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FUTURE OF BUSINESSES
FEBRUARY 2012 • VOL. 11 NO. 2
₹50 US$10

FDI in Single Brand:

How Will Indian Retail Landscape Change?

- IMAGES East India Retail Summit 2012
- Selling Online? Dump Those Discounts!
- Retail Logistics Outlook

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FEBRUARY 2012 • PAGES 108 • VOL. 11 NO. 2

The East is an opportunity waiting to be exploited only if India's national retailers can spare some thought to it – this was the central message of the East India Retail Summit (EIRS) 2012 that was held last month in Kolkata. The East India region offers immense potential for national brands. Densely populated, it has more consumers per square kilometer than any other part of the country. The consumers in the East like to shop. They are evolving fast and becoming more brand-conscious with each passing year.

So why is the retail potential of the region lying almost untapped by the national brands and retail chains? There seem to be many reasons: a lack of awareness about the East among the "Ivy League-educated business development managers" stationed in the metros (as one speaker at the event put it), scarcity of quality retail real-estate, not enough urbanization, comparatively low per capita income, and some bad press (Singur and Tata Nano anyone)?

But the success stories recounted by retailers at the EIRS were an eye-opener for the possibilities of retail in the East. We hope our detailed, session-by-session coverage of EIRS in this issue will inspire national retailers and brands to give a more serious look at the Eastern market and capture the first-mover advantage before their competitors move in.

So, the government has finally allowed FDI in single-brand retail. This is a welcome step, though there is a fly in the ointment: the 30 percent local sourcing clause. What kind of impact will this have on the Indian retail landscape? Which retailers are likely to step in? How will the existing equations change in single-brand retail? Read our cover story to find out.

Here is hoping that we may get to hear similar good news about FDI in multi-brand retail in March after the election results to the five states have been announced.

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Printed & published by S P Taneja on behalf of Images Multimedia Pvt. Ltd. Printed at Modest Print Pack (P) Ltd. C-52, D.D.A. Shed Okhla Industrial Area Phase -1, New Delhi - 110020 and published by S P Taneja from S - 21 Okhla Industrial Area Phase – 2, New Delhi.110020 Editor: Amitabh Taneja

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NOTHING ATTRACTS INDIAN CUSTOMERS MORE THAN DISCOUNTS. THE DISCOUNT DEALS MARKET IN INDIA – CURRENTLY PEGGED AT RS 2,000 CRORES BUT GROWING IN DOUBLE DIGITS – HAS SEEN A NUMBER OF PLAYERS START OPERATIONS OVER THE LAST FEW YEARS, OFFERING PLASTIC CARDS AND ONLINE DEALS. RETAILERS FIND THESE A VERY IMPORTANT CUSTOMER ACQUISITION AND RETENTION TOOL. THOUGH THE SEGMENT IS AT A NASCENT STAGE IN INDIA, THE COMPETITION IS HEATING UP, WITH AGGRESSIVE PLAYERS. ONE SUCH IS SYNERGY PROMOTIONS AND MARKETING SERVICES, A PART OF THE AMITY GROUP, WHICH LAUNCHED ITS OWN DISCOUNT CARD AND DAILY DEALS WEBSITE LAST YEAR. ITS DIRECTOR **AJIT CHAUHAN** SPEAKS TO EDITOR-IN-CHARGE SANJAY CHOUDHRY ABOUT HIS GROWTH STRATEGY AND PLANS TO EMERGE AS A PAN-INDIA BRAND IN THE NEAR FUTURE

Ajit Chauhan, Director, Synergy Promotions & Marketing Services Pvt. Ltd.

There is currently no discount-card operator in India which has consolidated the entire market and spread its wings countrywide. We are trying to fill this gap.

WHAT ARE SYNERGY DISCOUNT CARDS ALL ABOUT?

Synergy Promotions and Marketing Services was incorporated in 2011. Before that, we used to issue Synergy discount cards for students of the Amity University at Noida which got them discounts at local outlets, food joints, book shops, etc. Looking at the exponential growth rate of the discount market in India, we decided to commercialize these cards and take them to the corporates which could offer them to their employees and customers. When we started, Synergy discount cards were accepted at around 200 stores in Noida. Now we have 5,000 outlets India-wide where customers can avail 15-70 percent discounts in categories such as books, eateries, hotels, hospitals, and even real estate. Soon we will also have cars in our portfolio, offering discounts on servicing, parts and even purchasing a new car.

HOW DO YOU SEE THE DISCOUNT CARDS MARKET IN INDIA?

Discount cards are an important tool for customer acquisition and retention. The Indian market for these currently stands at Rs 2,000 crores, expanding 15-30 percent every year. However, it is very unorganized. There are many small regional players with a narrow focus on a particular category, such as restaurants. There is currently no discount-card operator which has consolidated the entire market and spread its wings countrywide under a single brand name. We are trying to fill this gap by becoming an all-India brand. We are already present in 61 cities and offer discounts in 13 major categories. So, instead of carrying multiple category-specific cards in their wallet, our customers can have just one Synergy card which works across multiple categories.

PLEASE TELL US ABOUT YOUR E-COMMERCE PORTAL.

Our website synergycoupons.com offers daily discount deals. Since we were already in the discount market through Synergy cards, it was a natural progression for us to move into online space. We currently offer deals on products such as bags, mobile accessories, and phones. We ship to all parts of India.

WHAT KIND OF TIE-UPS DO YOU HAVE WITH YOUR BUSINESS ASSOCIATES FOR DISCOUNT CARDS AND THE WEBSITE?

For the website, we tie up with vendors and for Synergy discount cards, with merchants. For example, for synergycoupons.com, we tie up with mobile-phone vendors which give us products in bulk deals. We market these by sending weekly mailers to our registered users. Currently, this vertical is concentrated in Delhi/NCR alone, though we have plans to expand to the rest of the country soon.

For Synergy cards, we have tie-ups with merchants such as retailers, hospitals, hotels, beauty-and-wellness service providers, and food joints. We give them footfalls and the target audience, and do marketing through social media, print and TV advertisements, and our website. It is a win-win situation for both. The merchants in return give us discounts of 20-25 percent. We are perhaps the only discount card in India which offers discount deals for real-estate as well as established hospital chains such as Apollo, Fortis, and Max.

Apart from these two verticals, we plan to launch another website called synergytraveler.com where we will be offering discounted rates for flights, hotels, and holiday packages. We also currently run a portal for recharging mobile phones or DTH services.

The Synergy card costs Rs 750 and can be recharged every year by paying Rs 500.

Single Brand Cheer!

An IMAGES-ASIPAC Report

WILL FOREVER21, DESIGUAL, AND IKEA CHANGE INDIAN RETAIL LANDSCAPE? WHAT DOES 100 PERCENT FDI IN SINGLE-BRAND RETAIL MEAN FOR RETAILERS, PROPERTY OWNERS, PROFESSIONALS, MANUFACTURERS, AND INDIA ITSELF?

While American thrillers based on FBI investigations may be gaining popularity on Indian television, we now have our very own Foreign Direct Investment (FDI) thrillers to give them some competition. And our FDI thrillers are a mix of drama, mystery, comedy, and tragedy – let's see if the Americans can come up with a cocktail like that!

Enough has been said and written about FDI in the Indian retail sector since 24th November 2011, the day the Union Cabinet took a decision to open up the retail sector to foreign investors. It is now quite evident that the Manmohan Singh Government neither has the numbers nor political skills required to get parliamentary approval or political consensus on major policy changes.

As a result, the move to allow 51 percent FDI in multi-brand retail is likely to remain in cold storage for quite some time. While some die-hard optimists believe this game changer will see the light of day after the five state elections in February-March, it is quite likely that major policy decisions will now happen only in six months running up to the next general elections, most likely in late 2013 or early 2014.

On the other hand, since no major political party or activist group has objected to the increase in the FDI limit in single-brand retail from 51 to 100 percent, at least this (less significant) policy got formally

notified in early January. Within this lesser move itself was another possible dampener – those (single-brand) retailers who want to own more than 51 percent will have to mandatorily source at least 30 percent of their products by value from Indian small industries (defined as industries with less than Rs 50 mn investment in their plant and machinery), cottage industries, artisans, and craftsmen.

THE PLAYERS

Even though FDI up to 51 percent in single-brand retail has been allowed for six years now (since February 2006), the actual investment inflow has reportedly been less than $45 mn. This translates to less than 0.05 percent of the total FDI flow into India across all sectors. Does this mean there aren't enough single-brand retailers willing to invest in India, or that retail itself cannot comprise a large chunk of FDI?

Many single-brand retailers such as United Colors of Benetton, Reebok, Nike, Levi's, etc. have done reasonably well with their distribution or licensed/franchised operations and may not like to invest directly in retail operations, as they seem to have no major problems with their well-set and expanding retail networks in India. Some others such as Marks & Spencer may be happy with a 50:50 or 51:49 relationship with their Indian partners. And a few others have been waiting for an opportunity to own 100 percent – these are foreign retailers for whom either the Indian partner has made little or no contribution to the actual business, or he was largely irrelevant.

Prominent among these would be Inditex, the €13 bn Spanish fashion giant which owns brands such as Zara, Massimo Dutti, Stradivarius, Pull & Bear, and Bershka, with Zara probably being better known than all the others. The company operates over 5,400 stores in 78 countries. In contrast, Italy's Benetton Group – even though it is much better known in India – has a turnover of less than one-sixth of Inditex from more than 6,400 stores in over 120 countries. It appears to most industry observers that Inditex's tie up with (Tata) Trent was a mere formality, and it may now like to take over full control (and ownership) of its Indian operations (currently seven Zara stores) without any involvement of Trent.

A few other names are luxury/premium retailers such as Louis Vuitton, Fendi, Gucci, Tod's, and Christian Dior. It is said that some of their Indian partners are more than 80-year-olds in places such as Coonoor and Dharamshala (wonder why only hill stations?). Did we not say in the beginning that our FDI thrillers are better than the FBI ones?

Obviously, these Indian "partners" seem to be nothing other than identity lenders to meet the erstwhile Indian legal requirement of 49 percent domestic ownership. If such relationships do exist in reality, these would most probably get converted to 100 percent ownership by the foreign brands at the earliest available opportunity. This will bring in some amount of real foreign investment into India (for the parent brands to buy the stakes officially held by the sleeping Indian partners). Some market reports (or murmurs) have also suggested that brands such as Canali (6 of its 180-odd boutiques are in India), Jimmy Choo, and Versace may also change their existing distribution or license relationships now.

Louis Vuitton's General Manager for the Middle East and India, Damien Vernet, was recently quoted in the *Mint* newspaper as saying: "Everywhere we are present, we are always keen on maintaining full control over our operations." This reinforced some people's belief that many existing (foreign brand – Indian partner) relationships are quite likely to go through a churn.

Another name that comes to mind is Forever 21 – a growing (and controversial) international fashion retailer which has only opened one store in 18 months in India since its entry into the country through the Dubai-based Sharaf Group as its franchisee. Forever 21 has been one of the biggest success stories in the world of fashion in the last three-four years. Founded by Korean American immigrant Do Won Chang in 1984, it is said to have more than 520 stores in 17 countries with revenues estimated to be in excess of $2.6 bn.

Until three years ago, the average Forever 21 store size was only about 8,000 sq.ft. But suddenly, in 2009, it opened 11 new stores sized between 30,000 and 70,000 sq.ft. Then, in June 2010 – a year when many

Many global retailers have been waiting for an opportunity to own 100 percent stake in their Indian operations

EVEN THOUGH FDI UP TO 51 PERCENT IN SINGLE-BRAND RETAIL HAS BEEN ALLOWED FOR SIX YEARS NOW (SINCE FEBRUARY 2006), THE ACTUAL INVESTMENT INFLOW HAS BEEN LESS THAN $45 MN. THIS IS LESS THAN 0.05 PERCENT OF TOTAL FDI FLOW INTO INDIA

Inditex, the Spanish fashion giant which owns Zara, is a likely entrant into the Indian market with 100 percent stake

Many single-brand retailers have done reasonably well with their distribution or licensed/franchised operations in India and may not like to invest directly in retail operations

East India: The New Epicenter of Modern Retail

THE TWO-DAY EAST INDIA RETAIL SUMMIT (EIRS) 2012 HELD IN KOLKATA IN JANUARY WAS PACKED WITH RETAILERS, NATIONAL AND REGIONAL BRANDS, AND MALL DEVELOPERS, ALL EXPLORING OPPORTUNITIES IN THE EAST INDIA MARKET AND TRYING TO UNDERSTAND THE UNIQUE BUSINESS APPROACH NEEDED TO MAXIMIZE ITS POTENTIAL. HERE IS A LOW-DOWN ON THE INFORMATION-PACKED SESSIONS OF THE SUMMIT ATTENDED BY THE WHO'S WHO OF THE EAST INDIAN RETAIL INDUSTRY

UNTAPPED POTENTIAL OF EAST INDIA

"All of us understand there is so much untapped potential in East India, but the need of the hour is to realize that potential. It is important for us to highlight this point and the IMAGES Group takes it as its responsibility to do so. This is why we organize the EIRS each year." This opening statement by Jayant Kochar, Group Director and CEO, the IMAGES Group, set the tone for EIRS 2012. Throughout the two-day Summit, this sentiment of the East being a high-potential market with its high population density and rising aspirations of customers was echoed by every speaker at the event.

The Day One of EIRS 2012 started off with much enthusiasm. In his opening speech, Kochar stressed on the need for retailers to become more customer-centric to achieve higher growth, to properly train employees, and to correctly understand customer needs. In a lighter vein, he said that growth in organized retail was politically potent too as it would help political parties marshal more votes.

After the refreshing outlook by Kochar on the Eastern retail market, it was time to introduce the speakers for the very first session of EIRS 2012, which was attended by Rajeev Gopalakrishnan, MD, Bata India; Vineet Kapila, President & CEO, Spencers Retail; and Sushil Mohta, MD, Merlin Projects.

Bata's Gopalakrishnan said consumers in the East are changing and becoming more fashion-oriented. "We are experiencing an impressive growth of 30 to 40 percent in some areas of the East such as Patna, Ranchi, and Jamshedpur, and have lined up a major expansion plan in the region," he added. "Out of the 100 stores that we plan to open India-wide this year, 25 will be set up in the East

BATA'S LARGE-FORMAT STRATEGY

While speaking at the inaugural session of EIRS '12, Bata India Group MD Rajeev Gopalakrishnan made an important announcement that created a lot of buzz. The company is going to standardize on large-format stores with a minimum space of 3,000 sq.ft. all over India in the next five years and close down the smaller (500-1,000 sq. ft.) ones because they do not have enough space to display all of its products.

He said Bata India has already closed down 83 small stores across the country and opened bigger ones instead. The company's largest store till date measuring 20,000 sq.ft. would be coming up in Mumbai soon, Gopalakrishnan told the audiences. Bata currently has a total of 1,250 stores in India.

INAUGURAL SESSION – L to R: Rajeev Gopalakrishnan, Vineet Kapila, and Sushil Mohta

IMAGES East India Retail Awards 2012

Powered by forum PROJECTS

The IMAGES East India Retail Awards 2012, powered by Forum Projects, were announced on January 11 as part of the ongoing East India Retail Summit (EIRS) 2012 at ITC Sonar, Kolkata.

The Awards selection process involved official entries from leading retailers of East and North India. Prominent and aspiring retailers were invited to send in self nomination forms, which included information on turnover and profitability; retail expanse and expansion; and effective initiatives in marketing and launching new concepts. Growth across both East India and pan-India was considered to arrive at the names of the awardees. This polling process and the subsequent analysis were overseen by the IMAGES Group's knowledge partner, IRIS Retail.

The rules mandated a minimum of three valid nominations in any category for an award to be presented. However, in two of the announced categories – the Most Admired Retailer of the Year in East India: Department Store, and the Most Admired Retailer of the Year in East India: Grocery & FMCG – fewer than three nominations were received. Therefore, trophies were not presented in these categories.

The IMAGES Group, however, would like to acknowledge the finalists in both these categories: For Department Store, Pantaloons and Reliance Trends; and for Grocery & FMCG, Spencer's and Food Bazaar were the nominees.

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F & B: Mc Donald's, Subway, Sbarro, Rajdhani, Kailash Parbat, Empire, Empire Fresh Fruit Juice Center
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Chili's, Café Noir, Café Mangii

Fine Dining: Toscano, Mainland China, Maitai Lounge (Trader's Vic), Kobe

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RNI NO.: DELENG / 2002 / 09182