

An Insight into the Growth of New Retail Formats in India

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Abstract

The Indian retail sector is going through a transformation and this emerging market is witnessing a significant change in its growth and investment pattern. Both existing and new players are experimenting with new retail formats. Currently two popular formats -hypermarkets and supermarkets are growing very fast. Apart from the brick -mortar formats, brick -click and click-click formats are also increasingly visible on the Indian retail landscape. Consumer dynamics in India is changing and the retailers need to take note of this and formulate their strategies and tactics to deliver value to the consumer. This paper investigates modern retail developments and growth of modern formats in this country. We also discuss the challenges and opportunities available to the retailers to succeed in this country.

Introduction

Retailing in India is receiving global recognition and attention and this emerging market is witnessing a significant change in its growth and investment pattern. It is not just the global players like Wal-Mart, Tesco and Metro group are eying to capture a pie of this market but also the domestic corporate behemoths like Reliance, KK Modi, Aditya Birla group, and Bharti group too are at some stage of retail development. Reliance, announced that it will invest \$3.4 billion to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2007. The last couple of years have been rosy for real estate developers and the retailers are finding suitable retail space in prominent locations. The industry is buoyant about growth and the early starters are in expansion mood. There is increased sophistication in the shopping pattern of consumers, which has resulted in big retail chains coming up in most metros; mini metros and towns being the next target. Consumer taste and preferences are changing leading to radical alteration in lifestyles and spending patterns which in turn is giving rise to new business opportunities. Companies need to be dynamic and proactive while responding to the ever-changing trends in consumer lifestyle and behavior.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organised retailing makes up 3 percent or USD 6.4 billion. By 2010, organised retail is projected to reach USD 23 billion¹ and in terms of market share it is expected to rise by 20 to 25 per cent². The report also predicts a stronger retailer growth than that of GDP in the coming five years.

The generic growth is likely to be driven by changing lifestyles and by strong surge in income, which in turn will be supported by favorable demographic patterns. Rapid growth in international quality retail space brings joy to shoppers and shopping malls are becoming increasingly common in large cities, and announced development plans project at least 150 new shopping malls by 2008. The number of department stores is growing at a much faster pace than overall retail, at 24 per cent annually. Supermarkets have been taking an increasing share of general food and grocery trade over the last two decades.

¹ KSA Technopak: Consumer outlook for 2005

² KPMG (2005), Consumer Markets in India –the next big thing?

Development of mega malls in India is adding new dimensions to the booming retail sector. Shopping experience in the nation of shopkeepers is changing and changing very fast. There is significant development in retail landscape not only in the metros but also in the smaller cities. Even ITC went one step ahead to revolutionize rural retail by developing 'Choupal Sagar' a rural mall. On one hand there are groups of visionary corporate working constantly to improve upon urban shopping experience and on the other hand some companies are trying to infuse innovative retail experience into the rural set up.

The Larger Picture

Indian economy has shown an impressive growth of over 6 per cent for last five years and continues to surge ahead. GDP growth rate in 2003-04 recorded a fifteen year high of 8.5% and subsequently maintained a steady growth for the next two years. Real GDP growth accelerated from 7.5 per cent during 2004-05 to 8.4 per cent during 2005-06 on the back of buoyant manufacturing and services activity supported by a recovery in the agricultural sector.³ The central bank forecasts similar growth of 7.5-8 percent during 2006-07. With strong economic growth consumerism is increasing in the country and India is the fourth largest economy as far as purchasing power parity is concerned, just behind USA, Japan and China.

Consumer Trend

India is currently having the largest young population in the world and 54 per cent of India's population is below 25 years of age and 80 per cent are below 45 years. As per India's *Marketing Whitebook* (2006) by Businessworld, India has around 192 million households. Of these only a little over six million are 'affluent' – that is, with household income in excess of INR215, 000. Another 75 million households are in the category of 'well off' immediately below the affluent, earning between INR45,000 and INR215,000. This is a sizable proportion which offers excellent opportunity for organized retailers to serve.

AC Nielsen's Retail and Shopper Trends 2004 Report made the following observations on shopper's behaviour in India:

³ RBI (2006), Press Release: 2006-2007/300

- (1) Indian shoppers spend an average of INR2500 on food, groceries and personal care items every month and (2) convenience stores are booming in most markets, as the number of such stores exceeds 80,000.

According to the report, 48 per cent of shoppers in India admit that they 'love to try new things', making them the most novelty seeking shoppers around the region and total average monthly expenditure is only \$50, of this, \$21 is spent on fresh food, comprising 42 per cent of the entire monthly spend. Indians also appear to spend more on groceries and personal care items.

Business communities believe that sizable disposable income in India is concentrated in the urban areas and well off and affluent classes; income distribution is unequal compared to other Asian economies. In fact, the 20 million middle class home in rural India equal the number in urban India⁴ and thus have the same purchasing power. Therefore, there is significant and considerable opportunity for organized retailers in the rural areas. There is no denying that the rural market holds immense promise for the organized retail but companies ponder over how to serve that market profitably.

Unlike the urban market, it is less developed in terms of infrastructure and facilities. More than any thing else, the larger issue is to find out a suitable business model and retail format to fit local taste and preference. Of course cost of doing business in rural market would be lesser compared to urban market but reaching out to the mass is a concern. It is not impossible but a bit more difficult. For example the most successful and the largest incorporation Wal-Mart started in the rural market where as competition started in the urban market. This retailer has proved that it is important to understand how do you operate your business model rather than where you do it.

Given the increasing urban exposure of rural India, the urban and the rural upper-income groups can form an interesting continuum market, giving it a scale of 23 million households, or 115 million consumers. In 2006-07, the consuming class would be about 60 million households, or 300 million consumers.⁵

⁴ Marketing Whitebook (2006).

⁵ Bijapurkar, R. (2003), The New, Improved Indian Consumer, Business World, 8 December, pp. 28-36.

NCAER data shows that for 1998-99, for a basket of 22 FMCG products it tracks, a total of over Rs 91,500 crore was spent. Of this, 37% was spent by the two lowest-income groups in rural India, and only about 20% by the top two income groups in urban areas. This is, perhaps, the best and only statement of the structure and potential of the Indian market. Hence, marketers have to worry about purchasing power of consumer not where he is living. For example there are nearly 42,000 rural *haats*, average number of sales outlets per *haat* is 300 and average sales per outlet is INR 900 and average foot fall in a *haat* is about 4,500. In rural India there are 50 million Kisan Credit Card (KCC) holders and in 2002-03, LIC sold 50 percent of its policies in rural India.⁶ These are some of the indicators how rural India is performing.

Drivers of Retail

On one hand favorable demographic and psychographic changes in the Indian consumer class, rising income, international exposure, availability of quality retail space, wider brand choice and better marketing communication are some of the factors driving Indian retail. On the other side a lot depends on the preparedness of Indian retailers in terms of having suitable formats, scalable business model, appropriate technology and relevant organization capability for the success.

Currently the country has a population of over one billion, 60% of which is under 30 years of age. This means majority of the population is young and working class with higher purchasing power. The low median age of population means a higher current consumption rate which augurs well for the retail sector. Consumer spending in India has grown at over 12 percent since mid-1990s and 64 per cent of Indian GDP is accounted for by private consumption.⁷ Over the last decade, the average Indian spending has gone up from INR 5,745 in 1992-93 to INR 16,457 in 2003-04 and is expected to grow around its trend rate of 12 per cent

There are fundamental but significant changes underway in this country. In January 2006, the government announced that foreign companies can own up to 51 percent of a single-brand retail company, such as Nike or Adidas. This decision would certainly encourage

⁶ Marketing Whitebook (2006)

⁷ Consumers & Markets, Marketing Whitebook (2006), p.109.

retailers such as Zara⁸ and Gap⁹ to enter this market. Tesco is planning to enter the market through a partnership with Home Care Retail Mart Pvt Ltd and expects to open 50 stores by 2010¹⁰.

Retail Space Development

Through the 1990s, organised retail in India added just 1 million sq. ft of space a year. Then, from 2001, the pace quickened dramatically. In 2003 alone, 10 million sq. ft was added by this fledgling industry. Now the story is completely different and the mall boom is all set to alter the competitive dynamics. Over 130 to 180 million sq ft of new mall space are estimated to come up in the country in the next 3-5 years. Nearly 70% of the total new mall space coming up in FY07 and FY08 will be in the major cities reducing catchment areas for existing retailers. Key retail location like Mumbai (up 203% to 15mn), Delhi (up 527% to 23.2mn), Bangalore (up 128% to 4.1mn), Hyderabad (up 163% to 5.3mn), and Pune (up 188% to 23.2mn) are all seeing a mall construction boom and this space availability shall lower the barriers to entry. A state like Punjab is in the midst of mall boom. By the end of 2005 one single mall was operational with GRA of 1.2 lakh sq ft and by the end of 2008 there will be 37 malls operating with gross leasable area (GLA) of 15.2 million sq ft. Ludhiana is leading the way with 11 malls and GLA of 5 million sq ft.¹¹

Development of Retail Formats

It is difficult to fit a successful international format directly and expect a similar performance in India. The lessons from multinationals expanding to new geographies too point to this. For example, Wal-Mart is highly successful in USA but the story is different in Asian countries like China. Therefore, it is important for retailer to look at local conditions and insights into the local buying behaviour before shaping the format choice. Considering the diversity in terms of taste and preferences existing in India the

⁸ Leading Spanish fashion retail chain operates the eight store formats – Zara, Berschka, Massimo Dutti, Pull & Bear, Stradivarius, Kiddy's Class, Oysho and Zara Home. By the end of November 2005 it had a total of 2,643 stores in 60 countries.

⁹ Gap Inc. is one of the world's largest specialty retailers, with more than 3,000 stores and fiscal 2005 revenues of \$16 billion. The retailer offers clothing, accessories and personal care products for men, women, children and babies under the Gap, Banana Republic, Old Navy and Forth & Towne brand names. Gap brand includes Gap, GapKids, babyGap and GapBody. The company also operates Gap Outlet, Banana Republic Factory Outlet and Old Navy Outlet stores.

¹⁰ The Global Retail Development Index (2006), AT Kearney.

¹¹ Retailing in Punjab: 2010 and beyond (2006), An Image & CII study.

retailers may go for experimentation to identify the winning format suited to different geographies and segments. For example, the taste in south is different from that in north and this brings challenges to the retailers. Therefore, most of grocery retailers are region-centric at this point in time. Now a number of retailers are in a mode of experimentation and trying several formats which are essentially representation of retailing concepts to fit into the consumer mind space. Apart from geography even rural and urban divide poses different kind of challenge to the retailer. Pantaloon Retail India is experimenting with several retail formats (see **Exhibit 1**) to cater to a wide segment of consumers in the market. Some of the new formats are Fashion Station (popular fashion), Blue Sky (fashion accessories), aLL (fashion apparel for plus-size individuals), Collection i (home furnishings), Depot (books & music) and E-Zone (Consumer electronics). The retailer is trying to segment the market with the help of format. The retailer developed another new format in the form of Wholesale Club to sell a segment of consumer who purchase on bulk and look out for discounts and offers. The new format is going to be kind of wholesale club which is likely to be located close to Food Bazaar. Consumers who are interested to purchase on bulk can take benefit from this format. Similarly the Land mark group also operates multiple formats such as hypermarket (Max), departmental store (Lifestyle), Shoemart and Funcity¹² etc. (see **Exhibit 2**). Such experimentation and identification of an appropriate format for the local conditions would separate winners from losers in India, possibly implying multiple formats could be the reality in the long run.

Malls

Mall development is phenomenal in India. The mall mania is spreading fast and entering even the second tier cities in India. Real estate developers are jumping very fast to take this further from Metro cities to smaller cities and corporate houses like ITC and Sriram group are making steady progress to make this phenomena feasible in rural market also. There is no denying that the top notch cities like Mumbai, Delhi, Bangalore, Hyderabad, Kolkata, Chennai and Pune are leading the way but the second tier cities like Ludhiana, Chandigarh, Nagapur and Surat are catching the eye of all retailers. Retail developers are in such a mood that they may over ride the requirement in a specific city.

¹² Family entertainment centre which offers excellent opportunity for kid to learn and have fun.

Large format malls are increasingly getting prominent with adequate retail space allocated to leisure and entertainment. Some states like Punjab have lifted entertainment tax on multiplexes till 2009. This boosted the confidence of the mall developers to accommodate entertainment players like PVR, Waves, Adlab and Fun Republic in large malls. A study conducted by Knight Frank India indicates that by 2007, approximately 75 million sq ft of mall space would be available in India. Of this, Mumbai, Pune, NCR (including Gurgaon, Noida, Greater Noida, Faridabad & Ghaziabad), Bangalore & Hyderabad will have a 74% share. The balance 26% will be made up by the cities like Kolkata, Chennai, Ahmedabad, Jaipur, Nagpur, Lucknow, Indore, Ludhiana & Chandigarh. With such quantum of new format retail space in the pipeline, innovation, striking the right tenant mix, effective mall management and provision of ample parking space are components that will decide the future success of mall developments.

Department Store

A department store offers an extensive assortment (width and depth) of goods and services that are organized into separate departments for the purpose of efficient buying, assortment, promotion and above all ease of shopping for the consumer. Such a format provides the greatest selection of any general merchandise and very often serves as the anchor store in shopping mall or shopping centre. In India, the number of department stores is less compared to other retail formats such as supermarkets and discount stores. Shoppers' Stop is the first one to open a department store in the early 1990s and currently operates 19 stores in 10 different cities in India (**Exhibit 3**). The store strongly focuses on lifestyle retailing and mainly divides into five departments such as apparel, accessories, home décor, gift ideas and other services. Shopper's Stop is getting stronger and stronger year after year. It attracts more than 12 million shoppers every year with a conversion rate of 38 per cent. In the end of FY2000 this retailer had 5 stores and is in the process of reaching 39 stores with retail space of 2,502,747 sq ft by FY08. Another operator Lifestyle India began operations in 1998 with its first store in Chennai in 1999 and in March 2006 it opened one of the largest department stores in the same city. The store spreads over 75,000 sq. ft and store provides customers a great shopping experience with three floors of apparel, footwear, products for children, household furniture and decor, health and beauty products.

Hypermarket

Hypermarkets have emerged as the biggest crowd pullers due to the fact that regular repeat purchases are a norm at such outlets. Hypermarkets not only offer consumers the most extensive merchandise mix, product and brand choices under one roof, but also create superior value for money advantages of hypermarket shopping. With product categories on offer ranging from fresh produce and FMCG products to electronics, value apparels, house ware, do it yourself (DIY) and outdoor products, the hypermarkets are becoming popular formats in India.. Number of players operating hypermarket format are increasing day by day. One of the leading players in this format is Pantaloon Retail India Limited (**Exhibit 4**) which operates 32 Big Bazaars in twenty cities. In early 2006, the K. Raheja Corp (C.L. Raheja Group) has introduced it's value retail concept Hypercity which is the country's largest hypermarket at 118000 sq ft. Hypercity carries product range varies from Foods, Homeware, Home Entertainment, Hi-Tech, Appliances, Furniture, Sports, Toys & Clothing. Hypercity Retail plans to open 55 hypermarkets by 2015. Reports in media indicate that Reliance is set to open its hyper market format called 'Reliance Mart' in Ahmedabad in December 2006 in 1.5 lakh sq ft of space¹³. As the market is expanding and consumers are in a mood to accept changes, hypermarkets are getting overwhelming response from consumer. Currently there are about 40 odd hypermarkets in India but this format holds a great potential for growth. Hypermarkets can offer whole lot of benefits to consumer. As all hypermarkets use food and grocery as crowd puller, the price plays major role. Apart from price, other things retailers need to worry about are offering right product mix at right price and right place. Ideally, a 40:60 mix of food to non-food should yield a blended gross margin of around 18-19 per cent. Hypermarkets will be successful if the retailers understand the shopper better and design product offering tailor made for specific segment of consumer. Retailers have to use efficient sourcing and merchandising process to bring down cost of operation. The most important one is to phase out inefficiencies from the supply chain and pass on a part of that benefit to consumer. Another way of improving margin is to increase percentage of private label or store brand.

¹³ <http://www.thehindubusinessline.com/2006/10/06/stories/200610061311200.htm>

Supermarket

Unlike western countries where supermarkets are prominently visible, in our country this is lacking. The supermarkets largely concentrate on selling food related products and are considerably smaller in size compared to hypermarkets. Their value proposition is also different from the hypermarkets. The supermarkets offer relatively less assortments but focus on specific product categories. They do not play the game on price rather use convenience and affordability as their salient features. In India this role is played by the provision stores and sweet shops. Interestingly the fresh vegetables and fruits are sold on the foot path and in open markets. Traditionally consumers feel conservative to buy fruits and vegetables from air conditioned supermarkets. They prefer to buy either from the local mobile vegetable sellers or from the nearest *sabji* market. Probably that works as deterrent factor for the growth of supermarkets in India. But the situation is changing and slowly supermarket operators are coming to their own.

A super market normally sells grocery, fresh, cut vegetables, fruits, frozen foods, toiletries, cosmetics, small utensils, cutlery, stationery and Gift items. In India Food World, Food Bazaar, Nilgiri (30 plus stores), and Adani are the leading super market operators (**Exhibit 5**). One of the biggest super market operators in the western India is Adani Retail Limited which operates Adani super market plans to continue its journey to reach total 19 cities with the store strength of 60 plus in the state of Gujarat. ARL also plans to expand its operation in the neighbouring states of Rajasthan, Madhya Pradesh, Maharashtra and Chhattisgarh. Subhiksha is one of the leading super market operators, who largely operates in the southern part of India is expanding to western India. One more retailer Reliance Retail is on the move and this retailer opened its Reliance Fresh-a super market chain with 11 stores in Hyderabad in November 2006 and is planning to enter 70 more cities within 2 years. Fabmall a part of Trinetra Super Retail Limited is also expanding. By June 2006 Fabmall had 28 super markets in some cities and the retailer is planning to open 25 outlets in Kerala by March 2007.

Food Bazaar operates in major cities in India with a floor space ranging from 6,000 sq ft to 16,000 square feet and the format sells both food and non-food items. The non-food items contribute about 22 per cent of total sales and rest is contributed by the food related items. A Food Store stocks an average of 7,000 stock keeping units (SKUs) and over 50,000 articles. The SKU's are divided into the broad categories - staples, fresh produce

and branded foods, home & personal care products. Staples include groceries like rice, wheat, dal, spices and oils. Fresh produce comprise of fruits and vegetables, which are sold loose through the concessionaire arrangement. Along with national brands and local brands the store keeps private labels in some product categories such as utensil cleaners, preservatives and bakery products. For example in utensil cleaner category private label gives the highest margin about 25 per cent and commands a share of 50 per cent in the store. The private labels offer flexibility to both the retailer and the consumer on price front. The objective of the store is to offer variety at affordable price in each category. Food Bazaar is made the transition from a just grocery retailer to developing emotional bonding with shoppers by providing some value added services to the shoppers. Some of these initiatives include:

Live chakki: which allows customers to buy fresh wheat and have it grinded there at the store

Fresh Juice counter: This provides customer to have fresh juices.

Live dairy: This provides customers with fresh milk and milk products.

Live kitchen: Customers have the option of buying vegetables, getting them chopped, cooked fully or partly. Soups, salads and sandwiches are also available

Convenience Stores

A Convenience store offers location advantage for the shoppers and provides ease of shopping and customized service to the shoppers. It charges average to above average prices, depending on the product category and carries a moderate number of stock keeping units (SKUs). Normally it remains open for long hours and shoppers use it for buying fill-in merchandize and emergency purchases. In India, Convenience stores occupied 23 thousand sq. meter of retail space with sales of about Rs 1347 million in 2005 and are expected occupy 85 thousand square meter of selling space by 2010 (**Exhibit 6**). During the same period, sales is expected to touch Rs 5271 million and number of outlets are likely to grow from 510 to 2434 (**Exhibit 7**). Twenty Four Seven a new format of convenience store is operational in Delhi from June 2005. Twenty Four Seven's portfolio comprises 3,500 stock keeping units (SKUs) of branded fast-moving consumer goods and another 3,500 SKUs of prescription and over-the-counter drugs besides 300 private labels products across food, focusing on staples such as pulses and rice. The promoter of this format, the Modi group, plans to set up 500 convenience stores in Delhi and Mumbai by 2007.

Discounters

Wal-Mart, the largest retailer in the world is a discounter. Practically the discounters offer several advantages such as lower price, wider assortment and quality assurance. The discounters like Wal-Mart and Aldi were able to quickly build scale and pass on benefits to the consumer. However, in the long run success depends on the operational efficiency and consistent value delivery to the consumer. The same retailer Wal-Mart struggles in Asian countries like China but extremely successful in USA. It is believed that the average Indian consumer is highly price-sensitive and looks for savings in term of money in her grocery purchase. So price-value equation is a critical component in most of the grocery purchases. Despite this, there is hardly any national level discount chain operating in India. But retailers such as Aldi and Lidl are extremely successful in Europe. Due to regulatory issues no such retailers are allowed to sell their products directly to consumer. But they can sell in a cash and carry format which is exclusively B2B context. If these retailers are allowed to operate in India through their retailer stores they may find it extremely difficult in the early stages because of lack of experience in the grocery retailing in this market. Unlike the western markets where retailers largely depend on private labels to offer price advantage, here the concept of private label is very early stage. Some of the food retailers like Foodworld and Adani sell private labels but they are not discounters. Soft discounters are present in India, although their influence on grocery retailing in 2005 was very minimal with a value share at less than half a percentage point. The absence of strong discounters and the lack of local retailer's initiatives in discounters have several reasons. Unlike most Western countries, Indian retailers are mainly small stores and do not have much bargaining power with manufacturers in order to negotiate terms. Due to low economies of scale, retailers are unable to offer significant discounts on their own. Consequently, the presence of discounters is much smaller than that of supermarkets. According to Euromonitor (2006) report, in India there are 410 discount stores with 63 thousand sq. meter selling space and by 2010 that figure is going to be 555 discount retail outlets with 85 thousand selling space (**Exhibit 8**). Subhiksha, the Chennai based discount retail chain is going national. By July 2006 the retail chain had around 150 stores and planning to open 350 more by March 2007. The National Capital Region (NCR) is going to get a fair share of 145 stores¹⁴. Apart from the NCR the retail chain is

¹⁴ <http://www.hindu.com/2006/07/15/stories/2006071517851900.htm>

actively looking at markets in Maharashtra, Gujarat, Andhra Pradesh and Karnataka. The retail chain already started operation in Ahmedabad but the stores are largely selling fruits and vegetables at this point of time. They claim that they sell at a lower price compared to other places in the local market.

Branded Store

The major apparel brands in India are Madura Garments, Zodiac, Raymonds, Colour Plus and Arvind Mills. Some of branded apparel stores prominent in India are Madura Garments (140 stores), Weekender (75 stores), Benetton (100 stores), Grasim (110 exclusive showrooms), Madura Garments (40 stores), Wills Life style (40 stores), Lee (59 stores), Newport (500 stores), Wrangler (37 stores), John Players (80 stores) and Raymond. Raymond a nation wide retail chain has 260 Raymond shops deals in fabrics, apparels and accessories. In addition to that its distribution network includes 20 exclusive Park Avenue Parx stores, and 1,000 multi-brand outlets. These specialty stores sell the well known brands like Park Avenue, Parx, Manzoni and Be. Park Avenue is an up-market brand, while Parx and Manzoni are targeted at the casual wear and the premium ranges respectively. 'Be:' is especially a brand for women's wear. Similarly BK Birla's Century Textile plans to increase its number of outlets from 60 currently to 100 by next year.

International brands like Tommy Hilfinger are also present in India through franchise arrangements with Arvind Murjani Brand Private Limited (AMBPL) and its first store was opened at Banjara Hills, Hyderabad. The 3,840 sq ft store retails wide variety of products such as men's denim wear & sports wear, women's sportswear, junior jeans and accessories like handbags, belts and watches. Apart from the new store in Hyderabad, Tommy Hilfinger is also available in its exclusive stores in New Delhi, Gurgaon, Chandigarh, Bangalore and Mumbai.¹⁵

There is no major Indian retailer in the sports and foot wear category. Reebok (85 stores) is the market leader here in India and there is no clear-cut winner in the second place. In fact, this segment is dominated mainly by foreign labels – Levis, Lee Cooper, United Colors of Benetton, Lacoste, Adidas (76 stores), Nike (62 stores), and Woodland (58

¹⁵ http://www.imagesfashion.com/back/expansion/outlet_mar05.html

stores), etc. Indian labels are few and far between – Proline is the best-known Indian brand and the other brands are more local in nature. The other Indian retailer which is making some sort of impact is Wills Sports with 29 stores across different cities in India.

Category Killer

The category killer concept originated in the U.S. due to abundance of cheap land and the dominant car culture. Category Killer is a kind of discount specialty store that offers less variety but deep assortment of merchandise. By offering a deep assortment in a category at comparative low prices, category specialist can be able to “kill” that specific category of merchandise for other retailers. Generally such kind of retailers uses a self service approach. They use their buying power to negotiate low prices, excellent terms and assured supply when items are scarce. In India this kind of retail stores are not prevalent at this point of time. But there is scope for such kind of format. In India, Mega-Mart is one sort of category killer which sells apparel products.

Dollar Stores

Dollar stores have their roots in America's homey five-and- dimes, the general stores that offered a range of products at low prices. But modern dollar-store retailers are having more sophisticated operations; leveraging their growing buying power to strike special deals with vendors and continuously striving for unique advantage of both convenience and price. Some chains sell all their goods at \$1 or less. Others offer selected items at higher prices. Most sell a combination of paper products, health and beauty supplies, cleaning products, paper and stationery, household goods, toys, food and sometimes clothing. Both private-label and brand-name goods fill the shelves. They are looking for employing technology to manage large distribution networks. US based My Dollar Store started operation in Mumbai through master franchise arrangements with Sankalp Retail Value. The store opened with a floor space of about 4,000 sq ft of space in Nirmal Lifestyle and offers wide range of products ranging from shampoos-to-juice-toys¹⁶. In September 2005, Mallz99 chain of dollar stores has also started operation in Malviya Nagar, South Delhi and the retailer has a plan to open 200 stores (both franchised & company owned) in India by 2009. The store offers over 1000 imported products that are priced at INR 99. Major product categories sold at the store are cleaning, health & beauty,

¹⁶ <http://economicstimes.indiatimes.com/articleshow/842990.cms>

hardware, plastic ware, kitchenware, candles, flowers, household items, home-décor, automobile, stationary, disposables, party supplies, fashion jewelry, glassware, chocolate & confectionary, gifts, toys, products for pets, melamine ware, novelties, socks and fashion accessories. For keeping the store attractive for shoppers the store adds new products on a weekly basis. Mulund boasts of three dollar shops on SL Road, and one in Mulund (E) near the station. Royal Shoppe on SL Road offers everything from crockery to towels, shoes, curios, lamps, etc. Royal Shoppe now offers goods ranging from Rs 29 to over Rs 1,699.¹⁷

Retail Development in Rural India

Chennai based market research firm Francis Kanoi estimated the size of the rural market to be INR 1, 08,000 crore annually. During the survey in 2002 the firm took into account four categories - FMCG, durables, agri-inputs, and two- and four-wheelers for their estimation. Rural incomes are growing steadily as well. NCAER shows while the number of middle-class households (with annual income between Rs 45,000 and Rs 2.15 lakh) is at 16.4 million in urban India, the figure stands at 15.6 million¹⁸ in the rural areas, data from. Largely this rural market is untapped and there is huge opportunity for retailers. Therefore, in recent times rural retailing is witnessing explorations by both corporate houses and entrepreneurs – ITC's Choupal Sagar, HLL's project Shakthi and Mahamaza are some of the models being tried out. At this juncture there is no conclusive evidence of winning rural retail formats available. However, corporate forays into rural retail are expected to bring more experimentation and innovation in term of retail format. The Godrej Adhaar, the rural retail initiative of Godrej Agrovet Ltd operates a chain of 18 stores providing a host of services to farmers and their families and is planning to set up at least 1,000 stores¹⁹ across rural India in the next five years. Apart from Godrej Adhar and Choupal Sagar other formats operating successfully in the rural area are, M & M Shubh Labh stores, Escorts rural stores, Tata Kisan Sansar, and Warnabazaar, Maharashtra (annual sale Rs 40 crore).

DSCL Haryali Kisan Bazaar

Hariyali stores keep wide range of product assortments such as fertilizers, pesticides, farm implements, seeds, animal feed and irrigation equipment among other agriculture-related

¹⁷ <http://mid-day.com/metro/mulund/2003/november/70039.htm>

¹⁸ <http://www.blonnet.com/catalyst/2004/03/11/stories/2004031100110300.htm>

¹⁹ <http://www.thehindubusinessline.com/2006/01/10/stories/2006011001220800.htm>

products. They also have officers who offer free advices to farmers regarding best agriculture practices. Offering insurance and financial services to farmers is part of the business. So far, 22 "Hariyali" Stores have been operational in different states across North India. Farmer response has been extremely encouraging. A centre is attracting 150 - 200 farmers a day. Hariyali Kisaan Bazaar has plans to rapidly scale up the operations & create a national footprint covering all the major agricultural markets of the country.

Mahindra & Mahindra Shubh Labh

This is the rural initiative taken by Mahindra & Mahindra group to provide complete package of products and services related to firm productivity. One of the basic objectives is to establish market linkage and optimize farm produce supply chain. There are about 36 franchised Shubh Labh store established in ten states in India.

Internet Retailing

The importance of internet retailing is growing all over the world. Some internet retailers such as ebay and rediff.com are providing a platform to vendors to sell their products online and they do not take the responsibility of delivering the product to buyer. They provide virtual shopping space to the vendors. On the other hand online retailers like amazon.com and walmart.com have to maintain their warehouse to stock products and take the responsibility of delivering products to the buyer. So, most of the brick and mortar stores are entering into online retailing as they have physical infrastructure and they can use that to capture additional consumer wallet. All the big retailers like Target, Sears and Kmart are operating online shop and some manufactures also operate online. For example Apple Inc. operates through apple.com and Dell Inc. sells its products online through dell.com.

In India internet retailing is growing by 29% CAGR and Euromonitor report estimates that the a CAGR 48 per cent and in value term it going to touch INR 27 billion by 2010 from INR 4 billion in 2005. The report also predicts that the contribution of internet retailing to non-store retailing to is likely to be 46 per cent by 2010. In 2005 LG Ezbuy was the major internet retailer in value terms with a commanding share of close to 23 per cent. Other major players in terms of value share are Times Internet (indiatimes.com), Yahoo Web services (yahoo.com), India Online (Rediff.com), Fabmall and Sify.com. Fabmall online store offers about three million stock keeping units and attracts about

10,000 visitors per day and on average ships over 20,000 orders per month.²⁰ Fabmall sells major product categories jewellery, Electronics, Books, Movies, Music and Gifts.

Beyond Format

Retailers need to think about shoppers not just about formats as understanding the shoppers' dynamic holds key to such a business. Retailers must understand what value shopper is looking for and how the retailers can deliver that desired value to the customer. However, most retailers look for what they are offering and how shoppers can fit into retailer's scheme of offerings. In the long run such strategies may not be viable. Sam Walton and Jack Welch share a same line of thinking that consumer is the source of competitive advantage and one of leading UK based retailers Tesco Inc. has shown how understanding consumer can be a source of redefining business and gaining sustainable advantage. The retailer operates four different retail formats namely Express²¹ (546), Super store²² (446), Metro (160)²³ and Extra²⁴ (100) to cater consumer need. The Group also has an additional 527 stores under the One Stop fascia. All the formats are profitable and each format is tailor made to fulfill customer need. It is the value offering which makes Tesco so popular and profitable. Similarly in India Pantaloon Retail runs several formats and for value retailing Big Bazaar is receiving exceptional response from the consumer.

Retailing in India is completely different from western countries for that matter even from Asian counter parts. Studies show that upgraded Kirans are growing at the same rate as organized retailers. Even though the format remains the same, the value delivery has changed. In the changing retailing environment understanding the psyche of consumer is critical to business. Aggregate level picture may mislead, so individual level understanding is desirable. Finally, it is not the format gives business sustainability rather it is one of the vehicles to deliver value to the consumer. Some of the Kirana store owner view there is no competition from the big retailers because they know their customer better. Even some Kirana stores go one step ahead to define their target segment by

²⁰ Non-store retailing, Retailing in India, Euromonitor Report,, 2006

²¹ Size of the store is upto 3000 sq. ft and offers customers great value, quality and fresh food close to where they live and work.

²² Size of super store varies from 20,000 sq. ft to 50, 000 sq. ft.

²³ Approximate store size is 7,000-15, 000 sq. ft

²⁴ Approximate store size is 60, 000 sq ft and Extra stores offer the widest range of food and non-food lines, ranging from electrical equipment to homewares, clothing, health and beauty and seasonal items such as garden furniture.

residents of the nearest society or colony. Similarly DSCL Haryali Kisan Bazaar targets 15-20 villages for generating business.

Challenges Ahead

Infrastructure

Even though there is huge investment coming especially in the area of retail space development in the form of mall development, the challenges remain same from a retailer's view point as the cost to acquire retail space in mall is increasing. Researchers from Knight Frank India, a real estate consultancy, cipher that rentals in established malls in top metros have jumped by 20-30 % in the last six months. Generally retailers work out a rent-to-revenue ratio with developers at which they feel they can sustain their business. Normally, this figure varies between 4% for a hypermarket (that is, rent will constitute 4% of revenues) and 10% for a department store, to nearly 20% for very niche retailers. But, at a monthly rate of Rs 200 per sq ft, a department store might have to make Rs 2,000 per sq ft per month just to break even.²⁵ In such a scenario the reality of retail business could change and sustaining profitable business could pose the highest threat of its kind.

Technology

Technology is going to play a major role in retail development in India. Retailers are going to experience the impact of technology in retail. Currently most of the retailers are operating almost everything manually. A country where almost 97 percent of retailing is in the hand of unorganized retailers it is predictable that the retailers are going have operational inefficiency. They face several challenges like maintaining inventory, ordering and above all keeping track of customer by maintaining consumer data base. Technology can be useful in this aspect. Most of the organized retailers are using available and affordable technology to capture consumer information. Modern retailers are using scanner data to figure out answer to lot of questions. Through technology retailers can capture a whole lot of segmentation variables and subsequently use them for shopper segmentation. Technology helps to take better decision in some critical areas such as new product introduction, suitable product offering, quicker ordering and

²⁵ Daftari, Irshad and Sharma, Samidha (2006), "Runaway realty prices steal industry's smiles", Economic Times, September 19, Bangalore Edition.

assortment planning. Retailers use shopper's loyalty data to design customized promotional offering for different set of customers.

Supply chain

Till now most retailers in India have invested majorly into the front end but relatively little on the back end and supply chain. Even in countries like the USA, Germany and England where organized retail is highly developed supply chain efficiency is a concern. The nature of retail sector in India is different from other countries around the world. The biggest retailer in India, Pantaloon Retail is yet to open stores in each & every major city in India. Probably that is an indication of how the retail concentration is happening mainly in big cities. The sector is highly fragmented and organized retail contributes hardly 3-4 percent of total retailing pie. There are huge inefficiencies in the supply chain. For example Indian supply chain for food products is characterized by extensive wastage and poor handling. The wastage occurs because of multiple points of manual handling, poor packaging, and lack of availability of temperature controlled vans. The most important part of retailing business is to find a balance between investing in front-end and back-end operations. The channel dynamics is going to change over next couple of years as the retailers start growing in size and their bargaining power is likely to increase. Probably that would bring some kind of mutual understanding between manufactures and retailers to develop strong supply chain network. In such a scenario, both the existing operators and new operators must put collaborative efforts to phase out inefficiencies in the supply chain network. In a special lecture series at Indian Institute of Management, Ahmedabad, honorable minister for Railway, Mr. Laloo Prasad Yadav raised his concern over safe transportation of food. The minister is looking forward to use railway infrastructure to carry fresh fruits and vegetables in temperature controlled containers from various nodal points essentially opened in railway stations to different parts in India. Probably that would help a lot in reducing wastage in the supply chain and retailers would be happy to use railway infrastructure rather than spending huge amount of money in developing infrastructure. New entrants like Reliance Retail is believed to be investing substantially in the supply chain especially cold chain as it is set to start its venture by opening 'Reliance Fresh'²⁶ stores.

²⁶ Size of the store is likely to be around 4000 sq. ft. and expected to sell fruits and vegetables. Fresh Plus, another format is likely to have size between 4000 sq. ft and 10000 sq. ft.

Human resource

Even though AT Kearny places India as most attractive retail market for the second consecutive year in a row but it is lagging behind in the retail labor index and positioned in the 8th place. At this point of time talent is in short supply and employee churn has been high for all players. It is very difficult to get experienced store managers to run stores. For example, currently Pantaloon Retail India is operating around 48 Food Bazaars across the country and planning to increase the number to over 80 stores by the end of 2006. The retailer is ready with retail space in different malls and high traffic retail location but availability of qualified and experienced personnel is still a big concern for the retailer. Almost all retailers are indulged in poaching which is not a permanent solution. There is absolutely no issue in getting retailing space in prime locations but the bigger concern is to find additional store managers. The way the sector is growing in terms of opening stores it is very predictable that there is going to be huge scarcity of professionals to manage stores. Reliance Retail is planning to employ half a million work force in various levels in next five years. Currently the sector is facing a shortage of human resources. It is very difficult to develop human capital in a short time span of five years. If we look at the human resources employed by global retailers like Wal-Mart, Carrefour, Tesco, Home Depot and Ahold, we find that none other than Wal-Mart exceeds half a million.

Considering our robust policies for retaining and developing workforce, retailers should not worry about shortage of talent pool in the long run. The country also possesses a rapidly growing cadre of promising professional managers, a large educational system, and there is a cultural willingness among employees to work cooperatively with management. If, we use these resources properly we can develop a large talent pool to fulfill the growing demand for various positions in the retail organization.

Foreign Direct Investment

Though talk of opening up the retail sector for FDI has been making the rounds for quite some time now, no major breakthrough has happened yet. The country is expecting a strong economic growth of about 8-10% per year and this can be achieved by raising the rate of investments as well as by generating demand for the increased goods and services produced. Retail contributes about 10% to the national GDP and is expected to increase

over the next decade or so. PricewaterhouseCoopers estimates that Indian retail will get USD 412 by 2011 and majority of investment will be directed toward the two most popular retail formats: hyper markets and supermarkets.²⁷

Growth of this sector holds paramount importance to the Indian economy, so any augmentation of this sector will have a resultant growth effect on the economy. Although at this point in time FDI in retailing is receiving mixed reaction, but our feeling is that FDI would bring a lot of positive changes both for the operators and the consumer. The infusion of much-needed foreign investment would result in: (1) retail consolidation and increase in the share of the organised retail sector, (2) increase in employment in retail (3) increase supply chain efficiency which would lead to lower prices, superior quality for consumers, (4) enhanced opportunity for domestic operators to join hand with global retail players to bring in technical know how and global practices, (5) making shoppers feel international shopping experience.

Conclusion

In the 2005 India Economic Summit, delegates conveyed mixed message about FDI but one final message was loud and clear that India's retail development is inevitable. Most of the organized retailers in India are harping on quality, service, convenience, satisfaction and assured benefits to lure shoppers into the store. Retailers should create value for the consumer and must decide suitable vehicle to deliver desired consumer value. No doubt that retail format is one of the vehicles to deliver value proposition and also it helps to position the store in the mind of target shoppers. Probably in a growing market no one finds difficulty in pulling customer into store but that may not be sufficient to operate profitably. Retailers need to find out what matches consumer requirement and offer better than competition. Retailers certainly need to be innovative in designing the value proposition and deciding the format to deliver that to the consumer. It is not all about deciding the format but all about serving the consumer better, faster and at less cost. Retailers can use their store as an indicator of what they stand for and what value they offer. Retailers have to out think consumer in providing service and value. At this juncture, most of the retailers are concerned about growth in number of stores rather than creating value for consumer. Some companies like Pantaloon Retail has gone one step

²⁷ <http://www.deccanherald.com/deccanherald/oct162006/business1833320061015.asp>

ahead to start e-tailing format along with brick and mortar formats. The most important issue in e-tailing is credibility and trustworthiness of the supplier. If Pantaloon Retail India gets the same credibility and trust it is able to find from current customer base it is highly probable that the new format is going to be successful. Again some of the product categories books are highly successful on internet as those categories require less feel and touch. Our conclusion is that consumer is the focus of retail business and the retailers should serve the consumer better, faster and at less cost.

Exhibit 1: Different Formats at Pantaloon Retail India			
Product Category	Concepts	Status	Formats/Offerings
Food	Brew Bar	Operational	Beers, snacks and set meals
	Cafe Bollywood	Planned	Eateries
	Chamosa	Operational	Snack counter in high traffic area
	Food Bazaar	Operational	Supermarket
	Rain	Operational	Food and beverages
	Sports Bar	Operational	Focused on sports lovers
Fashion	aLL	Operational	Fashion apparel for plus-size individuals
	Big Bazaar	Operational	Hypermarket
	Blue Sky	Operational	Fashion accessories
	Central	Operational	Seamless malls
	Fashion Station	Operational	Popular fashion
	Gini & Jony	Operational	Kids' fashion
	Pantaloons	Operational	Department store
	Collection i	Operational	Home furnishings
Home & Electronics	Electronics Bazaar	Operational	Present within Big Bazaar
	e-zone	Operational	Consumer electronics
	Furniture Bazaar	Operational	Home furniture
	Got It	Planned	One stop shop for home maintenance
	Home Town	Planned	One stop Destination
	Telecom & IT	Gen M	Planned
General Merchandise	M Bazaar	Planned	Solutions for knowledge, entertainment and communication
	M Port	Planned	Standalone stores/shop-in-shop
	Big Bazaar	Operational	Hypermarket
	Blue Sky	Operational	Fashion Accessories
	Central	Operational	Seamless malls
	Footwear Bazaar	Planned	Footwear and accessories
	Navarasa	Planned	N.A
	Pantaloons	Operational	Department store
	Shoe Factory	Operational	Footwear and accessories
	Leisure & Entertainment	Bowling Co.	Operational
F 123		Operational	For leisure and entertainment
Wellness & Beauty	Health Village	Planned	N.A
	Star Sitara	Operational	Beauty salon for men and women
	Tulsi	Operational	Pharmacy
	Turmeric	Planned	'Cut-in' format at Food Bazaar
Books & Music	Depot	Operational	Books and music
e-tailing	online retailing	Operational	futurebazaar.com
Source: Compiled by the author from the company web site			

Exhibit2: Landmark Group's Presence Across Different Formats of Retail In India									
	Baby-shop	Shoemart	Splash	Home Center	Lifestyle	Max	Fashion Brands	Funcity	Total
Currently	9	9	9	10	9	2	7		55
Additions Till Dec' 06	4	4	4	4	4	9	11	2	42
Total Till Dec-06	13	13	13	14	13	11	18	2	97
Source: Company Web Site									

Exhibit 3: Presence of Departmental stores in various cities in India									
Location	Westside	Pantaloon	Lifestyle	Ebony	Shopper's Stop	Globus	Pyramid	Total	
Ahmedabad	1	2				1	1	5	
Amritasar				1				1	
Bangalore	3	1	1		2	2		9	
Baroda	1	1						2	
Chandigarh				1				1	
Chennai	1	1	2		1	2		7	
Delhi	3	3	1	1	1	1		10	
Faridabad				1				1	
Ghaziabad	1				1	2		4	
Gurgaon	1	1	1		1			4	
Hyderabad	1	1	1		1			4	
Indore	1	1				1		3	
Jaipur	1				1			2	
Jalandar				1				1	
Kanpur		1				1		2	
Kolkata	2	2			2			6	
Lucknow		1						1	
Ludhiana				1				1	
Mangalore		1						1	
Mumbai	4	4	3		7	2	1	21	
Nagpur	1						1	2	
Noida	1			1				2	
Rajkot		1						1	
Pune	1	1			2		1	5	
Thane						1		1	
Secunderabad		1						1	
Total	23	22	9	7	19	13	4	98	
Source: Adapted from Kar, S. K & Sarkar, A (2006), ““An Analysis of Changing Dynamics of Indian Retailing”, ICFAI Journal of Services Marketing, The ICFAI University Press, Vol. IV, No. 3, pp-69-79.									

Exhibit4: Presence Retailers Across Different Cities In India Though Hypermarket									
Retailers	PRIL	Adani	Giant	Trent	Home Stores	Khadims	Hypercity	Vishal	Total
City Name									
Ahmedabad	3	1		1				1	6
Ambala	1								1
Agra	1				1				2
Bangalore	5								5
Bhubaneswar	1								1
Delhi	2								2
Durgapur	1								1
Ghaziabad	1								1
Gurgaon	1								1
Hyderabad	1		1						2
Indore	1								1
Kolkata	2					1			3
Lucknow	1				1				2
Mangalore	1								1
Mumbai	3		1				1		5
Nagpur	1								1
Nasik	1								1
Panipath					1				1
Pune	1								1
Rajkot	1								1
Sangli	1								1
Thane	1								1
Vishakapatnam	1								1
Total	32	1	2	1	3	1		1	41

Source: Compiled by the authors from Websites & Published Reports

Exhibit 5: City wise Representation of Supermarkets In India							
City/Metro	Food Bazaar	Foodworld	Adani	Haiko	SPAR	Foodland	Total
Agra	1						1
Ahmedabad	4		27				31
Ambala	1						1
Anand			1				1
Bangalore	9	28					37
Baroda			10				10
Bhubaneswar	2						2
Chennai		27					27
Coimbatore		3					3
Delhi	3						3
Durgapur	1						1
Erode		1					1
Gandhinagar			1				1
Ghaziabad	3						3
Gurgaon	1						1
Hyderabad	2	15					17
Indore	1						1
Kodai		1					1
Kolkata	6						6
Lucknow	1						1
Manglore	1						1
Mumbai	6			1	2	6	15
Mundra			1				1
Nadiad			1				1
Nagpur	1						1
Nasik	1						1
Navsari			1				1
Pondicheri		1					1
Pune	2	7					9
Rajkot	1		2				3
Salem		1					1
Sangli	1						1
Secunderabad		4					4
Surat	1		3				4
Thane	2						2
Trivandrum		1					1
Vellore		1					1
Vizag	1						1
Total	52	90	47	1	2	6	198

Source: Compiled by the authors from Websites & Published Reports

Exhibit 6: Convenience Stores: Value Sales, Outlets and Selling Space, 2000-2005						
	2000	2001	2002	2003	2004	2005
Value sales Rs million	15	68	225	431	998	1,347.30
Outlets	5	28	99	249	370	510
Selling Space '000 sq m	1	2	5	9	16	23
Source: Euromonitor Report on Indian Retail, 2006						

Exhibit 7 : Convenience Stores Forecasts: Value Sales, Outlets and Selling Space 2005-2010						
	2005	2006	2007	2008	2009	2010
Value sales Rs million	1,347.30	1,751.50	2,329.50	3,168.10	4,118.50	5,271.70
Outlets	510	710	974	1,347.00	1,813.00	2,434.00
Selling Space '000 sq m	23	32	43	56	71	88.4
Source: Euromonitor Report on Indian Retail, 2006						

Exhibit 8: Discounters Forecasts: Value Sales, Outlets and Selling Space 2005-2010						
	2005	2006	2007	2008	2009	2010
Value sales Rs million	6,479.90	7,063.10	7,627.80	8,314.30	9,145.70	10,151.80
Outlets	380	410	440	470	510	555
Selling Space '000 sq m	58	63	68	73	78	84.8
Source: Euromonitor Report on Indian Retail, 2006						