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The Retail Scenario - India

Amidst a global economic slowdown and a phase of recession in the developed countries, India on the contrary is expecting a 6.5-7% growth in GDP this fiscal year. Largely driven by domestic consumption, the retail industry has a huge role to play in servicing this demand. The Indian retail sector is worth about $250bn a year, but it is heavily underdeveloped. Well over 95% of the market is made up of small unorganised stores. It is estimated that 70 million Indians in a population of about 1 billion now earn a salary of $18,000 a year, a figure that is set to rise to 140 million by 2011. Many of these people would be willing to spend more and thereby want more options. Coupled with the fact that India is on the verge of reaping demographic dividend, the environment definitely augurs well for the retail industry.

Taking note of the importance of opening the doors to foreign investment, the Indian government has eased restrictions by allowing overseas retailers to own 51% of outlets as long as they sell only single-brand goods. This is aimed at attracting investment, technology and best global practices. What this implies is that chains like McDonalds, Marks & Spencer, Body Shop and Ikea can, if they want to, open and control their own operations in India. Previously, many of them had gone down the franchisee way, a policy followed by M&S.

Foreign investment is badly needed to provide the infrastructure - the warehousing, distribution and processing operations - that are needed to upgrade India's largely unorganised retail industry. An estimated 50% of the country's fruit and vegetables rot by the roadside before they reach market. Having said that, it also benefits the job market. The implicit benefits that come along with a new retail chain are an independent supply chain network, storage facilities and a distribution network. Each of these components demand manpower and thus serves as avenues of employment creation. The same idea can be applied to the agriculture sector. ITC has implemented its 'E-Choupal' scheme to improve the productivity of farmers that supply its food processing operations. It has also built internet kiosks in villages to ensure that farmers have access to latest information. An organised sector thus offers more jobs than an unorganised one.

Taking the case of Subhiksha, it started in 1999 and grew to have 1000 stores across India by 2007. Subhiksha has **ICICI Ventures and Wipro's Aziz Premji** as its investors. It started with grocery and then diversified into medicine retail and mobile phones. The foundation was based on discount pricing, taking a cue from the Wal-Mart of USA. Everything appeared rosy till the time the downfall started. Midway its journey, Subhiksha planned to move on an expansion path thereby diversifying into other products. To fund its expansion plans it mulled a 350 Cr. IPO. However, in view of uncertain markets, it shelved the idea. Come late 2008 and there were reports of the retail chain defaulting on vendor payments. Vendors cut off supplies after problems in cash flows were exposed. Finally, in January this year, the founder admitted that Subhiksha needed 300 Cr. to stay afloat.

Different reasons can be attributed to the downfall of Subhiksha.

- Rapid expansion all across the country, rapid increase of manpower, uncontrolled diversification and unconsolidated growth
- Low service levels and an unhealthy appeal to the customers
- Cash outflows were high as it went on a rampant expansion mode but inflows were low as it operated on very low margins.
- Operated as a re seller. Supply chain was not integrated.
- Liberal credit policies given to vendors led to credit defaults which caused improper inventory management either leading to high inventory levels or stock outs.
- Discounts as the only pivotal point was hardly a competitive edge in the long run
- Lack of focus

Wal-Mart on the other hand has an integrated supply chain and does not believe in just re selling products after buying them in bulk. This is how it builds its scale. Wal-Mart does not charge its suppliers a slotting fee to display their products. Rather, it focuses on more popular products. In the process, it drops unpopular products from its shelves and also asks manufacturers to increase the supply of the more popular ones. This defines a well strategized focus with regards to the diversification which is missing in Subhiksha's operations.

Wal-Mart operates its stores under three basic categories viz. discount stores, supercenters and neighbourhood markets. A discount store carries general merchandise and a selection of food whereas a supermarket carries everything that a discount store carries in addition to a full service supermarket that includes garden centre, pet shop, pharmacy, optical centre, photo processing lab, salons, cellular phone stores, local bank branches. In between both of these exist, the neighbourhood markets that offer limited selection of general merchandise. Such is a differentiation was missing in Subhiksha's retail chain.

Having drawn a comparison between the two models working on the same principle, one gets an idea that there is still a lot of room for improvement as far as operational efficiencies and differentiated focus is concerned. India is a huge potential for the world's leading retail chains such as France's Carrefour, Germany's Metro, UK's Tesco. The Bharti-WalMart JV will set a precedent by creating jobs, while giving sufficient protection to Indian domestic retail industry.

The Indian retail market, which is the fifth largest retail destination globally, was ranked second after Vietnam as the most attractive emerging market for investment in the retail sector by AT Kearney's seventh annual Global Retail Development Index (GRDI), in 2008. The share of retail trade in the country's gross domestic product (GDP) was between 8–10 per cent in 2007. It is currently around 12 per cent, and is likely to reach 22 per cent by 2010. A report by global consultancy firm, AT Kearney said "The consumer spending in India has increased by an impressive 75 per cent in the last four years and will quadruple in the next 20 years. Retailers such as Spencer's Retail, Future Group, Shoppers Stop, Westside, Wills Lifestyle, Bata India, and Raymond, have plenty of expansion plans for 2009. The rural retail market is estimated to cross US$ 45.32 billion mark by 2010 and US$ 60.43 billion by 2015, according to a study by Confederation of Indian Industry (CII) and YES Bank on account of the rising purchasing power, changing consumption patterns, increased access to information and communication technology and improving infrastructure. These numbers exhibit tremendous potential and can only be put to an advantage by increasing the proportion of the organised retail sector in the overall Indian retail industry.

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