organized retailing enjoys advantages in terms of generating operational efficiencies while simultaneously catering to rising consumer aspirations. Size drives economies on procurement, and lowers logistics and marketing costs while delivering better value to customers by way of reduced price, improved quality and reliability efficient service, and in-store ambience.

The virtuous cycle



SWOT Analysis of Modern Retail Models

With a growth rate of 25-30% p.a., the Indian retail sector has propelled into a fast-paced growth trajectory. Increased job creation, high spending power and a pervasive economic climate have provided further momentum to the growth of this sector. Organized retailing formats (malls) have found an overwhelming acceptance and made in-roads throughout the length and breadth of the country. Retailing is now

being heralded as the next sunrise sector after IT, with the potential to contribute significantly to the country's GDP and create new and exciting job opportunities. At this juncture, it would be imperative to examine the SWOT analysis of organized models, which is the Key Component of Strategic Development. The focus of SWOT analysis is on analyzing how these modern models can build on their strengths, correct their weaknesses and protect themselves against internal vulnerabilities and external threats.

Strengths <ul style="list-style-type: none">• Mall Space Supply• Demography• Rising Affluence Levels• Rising young population with high disposable income• Availability of brands and merchandise	Weaknesses <ul style="list-style-type: none">• Real Estate Costs• Distribution costs• Improperly developed malls• Regulatory Aspects• Lack of skilled personnel
Opportunities <ul style="list-style-type: none">• Rising retail finance and consumer credit leading to increased affordability• Changing consumer requirements and lifestyles• Modern retailing formats providing different value propositions• Foreign Direct Investment (FDI)• VAT implementation to reduce cost and complexity	Threats <ul style="list-style-type: none">• Difficulty in acclimatizing to Indian consumer• Real estate: Availability and high costs• Underdeveloped supply chain• Policy and taxation hurdles• Inadequate human resources

Porter's Five Forces Analysis of Organised Retail Industry

The retail sector in India is undergoing a rapid change, as large retail formats edge out traditional village markets and "mom-and-pop" grocers. The process of change

beginning with the retail outlets is extending to the distribution system, eventually resulting in lower prices and the provision of a greater variety of goods and services to consumers. The growth of organized retail firms coupled with the consumers' ever increasing demand for products of high

quality that cater to tastes and preferences of international buyers, is translating into a growing opportunity for the emergence of novel organized retail models. Which are finding ready acceptance among consumers. In order to examine the structure of and competition within the retail industry Michael Porter's Five Forces Analysis of Retail Industry in India has been carried out. Based on the information derived from the Five Forces Analysis, retailers can decide how to influence or to exploit particular characteristics of this industry. In particular, the, competitive strategy should be based on a proper understanding of the industry structures and the way they change. Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the retailer in this industry. These five forces are:

- Competitive rivalry within the industry
- Threat of new entrants
- Bargaining power of suppliers
- Bargaining power of customers
- Threat of substitutes

An analysis of these forces is given below:

Competitive rivalry within the industry: Moderate

The competition within the industry is fierce, especially with the entrance of new retail models. Traditionally, the retail market in India was fragmented with a large number of small players and stores having a grip on a local area. Now these players need to compete with new retail models only a few kilo meters away. At present the degree of competition is moderate but is steadily increasing. It is affected by

- The presence of a large number of players a few of which are large players
- Regional domination of players
- A large untapped market
- Entry of players into new markets (smaller cities) and formats
- High industry growth, which is attracting new players
- Tendency of most players to be lured by same catchments within metro and Tier I cities.
- Entry of big conglomerates like Reliance, Birla into the sector which is intensifying the competition
- Use of alternative routes by international players to enter the Indian retail market indirectly, via strategic licensing agreement, franchisee agreement and cash and carry wholesale trading models and utilize their back-end strength to gain market share.

Threat of New Entrants: Low

A T Kearney's study (2006) on global retailing trends found that India is the least competitive as well as least saturated of all major global markets. This implies that there are significantly low entry barriers for players trying to setup units here, in terms of the competitive landscape. But with the entry of big domestic companies the threat is now increasing and can further inflate with the arrival of giant international players. The various factors which may affect the entry of new players are:

- Entry of many new domestic players are entering.
- Expansion of existing players encouraged by their initial success which is attracts other new players.
- Scaling up of operations by Indian players due to restriction on FDI,

before the entry of global big players.

- Unavailability and/or high prices in prime catchment areas.
- Establishment of superior supply chain management by existing players, which helps them to access inputs at low cost, generates for them economies of scale and creates entry barriers for others.

Bargaining power of buyers: Moderate

The buyers have a moderate amount of power in that they can now use a large number of formats near by such as a grocery (Kirana) store, a hypermarket and a supermarket or a convenience store located at petrol pumps to purchase goods. Although, various retailers focus on implementing loyalty programmes for building relationships individual customers may value factors such as price, quality, or service offered by retailers in varying degrees and so there is always a likelihood of their switching their purchases except in some rural areas where one grocery store might be the only one around. The different factors related to the bargaining power of buyers are:

- Customers' inclination and liking for variety, quality and good ambience
- Low volume and ticket size for each customer
- Offer of promotions and discounts to attract customers to the value segment
- Negligible switching cost for customers making it imperative for retailers to be sensitive to the tastes and preferences of buyers

Bargaining power of suppliers: Low

In India, the suppliers or manufacturers in the retail industry have enjoyed an enormous amount of power. For example, HUL sells everything from food products to shampoo, so that any faulty interchange with a supplier affects multiple product

categories. Moreover, the suppliers are involved in direct promotion of their products, so that they often sidestep the retailer to create a demand for their products. But with entry of new retail models in the retail industry, we can observe few changes in the role of suppliers. Large Indian players like Reliance, Ambanis, K Rahejas, Bharti, ITC and many others are making significant investments in this sector leading to the emergence of big retailers who can bargain with suppliers to reap economies of scale.

The specific factors that have limited the bargaining power of suppliers are;

- Large retailers dictate terms even to large FMCG players
- Retailers dictate terms to small suppliers
- Retailers are now creating their own private brands in many category
- Availability of a large number of suppliers available in most verticals
- Entry of manufacturers into retailing and their subsequent expansion

Threat of substitutes: Low

The nature and scale of threats posed to the industry by substitutes is explained below :

- Threat from unorganized players who are now reinventing and are focusing on increasing the services, though they cannot reach the scale of organized players. However, these unorganized players have the advantage of reaching the remotest areas and those with a low population.
- Threat from online players, though this will take time to pick up as currently the internet penetration is low
- Threat from wholesale club services, such as Metro Cash & Carry model, which some consumers find to be an

appealing price-effective alternative to grocery stores.

- Threat from supplier selling directly to the consumer.

Conclusion

Over the last few years the India retail has witnessed rapid transformation. Faced with intense competition traditional models / unorganized retailing are fast losing their shine. These traditional models are undergoing a process of evolution, in keeping with the changing needs and expectations of the Indian consumer and are making way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. The introduction of new retail models, the forward integration of manufacturers into retailing and the increased number of foreign entrants into the market have all contributed to the declining performance of unorganized players in this sector. The rapid growth of the organized sector is attributed to key drivers such as changing consumer profile and demographics, increase in the

number of international brands available in the Indian market, economic implications of the government's increasing urbanization, improvement in the infrastructure, increasing investments in technology and real estate building and the emergence of a world class shopping environment for the consumers. Since the retail market in India is highly promising as id borne out by an analysis of Porter's five forces model, there are large possibilities for the sector to make rapid strides in the near future. The retailing sector is on the threshold of becoming a "star", and the stage is well set for its grand entrance in the world arena. Most of the pitfalls to growth are being sorted out. Finally, in today's changing environment retailers need to understand the consumers' psyche which is the key driving force. In the long run the viability and sustainability of any retailer depends not only on the model but also on how they customize these models keeping in mind the tastes and preferences of Indian consumers and how they are able to deliver the desired value to the customer.

The rapid growth of the organized sector is attributed to key drivers such as changing consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the government's increasing urbanization, improvement in the infrastructure, increasing investments in technology and real estate building and the emergence of a world class shopping environment for the consumers. Since the retail market in India is highly promising as id borne out by an analysis of Porter's five forces model, there are large possibilities for the sector to make rapid strides in the near future.

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