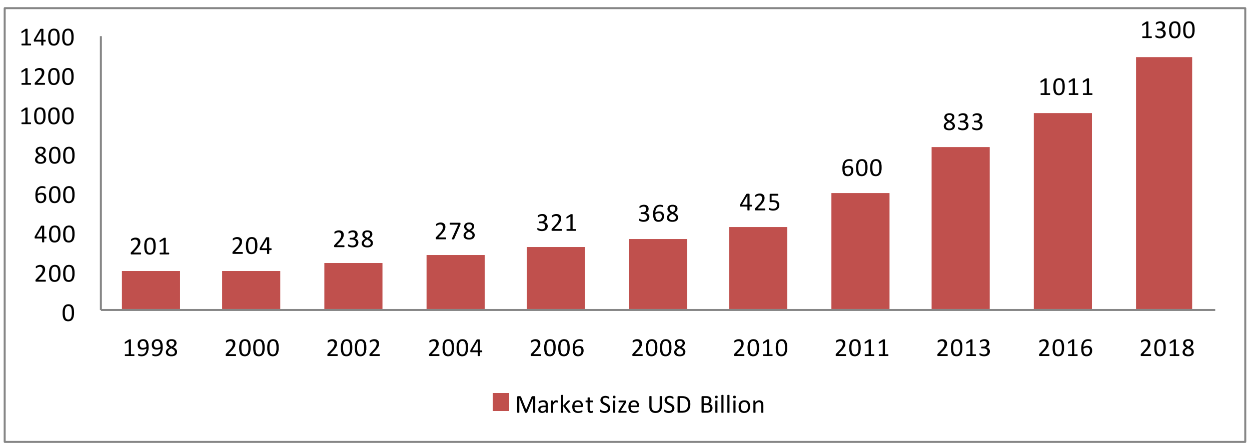
Indian Retail Sector

1. Introduction

The Indian Retail Sector is normally divided into two -organized and unorganized sector. Organized retail sector refers to the trading activities undertaken by the licensed retailer i.e.., registered retailer and on the other hand, unorganized sectors, means those activities which are undertaken in the unregistered retailing format.

Indian Retail Sector represents an economic opportunity for both as a global base and as a domestic market. The Indian retail market is the fifth largest retail destination globally. The retail sector in India is emerging as one of the largest sectors in the economy, with total market size of USD 600 billion in 2011 -12 and expected to reach at USD 1300 billion in the year 2018.



Source: Technopak Analysis, CSO, IBEF and other sources

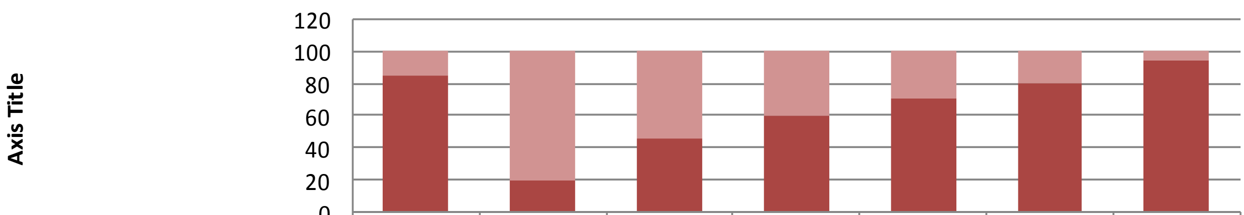
With its contribution of an overwhelming 14% to the national GDP and employing 7% of India's total workforce, the retail industry is definitely one of the pillars of the Indian economy.

2. Organised Retail Penetration

The Organised Retail Penetration (ORP) in India is 6 per cent of total retail market (in the year 2010-2011) which is very less in comparison to the other countries such as US, Taiwan, Malaysia, Thailand, Indonesia and China.

Indian Organised retail sector is at nascent stage and is expected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020. A large market size, low organized retail penetration, strong GDP growth and increasing disposable incomes of consumers make India one of the most favourable destinations for global and domestic players.

Retail penetration across countries (2010-11)



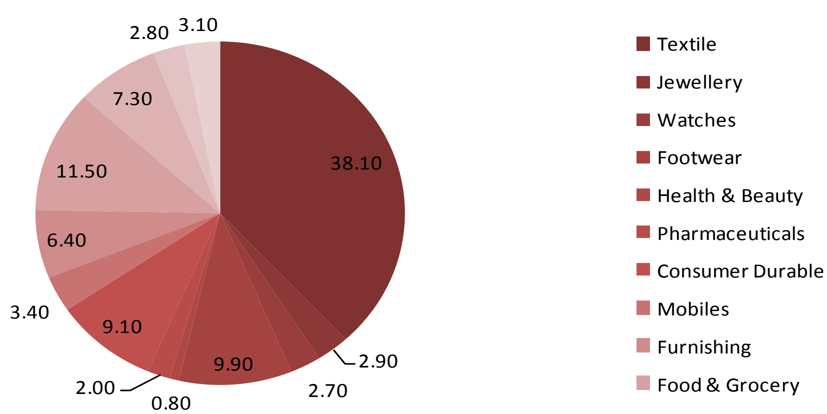
	USA	Taiwan	Malaysia	Thailand	Indonesia	China	India
Unorganised Retail penetration	15	81	55	40	30	20	6
Organised Retail penetration	85	19	45	60	70	80	94

Source: IBEF

3. Market Share – Retail Segment

In the overall retail sector, textiles is the dominant category i.e.., 38.1 per cent followed by food and grocery i.e., 11.5 per cent and consumer durables i.e., 9.1 per cent.

Market break-up by revenues (2010-11)



Source: IBEF

4. Evolution in the Retail Sector

India is becoming an exciting and dynamic retail destination due to the following factors:

- A large market size
- Low organized retail penetration
- Strong GDP growth
- Increasing personal incomes
- Large number of aspirational consumers (middle-class, young Indians, rural population, etc.)

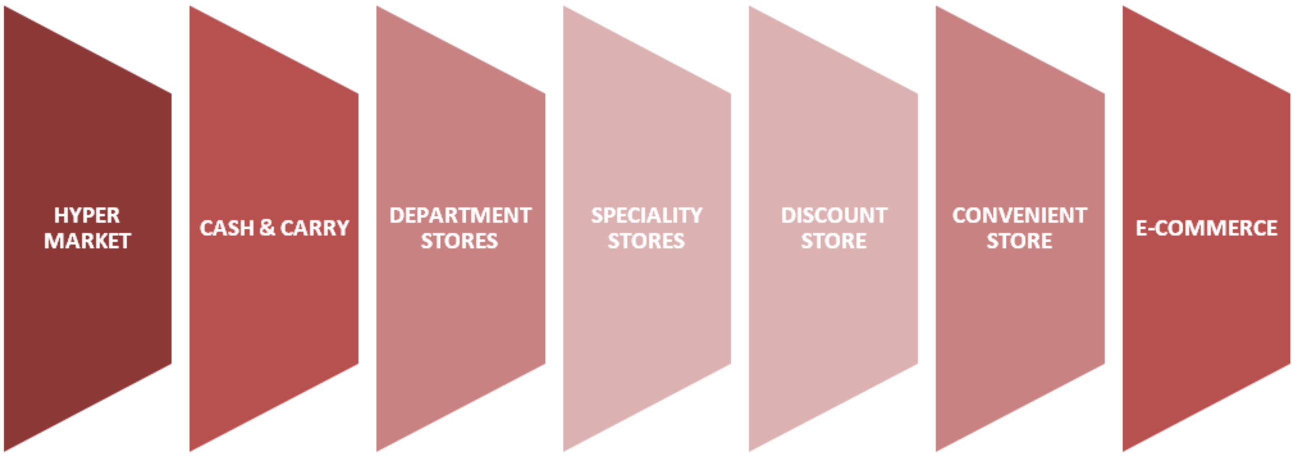
The Indian retail market is evolving rapidly and we observe the following:

Years	Stage	Retail Sector
Pre 1990	Initiation	Manufacturers opened their own outlets
1990-2005	Conceptualization	• Pure play retailers realized the potential of the market • Most of them in apparel segment •
2005-10	Expansion	• Substantial investment commitments by large Indian corporates • Entry in food and general merchandise category • Pan-India expansion to top 100 cities • Repositioning by existing players
2010 Onward	Consolidation	• Large scale consolidation • Stiff competition • Movement to smaller cities and rural areas • More than 5–6 players with revenues totaling more than USD700 million • More aggression from international player

Source: Technopak Advisors Pvt Ltd, Aranca Research and IBEF

5. Forms of Retail Business in India

The face of India retail sector is changing and new & innovative business models are being adopted. The formats prevalent in retail sector are:



1. **Hyper Market** – Hypermarket offer a large basket of products, ranging from grocery. Fries & processed food, beauty & healthcare products etc. Example – Spencer's, Big Bazaar.

2. **Cash & Carry** – These are large B2B focused retail formats, buying & selling in bulk for various commodities and carry several thousand stock-keeping. Example – Wallmart.

3. **Department Stores -** Department stores have a large layout with a wide range of merchandise mix, usually in cohesive categories, such as showed towards garments. Example:- Ebony, Shopper's stop, Westside.

4. **Specialty Stores** – Specialty stores are single category, focusing on individuals and group clusters of the same class with high product loyalty. Examples – Footwear stores, gift stores etc. Examples- Archies, Woodlannd etc.

5. **Discount Store** – A discount store is a retail store offering a wide range of products, mostly branded, at discounted prices or apparel or footwear brands. Example – Subhiksha, Koutons.

6. **Convenient Store** – A convenience store is a relatively small retail store located near a residential area (closer to consumer), open long hours, 7 days a weak and carrying a limited range of staples and groceries. Example – Safal, 6ten.

7. **E-Commerce -** Though nascent, India's online retail market is growing at double-digit rates and is likely to be the next format that retailers will incorporate into their array of channels. Example – Flipkart.

6. Key Foreign and Domestic Players Partnerships

Indian Retail Sector has strong growth potential attracting high foreign investment in India. Following are the few key foreign and domestic players' partnership:

Reliance Industries Limited	• Partnership arrangement with Marks & Spencer to open 50 stores • Exclusive franchise agreement with Hamley's to open 20 Hamley's toy stores with an investment of USD26 million in April 2010
Future Group	• Partnership with Clarks International UK to sell premium footwear label
RPG Group	• Partnership with Chad Valley, UK (owned by Woolworths plc.) to offer its range of toys through standalone exclusive stores and shop-in-shop formats within the same layout
DLF Group	• Mother care plc partnered with DLF Brands Ltd for maternity clothing, baby clothes and nursery items
Tata Group	• Tesco signed a deal worth USD115 million with the retail arm of Tata Group, wherein the former will supply products, services and expertise to the latter's hypermarket business Star Bazaar

Source: IBEF and Aranca Research

7. Foreign Direct Investment – Regulatory Framework

The FDI policy is framed by the Department of Industrial Policy and Promotion (DIPP), the Ministry of Commerce and Industry and implemented by the Reserve Bank of India (RBI) for cases falling under the automatic route (i.e. not requiring prior government approval). For cases under the government route, approval is granted by the Foreign Investment Promotion Board (FIPB).

We provide a brief overview of the FDI policy framework prevalent for the trading activities in India:

S.No.	Sector	FDI Regulation
1.	Wholesale trading	For wholesale trading or cash-and-carry wholesale trading, 100% FDI is permitted, without government approval. However, the government has prescribed certain operational guidelines for companies in the wholesale trading sector.
2.	E-commerce activities	For. E-commerce activities, 100% FDI are permitted, without government approval only in Business to Business (“B2B) not in retail trading.
3.	Single Brand - Retail trading	FDI up to 51% is permitted with prior government approval, for the retail trading of ‘Single Brand’ products, subject to the following conditions: • Products sold should be ‘single brand’ only. • Products should be sold under the same brand internationally. • Single brand’ product-retailing will cover only products which are branded during manufacturing. • The foreign investor should be the owner of the brand.
4.	Multi Brand - Retail trading	Prohibited

8. Need to be more liberalized: Indian Retail Sector

India's retail sector is not yet fully liberalized. Most major global brands and retailers who are not yet in India are assessing the market with keen interest and recognising its strengths as a retail destination.

Benefits to Indian Economy:

S.No.	Particular	FDI Regulation
1.	Consumer	Modern Retail Business allows: • Explosion of choice • Easy assess of products • Improve the quality & lifestyle • Rationalize price
2.	Government Revenue	• Organized Retail players are more tax-compliant and are large tax-payers to both domestic as well as international. • The organized retail sector also facilitates the generation of significant tax revenues through the building of a sophisticated supply chain.
3.	Efficient supply chain	Establishing an efficient supply chain that links farmers and small manufacturers directly with retailers, will maximize value for stakeholders.
4.	Reduce wastage across India's food supply chain	The studies in the emerging market economies have shown that the growth of organized retail and reducing the wastage result in several eventualities: • Technology transfer • Improvements to the quality of produce locally available • Boosts to local economy since local suppliers are engaged and integrated into global retailers' food and grocery procurement practices • More competitively priced products

5.	Increase employment	FDI in retail will generate employment since new entrants will need to hire staff.
6.	India as sourcing hub	Global retailers have been sourcing from India for years and their retail presence in the Indian market will enhance exports from India, as they develop and leverage relationships with local suppliers. Most global retailers who have entered India have expressed their intentions to source and export a range of products from the country. The extent of sourcing from India will increase when global retailers are allowed to operate in the Indian market.

9. Challenges before Organised Retail Sector

Organized sector has only recently emerged from its nascent stage and yet has to become a preferred career option for most of India's educated class. The roadblocks in the success of organized sector are:

1. Talent shortage & lack of trained manpower.
2. Supply chains are not yet so efficient and the kind of quality that customers demand is not being provided yet.
3. There are too many intermediaries. These long intermediaries chains are in turn driving up their costs.
4. A plethora of clearances are required for setting up retail outlet. It limits the expansion of retail outlets at a faster pace.
5. Inadequate infrastructure, such as roads, electricity, cord chains and posts, hampers going for a pan-India network of supplies. Due to this, retailers have to resort to multiple vendors for their requirements which is raising their costs and prices.

6. Organized sector does not have industry status. It is further making it difficult for the players to raise funds for their expansion plans.

7. Government restrictions on FDI limit are resulting in limited exposure to international best practices.

10. Growth Opportunities in the Retail Sector

Large number of retail outlets	• India has one of the largest number of retail outlets in the world • The sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities
Rural markets offer significant growth potential	• In the next phase of the retail revolution in India, retail companies are expected to tap the rural segment as key driver of growth • FMCG players are focusing on rural market as it constitutes over 33 per cent of FMCG consumer base in India
Private label opportunities	• The organized Indian retail industry has begun experiencing an increased level of activity in the private label space, which is expected to grow further in the near future • Private label strategy is likely to play a dominant role as its share in the US and the UK markets is 19 per cent and 39 per cent, respectively while its share in India is just 6 per cent
Sourcing base	• India‘s price competitiveness attracts large retail players to use it as a sourcing base • Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices

Source: IBEF and Aranca Research