

# IMAGES Retail

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INDIA'S  
BEST SELLING  
MAGAZINE  
ON MODERN  
RETAIL

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## Retail Funding: Getting the Equation Right

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Money makes men and machines move – this is also true for modern retail. Whether big or small, retailers need to grow, but that entails long-term investments and the ability to sustain oneself for many years before turning a profit.

Contrary to popular belief, there is no dearth of funds available in India for enterprising retailers, but many of them, especially the regional ones, are unable to present their concept in a compelling form to investors. Worse, as our cover story shows, they are not even aware of funding sources other than the banks, or the need to put proper systems in place and make a well-thought-out business plan to make themselves attractive to the investing community.

The result: many Indian retailers are unable to exploit the funding opportunity to their advantage and effectively use funds to scale up. They have to learn to expand their funding horizons and tap investors – from venture capitalists to high net worth individuals – who are looking to park their funds in the Indian retail sector which is currently one of the top investment opportunities in the world.

Though funding can be empowering for a business, there is a flip side too – its abuse or misuse can lead to bad vibes between the investor and the promoter, leading to an acrimonious disengagement. What is thus needed is mutual trust and confidence, an acceptance of each other's expectations, and a mutually-agreed-upon road map of the future. Read about it all in this issue's cover story.



**Amitabh Taneja**  
 editorimagesretail@imagesgroup.in

#### Corrigendum

On page 64 of the February 2012 issue of "IMAGES Retail," the recipients of the trophy for 'Most Admired Retailer of the Year (East India): Womenswear - Indian' at the IMAGES East India Retail Awards 2012 were incorrectly identified as Sneha and Akashdeep Agarwal. The trophy was, in fact, received by Mrs and Mr Pravin Agarwal. The error is regretted. – Editor

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Deepa Thomas,  
Head – Partnerships, eBay India

E-COMMERCE IS CURRENTLY HOT IN INDIA. IT HAS A MARKET SIZE OF \$10 BN WHICH IS GROWING AT 30-40 PERCENT YEAR-ON-YEAR. THE SPACE IS ATTRACTING MANY NEW PLAYERS WHO WANT A SHARE OF THE PIE. IN AN EXCLUSIVE INTERACTION WITH PAYAL KAPOOR, EBAY INDIA'S HEAD FOR PARTNERSHIPS, **DEEPA THOMAS**, SHARES HER ASSESSMENT OF THE INDIAN MARKET AND TELLS WHAT KIND OF E-COMMERCE PLAYERS SHE THINKS WOULD EVENTUALLY EMERGE THE WINNERS IN THE COUNTRY

**WHAT IS YOUR ASSESSMENT OF THE ONLINE RETAIL INDUSTRY IN INDIA?**

E-commerce in India is at an interesting phase. Its current market size is about \$10 bn, according to a report by the Internet and Mobile Association of India (IAMAI), and about 10 million Indians are participating in e-commerce today. The industry is in an interesting stage

“ We anticipate Indian e-commerce to grow by 80% in 2012 ”

from multiple factors. One is that device prices have come down over the last few years and laptops and smart phones are now available at very affordable prices. The average time spent on the Internet is also going up. From merely consuming content, Indian Internet users are now moving on to the next level, which is commerce. This is one big factor from the consumer demand perspective.

From the other side, many Indian entrepreneurs as well as brands have started participating in e-commerce in a big way. Therefore, the amount of supply available online is becoming huge. The brands now-a-days are following consumers. Just as the consumers are going online, so too are brands.

There are a lot of things that have happened around the e-commerce ecosystem in recent months. The 3G services have been rolled out which provide a better Internet connectivity on mobiles, laptops, and tablets. The broadband plans are increasingly becoming extremely cheap. This encourages a lot more consumers to go online in India. And, of course, it also helps to have a lot of reputed players in this market.

One of the biggest moves in the e-commerce segment occurred when IRCTC first came online and started selling Indian Railways tickets on its website. Even offline players such as Shoppers Stop, Landmark, and Crossword have brought their brands online. So, e-commerce is at a very interesting phase in the country where it is growing pretty rapidly at 30-40 percent y-o-y. We anticipate that in 2012, the growth of online retail might be as high as 80 percent.

#### **WHAT ARE THE KEY CHALLENGES THAT HAVE TO BE OVERCOME BEFORE ONLINE RETAILING ACHIEVES ITS FULL POTENTIAL IN INDIA?**

There are 100 million Indians today who use the Internet, but out of these, only about 10 million participate in e-commerce. So online shopping penetration in India is very low. This becomes a concern area, as to how can we penetrate better into the Internet user base.



There are 100 million Indians today who use the Internet, but out of these, only about 10 million participate in e-commerce

#### **THERE ARE CURRENTLY LARGE PARTS OF INDIA THAT ARE NOT WELL SERVICED BY THE LOGISTICS COMPANIES**

Mobile commerce is going to be big. Out of the 800-900 million mobile users in India, a large percentage will gradually start doing online transactions

Mobile commerce is going to start in a big way. Out of the 800-900 million mobile users in India, a large percentage will gradually start doing some kind of online transaction. They will probably start with research and then shop. To tap this segment is a challenge for us.

Yet another is that there are currently large parts of India that are not well serviced by the logistics companies. We at eBay have consumers from 3,311 cities in India, which include 1,300 rural areas. It

could be much better if a lot more logistic companies start covering the length and breadth of the country.

Online payment systems are very good right now. We have 90 percent of our transactions happening through the online channel. Consumers today are a lot more confident to shop online. However, as an industry, we can do a lot more to get Indian consumers online.

#### **WHAT ARE THE DIFFERENCES YOU HAVE SPOTTED IN THE ONLINE SHOPPING BEHAVIOR OF INDIANS COMPARED TO THE PAST? HOW ARE THEY EVOLVING?**

There are three different phases of this. The first one was the early phase of 2004-05, when consumers were comfortable only in buying low-value items online like gifts and books. That evolved over between 2006 and 2010, when consumers started buying different kind of gadgets online. And the third phase is the current scenario where consumers are a lot more confident in buying high-value items.


Many women shoppers have also come online these days and started purchasing lifestyle items such as furniture, fragrances, health and beauty products, kitchen equipment, diamond jewellery, and so on.

# It's not about **Role Play** but the **Play of Roles!**

By BS Nagesh

RETAILERS SHOULD REVISE THE PERCEPTION THEY HAVE ABOUT THE ROLE OF THEIR SALES PEOPLE. THEY SHOULD PROJECT THEIR IMPORTANCE TO THE CUSTOMERS AND SOCIETY AT LARGE, SHOWING RESPECT TO THEM AS INDIVIDUALS AND TO THEIR ROLES.

AFTER ALL, SALES PEOPLE ARE THE FACE OF THE BRAND OR SERVICE BEFORE THEIR CUSTOMERS.



→ Rohan was just like any other 18-year-old boy graduating to become a 'man,' with a job which would make him proud of himself. Since he belonged to a lower middle class family, his father was not able to support his education. Still Rohan had friends who belonged to the conventionally well-to-do families. Besides, his command over English was quite good. No doubt, Rohan had, in a way, mentally prepared himself to get a decent job where respect would naturally follow. But his father's sudden retirement compelled him to take a job that was readily available. About a week into his job hunt, Rohan managed to clear off an interview as a 'sales-man' at one of the department stores near his house. This store was a part of a big national chain. Hence, in no way was the job anything to feel ashamed about, yet Rohan was not too happy.

You may ask, why? Well, simply because Rohan's offer letter read that he was appointed as a 'sales-man' at the store from January 03, 2012, at a salary of ₹7,000 per month. The first thought that came to Rohan's mind after reading the letter was: "What will I tell my friends? What will I say to my girl friend – that I am a 'sales-man'?! How will they react?" Even before he had begun work, Rohan's attitude was far from positive. Despite

being associated with a large chain of stores, the word 'sales-man' had hit his psychology so hard, he was feeling ashamed of himself.

This brings us to a very important point of discussion and debate – the negative perception that a layman has towards being a part of the entry-level shop-floor team in a retail store. A little attention from us as retailers to the silent aspirations of our 'sales people' – in terms of having more respect to the job that they do – can have a long-term positive effect on their morale and in a way help us with a far more robust ROI.

When I look back to gauge my experience in retail, I can confidently say that retail is all about perception and reality. Am I contradicting my own statement? Well, allow me to explain. Reality is what you see on the ground, day-to-day and transactional floor. Perception on the other hand is what you see, perceive and believe. For any industry to grow, it is important that perception is created in the way that the industry wants to project itself.

The perception also depends on how the society views the industry and the roles within it. Unfortunately in India, retail garners respect from its patrons only when the product or service is not insignificant. In other words, the mentality of customers regarding the sales staff changes considerably when the product or service is premium or luxurious.

Sales people sell everything, from grocery in a *kirana* shop to vacuum cleaners door-to-door. They also sell high-end jewellery and even business jets. Though all these people are in the business of selling, it is seen that the lower the value of the product or brand they sell, the less is the respect they are given by the society. Conversely, the more the requirement of skills for selling, the more respect a sales person gets.

If we dig deeper, we shall find that the root cause of the problem rests with us. We as retailers or heads of organisations tend to compartmentalise the roles and responsibilities of each employee in such a way that people up the line



Retail is all about perception and reality. For any industry to grow, it is important that perception is created in the way that the industry wants to project itself. The perception also depends on how the society views the industry and the roles within it

**THE LOWER THE VALUE OF THE PRODUCT SALES PEOPLE SELL, THE LESS THE RESPECT GIVEN TO THEM. CONVERSELY, THE MORE THE REQUIREMENT OF SKILLS FOR SELLING, THE MORE RESPECT A SALES PERSON GETS**

invariably show little empathy to those down the line. This is because they are never given an opportunity to step into the shoes of those below them and feel what it is like to be a 'sales personnel' on the floor, serving the customer face-to-face. Many a times I have noticed salesmen being fired by the owner/manager in front of customers. If we do not respect our

own sales people, how can we ever expect the society to do so?

Without any doubt, I can say that one of the most important things in the equation is the way an organisation treats its own sales people and how it talks about the role they perform.

Let us look at an employee working at McDonald's who begins his career on the shop floor. In this fast-food global giant, every employee in operations, irrespective of the role, starts at the front-end. He is expected to perform all the roles, from sweeping and swabbing to serving the customers. Then, over a period, he graduates to become a crew member, supervisor or manager. In this case, cleaning the tables and swabbing the floor is seen as a function of the role and is not type-cast as a menial job.

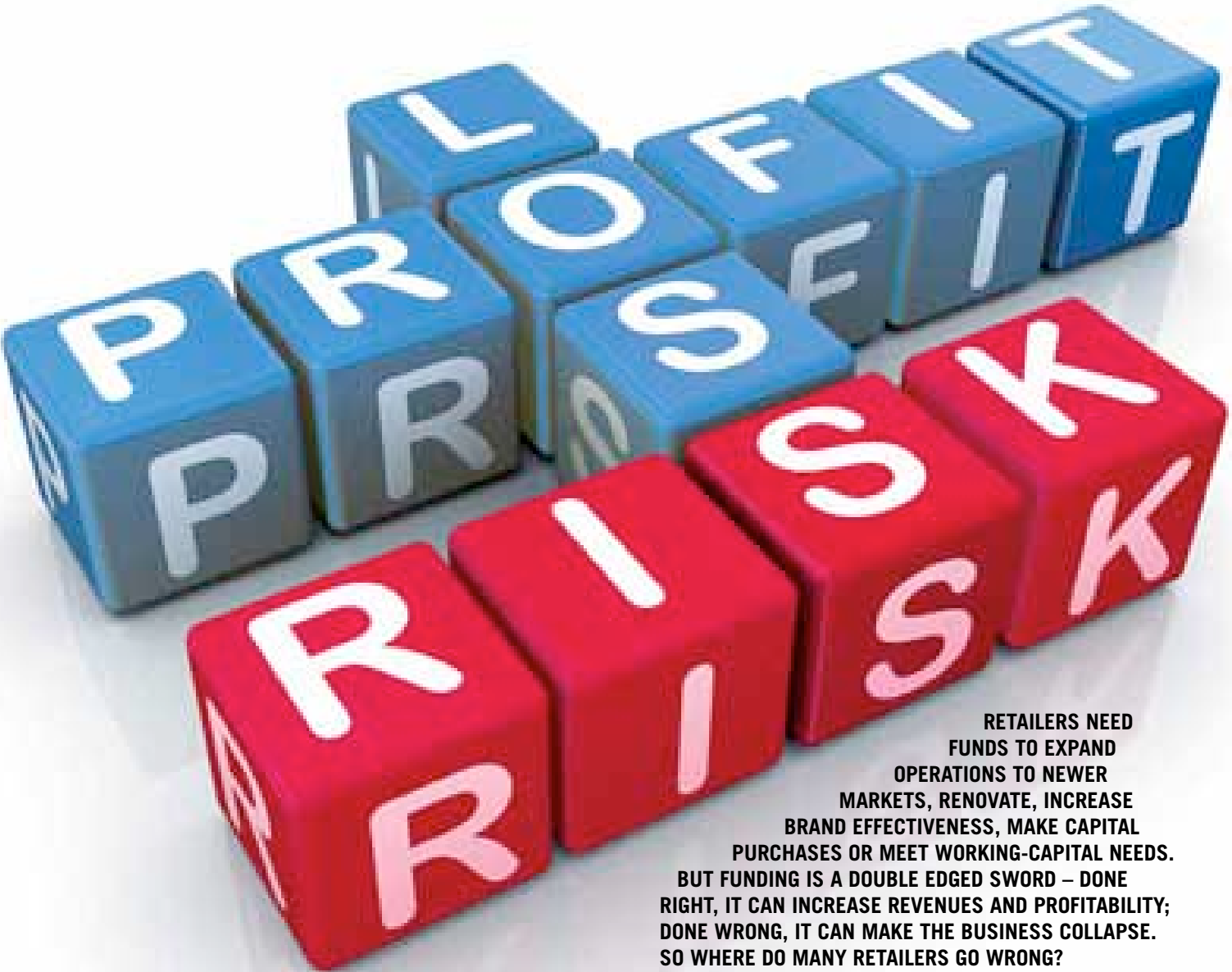
At McDonald's, they have created dignity for each function in the role. Employees get respected as 'employees' and not as someone who is cleaning or serving. With no offense

# Retail Funding: Getting the Equation Right

By Sanjay Choudhry

→ India offers a huge and promising market driven by increasing consumption levels, the demographic dividend, and the rising per capita income. The country's modern retail segment, worth \$28 bn, is clocking a 25 to 30 percent growth y-o-y, according to the "IMAGES India Retail Report 2011." This is a proposition that smart investors – and retailers – simply cannot overlook.

Rahul Bhalchandra, Founder, YLG Salon & Spa, says the huge growth story in Indian consumption makes retail attractive to many investors



**RETAILERS NEED FUNDS TO EXPAND OPERATIONS TO NEWER MARKETS, RENOVATE, INCREASE BRAND EFFECTIVENESS, MAKE CAPITAL PURCHASES OR MEET WORKING-CAPITAL NEEDS. BUT FUNDING IS A DOUBLE EDGED SWORD – DONE RIGHT, IT CAN INCREASE REVENUES AND PROFITABILITY; DONE WRONG, IT CAN MAKE THE BUSINESS COLLAPSE. SO WHERE DO MANY RETAILERS GO WRONG?**



in the long run. “At a very broad level, there is significant interest in Indian retail and retailers who have the right model,” he adds. Agrees Kumar Rajagopalan, CEO of the Retailers Association of India (RAI): “Rising consumption in India makes it an attractive market for funding of retail since the demand side has an increasing trend. Retail has the capability to expand exponentially in growth markets, a fact not lost on the investors.”

According to Hemchandra Javeri, Co-Founder and Executive Director of the PE fund management firm Forum Synergies, there is significant investor interest in India and across the world for small and large investments into retail. Domestic investments by retailers and funds into retail have been rising as brands and retailers expand their networks. India’s consumption story, the large Indian population, young demographics, and the rising disposable spend make the market unique and too important to ignore. “In the global context, there aren’t any similar large untapped opportunities available. In fact,

Funds to the tune of ₹8,000 to ₹10,000 crores are being annually invested into direct retail in India. A good investment in retail is expected to return a staggering IRR of around 30 percent over four to five years

**INVESTORS KNOW THE SECTORS AND SEGMENTS THAT HAVE HIGH POTENTIAL, AND IF YOU HAVE A GOOD RETAIL BRAND AND MODEL, THEY WILL INVEST WITH YOU. THERE IS ENOUGH MONEY AVAILABLE IN INDIA. REMEMBER – INVESTORS ARE ALSO LOOKING OUT FOR GOOD OPPORTUNITIES AND THERE AREN’T ENOUGH OF THEM**

The most important facet is the choice of the investor. His expectations and also the chemistry between the investee and the investor are critical. You must give time for interactions before investment to judge its chances of success



**Ashutosh Garg, Guardian Pharmacy**



**Kumar Rajagopalan, RAI**



**Rahul Bhalchandra, YLG Salon & Spa**

retail in India has been among the top ranked global retail investment opportunities,” says Javeri.

Almost all investments in Indian retail are currently from domestic sources. Javeri reckons that funds to the tune of ₹8,000 crore to ₹10,000 crore are being annually invested into direct retail in India. A good investment in retail is expected to return a staggering IRR of around 30 percent over four to five years, which is music to the ears of investors.

There is a determination among retailers, both national and international, to expand across India, but there is one big issue facing them in their growth path: funding. For a business trying to spread its wings, acquiring funding through the right route and using it efficiently is critical. Money is the engine which moves the wheels of modern retail, and it is essential for retailers to get the funding equation right.

Retailers may need funds to expand operations, renovate, stimulate growth by accessing new markets, or increase the effectiveness of their brand. Money may also be needed to

fund working capital needs or make capital purchases. Says Bhalchandra of YLG Salon & Spa: “Most retailers need significant investments to grow. New stores need investment up front but returns are generated over a period of time, usually preceded by some losses at unit level when ramping up. Any expansion requires large funding and the ability to absorb losses. Quite at variance with this is the business logic that without some scale, retail will not be attractive as a business to any investor, so the growth imperative is over-arching.” Javeri observes that as a retailer expands and grows, his funding needs tend to be towards opening more number of stores. Loss funding in the expansion phase is also essential for survival.

#### **FUNDING ROUTES**

Some prominent funding sources for retailers include financial institutions like banks, private equity players, venture capitalists, investors (strategic or financial), large corporations, and high net worth (HNI) individuals. “The quantum of funding and the

column



# Zen and the Art of Retail Funding

INDIAN RETAIL INDUSTRY IS VERY ATTRACTIVE TO INVESTORS RIGHT NOW BECAUSE OF BRIGHT PROSPECTS. HERE IS SOME ADVICE ABOUT HOW RETAILERS CAN LEVERAGE THE OPPORTUNITY TO GET SOME MUCH-NEEDED FUNDING

By Devangshu Dutta

→ India is one of the largest markets that promises a sustained consumer-led growth in the foreseeable future, due to the shift from a fragmented retail ecosystem to a more modern and consolidated industry. Modernisation and consolidation will happen not only in front-end (retail) operations, but also in the supply chain of both products as well as tertiary suppliers such as equipment and service providers. Well-informed investors are looking at the entire ecosystem rather than only funding the front-end of the retail business.

The biggest challenge for private equity and venture funds looking to invest in the Indian retail sector

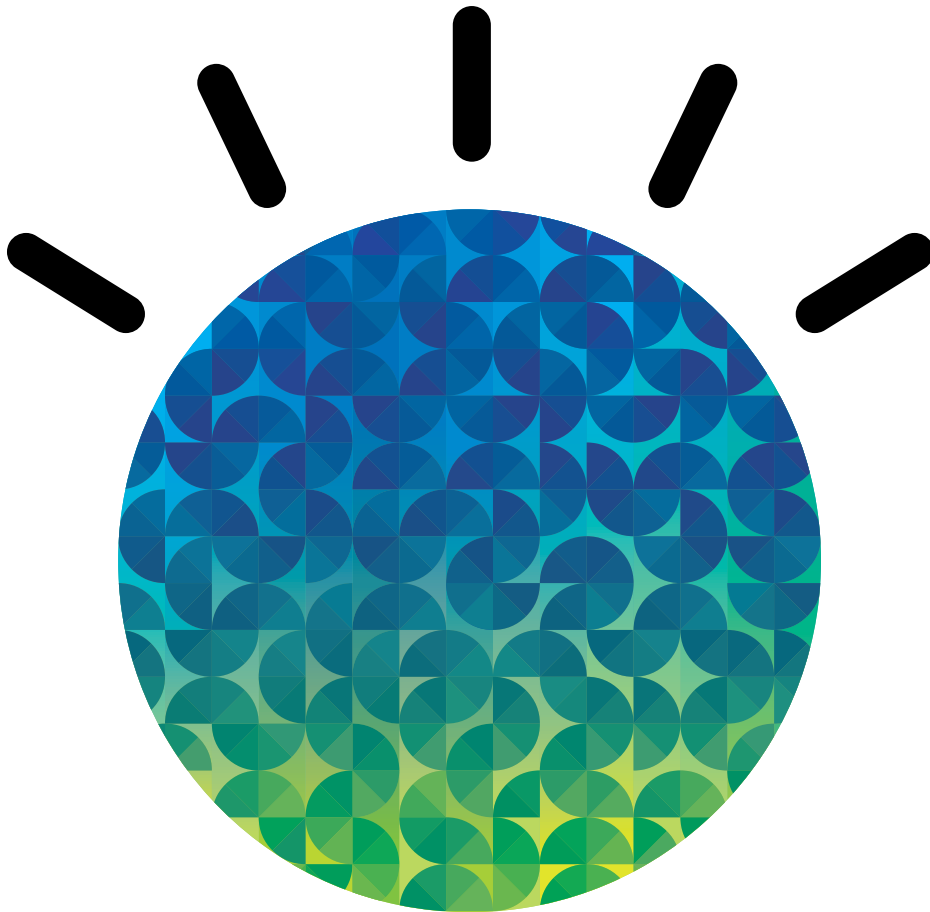
is finding business models that are logically scalable within a four-to-five years time frame and allow the investor a decent exit. Due to the nature of the most funds and how they are structured, seven-to-eight year term is the maximum time a fund would be involved with an investee company and it is difficult to find an investor with a longer-term horizon. On the other side, this can also prove to be a challenge for the investee company: some of them may feel unduly pressured to grow faster than the natural pace of their business and could make strategic and operational decisions that are destructive to the business. As consumer incomes move up and the environment becomes more conducive, the life cycle to building a retail business becomes shorter. For instance, 20 years ago it would have taken over 10 years for a business to cross ₹100 crore. Today, with the right mix, it would take much less time. However, building a business that is both large and profitable (hence sustainable) still takes a significant amount of time.

Venture equity is suitable for businesses that can grow and add value inorganically, either in

intellectual property-driven businesses such as technology companies and brands that can provide higher margin returns on a given equity base, or by selling the business further to investors who think they can derive even more value from it in future.

Retailing, on the other hand, is inherently an organic growth business, and the most suitable sources of funding for organically grown business are internal accruals and debt. However, the rapid economic growth in the last 15 years has created an opportunity for large businesses to emerge inorganically. Good examples of this are the large corporate groups that have entered retailing. Looking at them, one could be seduced into thinking that the environment and the business have changed significantly such that other professionally created businesses could be easily launched, venture-funded, and grown to exit. My take on this: If you can create a fund whose life is 20 years or more rather than the typical 10 years, there is a better likelihood of making it work.

Of course, bank debt is not easy for an entrepreneur either – Indian banks have become more progressive, but the norms are still relatively stringent.



## Smarter customers demand smarter commerce.

We're making progress in how we buy and sell. Yet most sales, marketing, customer service, product development, services delivery and inventory systems are as disconnected as supply chains were a quarter century ago. Retail doesn't have a real-time view into inventory. Product development isn't led by customer sentiment.

Today, it's customers who are deciding when and where the buying process begins, when it ends, who will be part of that process, what order it will follow, and how all elements in the chain – market, buy, sell and service – will be linked.

Smarter commerce optimises supply with demand, driven by insights that are continuously replenished by the flow of information on an instrumented and interconnected planet. Each individual's data is the key to connecting the value chain to the customer – helping businesses to understand and predict customer needs and to orchestrate partners and suppliers in greater responsiveness to changes in buying behaviour.

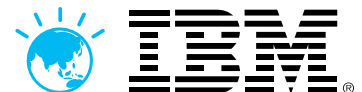
The opportunity is enormous. According to a recent IBM Institute for Business Value survey, more than \$15 trillion in inefficiencies

comes from waste throughout the global commerce system, such as inventory backlogs and failed product launches.

The good news is that a large hardware cooperative is using smarter commerce for its entire supplier network – contributing to a 57% reduction in lead time and an 85% reduction in back orders. An international cosmetics company is relying on deep analytics to deliver personalised offers of its beauty products – revenue per e-mail increased 2,500%. A specialty retailer is using multichannel selling that has increased traffic to their site by 40% and growth of their business overall by 20%.

Given the rise of new generations of empowered and digitally literate customers, it's clear that the world's commercial systems have to become as smart as the individuals who are now driving them. Fortunately, they can – and in the process, will redefine how we buy, market and sell on a smarter planet.

Let's build a smarter planet.  
Join us at [ibm.com/smarterplanet/in/commerce](http://ibm.com/smarterplanet/in/commerce)



a new reason to smile, each time you visit the mammoth  
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