

The Retail Opportunity in India 2009

EXECUTIVE SUMMARY

Fast track to the world^{UK}

Introduction

The UK has strong ties with India and UK companies are well positioned to take advantage of this growing export and investment market. Liberalisation of the economy continues rapidly, with trade barriers largely removed.

Retail is India's largest industry accounting for over 10 per cent of the country's GDP. Modern retail is already thriving in India with multi-storey malls offering shopping, entertainment and food all under one roof. A large, young, urban population with disposable income is driving demand. Seeing the opportunities, major players in India and overseas are entering the market.

"The Retail Opportunity in India 2009" examines the opportunities as well as key issues which will impact on any retailer entering India.



The Demographic Dividend of India

Of late, global brands are thinking of India in terms similar to the hype in the 1990s, when the government of the time began re-opening the economy to foreign companies.

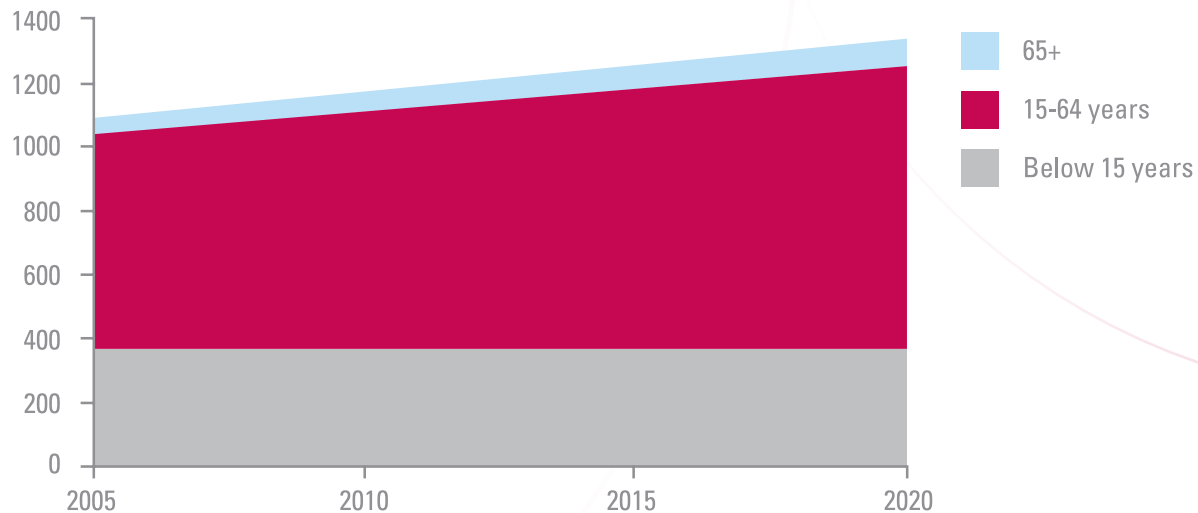
The terms commonly used include “billion-plus” population, “a middle class consisting of hundreds of millions”, “rapidly-growing income and consumption”. Companies conjure up visions of hordes of youngsters forging high income careers in software and business process outsourcing (BPO) incomes, and wanting to spend these incomes on global brands and global products.

Companies envisage selling their cheeses, chocolates, jams and crackers to a huge market hungry for global merchandise. These perceptions are based on some fact, but do not fully address the context and complexity of the Indian market. India’s population is the second largest in the world, and it is one of the youngest demographic. As shown in the table opposite.

In 2005 the median age stood at 24 years old. However by 2020 the median age is expected to rise to just 28 years old.

India has had one of the consistently highest GDP growth rates of the last few years. Further successive Indian governments have steadily liberalised policies related to investments (domestic and foreign), banking, trading and all other aspects of business.

The combination of these factors has created a situation that is unique in India's history as an independent country. Business growth has led to individual prosperity which is, in turn, leading to explosive growth of further business opportunities. Although India's per capita income still places it in the list of "developing countries", a significant population segment has emerged that is truly middle-class.



Urbanisation and its Impact

More Indians regularly eat cornflakes, processed cheese and fruit-based drinks for breakfast than they did ten years ago.

India's urban population has grown dramatically over the last two decades, particularly through migration into the major metropolises, which have a significant proportion of the middle income and the upper income population.

Therefore, the concentration of a higher income population has increased in the major cities. This has taken place during the last two decades, and especially since 2001.

So, yes, there are more people in India than any other country apart from China. Incomes are rising almost across the board. Certainly, more Indians regularly eat cornflakes and processed cheese and consume processed fruit-based drinks for breakfast than they did ten years ago.

And, yes, Indian consumers are increasingly welcoming modern retail environments over the traditional. So, to the question of whether there are opportunities to create significant businesses out of these changes the answer, overwhelmingly, is yes!

These behavioural developments have attracted the attention of both domestic and international consumer-goods companies and retailers. So, several product sectors have seen annual growth rates over 25-30 per cent in the last few years.

Many of the new entrants to the India market are large business groups that have set up modern retail chains whose share, although still small, is growing year-upon-year. This growth of modern retailing is also having an impact on processes and infrastructure.

Population of Major Conurbations (mn)	1991	2001	2005
Greater Mumbai	12.6	16.4	19.9
Delhi (National Capital Region)	8.4	12.8	19.7
Kolkata	11.0	13.2	15.7
Chennai	5.4	6.4	7.6
Bangalore	4.1	5.7	7.1
Hyderabad	4.3	5.5	6.7

These retail businesses are run as true chains and need global standard processes and systems. This includes merchandising, sourcing, human resource management, logistics and store operations. They also demand Grade-A shopping centre premises with all associated infrastructure and services.

So, there is clearly a growing opportunity for companies that are manufacturers or vendors of consumer products, suppliers of other goods that are used within a retail business and companies providing services to the retail sector.

Mind the Gap

There are also several challenges that remain, before international companies can grab the big prize in India.

Some of these challenges are related to the Indian government regulations controlling the retail sector. For instance, a major barrier at the time of writing this report is the fact that foreign investment is allowed in retail operations only up to a limit of 51 per cent foreign equity, and only in businesses that are selling a single brand (brands such as Louis Vuitton, and most recently Marks and Spencer, have taken advantage of this route).

While proposals of further liberalisation are repeatedly discussed, the barrier against foreign investment in retailing still remains. As another example, in the area of fresh produce, some states have regulations that restrict the wholesale trading of the commodities to controlled market yards. This means that the consolidation and processing of farm produce is more difficult and expensive.



The Development of Shopping Space

The growth of modern retail has brought with it a rapid expansion in shopping centre space. This is both an opportunity and a challenge.

While the extraordinary growth of Indian shopping centres has provided more space for brands and modern retailers to grow their businesses, much of the growth has been concentrated in the metropolises.

As the illustration in the main report shows, almost half of India shopping centre space existed by the end of 2007 in the conurbations of Mumbai and Delhi. This “over-shopping” is likely to lead to the failure of a significant number of these malls.

Paradoxically, despite the proliferation of malls, for retailers and brands, high real estate rental costs are possibly the biggest headache. In many instances, brands have signed on high-rent shops with the aim of balancing their portfolio over time, and fully expect these shops not to make money in the foreseeable future.

At the same time, newer opportunities such as airport real estate are emerging with the upgrade of the major and secondary airports, as well as a change in government policy allowing expansion of retail activity at airports.





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An interesting and long-standing side effect of the fragmentation of the market so far has been the emergence of exclusive branded outlets (EBOs) as a key driver of brand identity and marketing. Beginning with textile companies in the 1950s and 1960s, this format of retailing has preceded similar developments elsewhere in the world. Distributed brands that wished to create a coherent brand image and present their complete product line to the consumer in a “controlled” environment rather than as fragments in multi-branded stores, have used this strategy in India for decades.

Since the 1990s this has also become preferred channel for launching and growing brands (as listed in the report), especially those related to lifestyle products such as apparel and footwear (such as Lacoste, Reebok, Wrangler, Levi Strauss and Adidas), or home products. As department store chains have come up in the last couple of decades, this strategy has been tweaked slightly to include shops-in-shops. British consumer brands would do well to evaluate this strategy for the Indian market, even though they may not be retailers in their home market or in other retail markets.

A Summary of the Opportunities and Challenges

With well-established domestic and international brands already in the market gaining scale, and in view of the dramatically higher market entry costs (including real estate, advertising and human resource costs), some may feel that the retail boom is over and it may already be too late to enter the Indian market.

A quick assessment of the strengths and weaknesses of the retail sector in India throws up the following factors that are prime drivers or hindrances for modern retail and its associated activities in India:

STRENGTHS & OPPORTUNITIES	CHALLENGES
<ul style="list-style-type: none"> • Demographic changes and their implications • Manufacturing competitiveness in several sectors • Regulations & Laws are progressively more open and business friendly • Organised market is at a nascent stage hence potential growth is very high 	<ul style="list-style-type: none"> • Differences within customer groups • Tax laws • Infrastructure - roads, electricity, cold chains and ports • Increasing cost of real estate • Reduced availability of manpower for retail operations • Restriction on foreign ownership of retail operations

Despite the various challenges, the key advantage of the Indian market is that the country's already significant consumers base is also growing rapidly. This is true regardless of whether the product-price offer targets a consumer base of 15 million or 150 million.

Retailers, brands and companies that work with the retail sector are still at the early stages of an expanding opportunity, as incomes grow and lifestyles change.

The report illustrates many interesting trends and opportunities that the Indian retail sector has to offer to International Companies in the following areas.

Retail and Distribution:

- Fashion
- Home
- Food & Beverages
- Consumer Durables
- Cosmetics, Beauty & Wellness
- Leisure & Entertainment
- Luxury Retail

Services to the Retail Sector:

- Design
- Logistics & Supply Chain
- Education & Training

In Conclusion

Unlike many other markets, India's population profile will remain young for a long time, as mentioned earlier. The total under-25 population – about 560 million in 2005 – is expected to be around 600 million in 2025, a significant population of earning and spending potential customers.

Therefore any company looking at addressing the Indian market must view it as a long-term opportunity, rather than a short-term fix. Brands potentially have a lifetime of growth ahead of them in this market. Companies that have taken this view have typically worked on strategies appropriate to the Indian context (and have possibly been rewarded sooner than they expected).

This may include revising their product and price mix, as well as considering taking an active presence through exclusive branded outlets (EBOs) which may be an alien concept to many distributed brands.

“The Retail Opportunity in India 2009” aims to assist companies considering entry into the retail market in India. The full report has been prepared in conjunction with Third Eyesight, a leading research company based in Gurgaon, Delhi.

The aim of the report is for British retailers and brands as well as suppliers and service providers to the retail sector to gain insight into potential opportunities for their businesses in India.

Each company's information, needs and strategy will be unique. Therefore the report is the first step in any company's investigation of the market. UKTI's specialist research teams can provide further research that is tailored to specific business requirements.

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- 1: Useful Addresses and Telephone Numbers
- 2: Sector-Specific Investment Policy
- 3: Investment Policy for FDI in Retail Trade
- 4: ARTICLE (2006): Retail Revolution – Myths and Reality
- 5: ARTICLE (2007): Retail: A Barometer of Urban Health
- 6: References



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