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FDI Logjam What's in Store



- ➔ TRRAIN Awards
- ➔ Online Flash Sales: Will They Last?
- ➔ Indian Retail: The Next Level
- ➔ Building Perfect Retail Spaces

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The last month has been a rollercoaster ride for the organized Indian retail industry. The Government's decision to allow 51 percent FDI in multi-brand and 100 percent in single-brand retail spread cheer among the retail chains. However, there was disappointment just a few days later when under tremendous political pressure that ground the Parliament to a halt, the government decided to put FDI on hold. This is where things stand now – and not much movement is expected over the issue until the upcoming state elections come to pass.

In the cover story of this issue, we investigate the opposition to FDI and examine the arguments against it in detail to discover how valid they are, from the death of kiranas to mass unemployment that will allegedly result with FDI in multi-brand retail. Our conclusion: Though there will be some negative impact on the small traders, the benefits that FDI brings to the table far outweigh these. All the government has to do to make the FDI decision palatable to the majority is to create a political consensus and take some effective measures to protect small retailers and farmers. Read our story to discover what can be the way ahead from the logjam.

I am glad to see that the first-ever Retail Employees' Day on December 12 organized by the non-profit TRRAIN took off to a great start, with functions held all over India to felicitate front-end retail employees who made a difference in customer service. We bring you over a dozen such inspiring stories from the award winners.

I hope the year 2012 brings much cheer and growth to the Indian retail industry and the issue of FDI is successfully resolved in a few months.

On that note, I wish a very happy new year to all of you!



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FDI Logjam!

WHAT'S IN STORE? THE RETAIL INDUSTRY WAS ECSTATIC WHEN THE GOVERNMENT ANNOUNCED LIBERALIZATION OF THE FDI REGIME IN NOVEMBER. HOWEVER, THINGS QUICKLY GROUND TO A HALT IN THE TEETH OF OPPOSITION FROM POLITICAL PARTIES AND INTEREST GROUPS. THE FDI DECISION IS IN A LIMBO AT THE MOMENT, BUT WHEN CAN SOME PROGRESS BE EXPECTED? HOW MUCH DOES THE DOOMSDAY SCENARIO BEING PAINTED AGAINST FDI IN RETAIL JUSTIFIED? FINALLY, WHAT CAN THE GOVERNMENT DO TO BREAK THE LOGJAM? "IMAGES RETAIL" EXPLORES.

events

FIRST-EVER RETAIL EMPLOYEES'



DAY CELEBRATED WITH APLOMB



→ In a unique first-of-its-kind initiative anywhere in the world, December 12, 2011, was celebrated as the Retail Employees' Day across the country by the entire retail industry of India. This is reportedly the first time anywhere in the world that a day has been specifically dedicated to people working in retail shops and stores.

The retail industry in India currently employs over 30 million people. This number is expected to cross an impressive 50 million in the next few years. Retail is the second largest employment generator in the country and the single largest employment generator in the world. Hence, it was thought imperative to dedicate a day in the year specially for retail employees.

Retail body TRRAIN (Trust for Retailers and Retail Associates of India) decided to launch the Retail Employees' Day when their research with retail associates showed that there was a definitive need to create empathy towards the roles performed by them and create a platform where their hard work gets recognized and appreciated.

Says Ameesha Prabhu, CEO, TRRAIN Foundation: "We believe it is time we spread awareness and create more empathy towards the retail employees. We often forget to acknowledge the service that a retail employee always provides us unconditionally."

The "Thank You Bola Kya?" campaign launched by TRRAIN encouraged both corporate houses as well as consumers to thank all retail employees on December 12th. This campaign was communicated across various media including radio, social media, online banners, print advertisements, and posters in malls.

The Retail Employees' Day celebrations got a lot of support from the retail industry, be it from the CEOs of various retail industries thanking the retail associates in their own unique way or going out to their competitors to wish them a Happy Retail Employees' Day, and many more initiatives by retailers across the country.

Many of these companies wrote to TRRAIN to share their unique celebration moments of the day. Each of these left an indelible mark on the employees and made them feel proud to belong to the wider fraternity of retail associates worldwide.

The Retail Employees' Day is a novel concept. In conjunction with the TRRAIN Retail Awards, which recognizes excellence in customer service, it rewards the retail employees who have gone beyond the call of duty to create customer delight.

The celebration of the very first Retail Employees' Day in the world saw the culmination of the first TRRAIN Retail Awards night. It was the night when the best retail employees were felicitated for setting benchmarks of customer service excellence in the retail industry.

FDI Logjam: What's in Store

THE RETAIL INDUSTRY WAS ECSTATIC WHEN THE GOVERNMENT ANNOUNCED LIBERALIZATION OF THE FDI REGIME IN NOVEMBER. HOWEVER, THINGS QUICKLY GROUND TO A HALT IN THE TEETH OF OPPOSITION FROM POLITICAL PARTIES AND INTEREST GROUPS. THE FDI DECISION IS IN A LIMBO AT THE MOMENT, BUT WHEN CAN SOME PROGRESS BE EXPECTED? HOW MUCH DOES THE DOOMSDAY SCENARIO BEING PAINTED AGAINST FDI IN RETAIL JUSTIFIED? FINALLY, WHAT CAN THE GOVERNMENT DO TO BREAK THE LOGJAM? AN 'IMAGES RETAIL' REPORT.



→ Late evening on November 24, 2011, with the Parliament's winter session in full bloom, the government took an executive decision to allow 51 percent foreign direct investment (FDI) in multi-brand retail and 100 percent in single brand retail. The unexpected move from the governing UPA coalition, long suffering from scams and policy paralysis, came as a delicious shock to the organized retail industry which had been waiting 16 years to hear the news.

The mood among the retail honchos and CEOs was ecstatic – FDI was their chance to quickly get money to expand their footprint across the country, reduce high-cost debt, lower the interest burden, benefit from the mass-retailing expertise of the likes of Tesco and Wal-Mart and book some profits by selling equity. One industry watcher described it as the coming of the second independence for the organized retail players.

WELCOME CHANGE

Stalwarts of the Indian retail industry were quick to appreciate the move, arguing that FDI will be a big game-changer due to the massive inflow of funds and other benefits to accrue over the years. Foreign capital will help expand organized retail in India, which currently accounts for less than 10 percent of the total retail market, compared

to 80 to 90 percent in some Western countries. FDI can help ease the burden on Indian retailers grappling with rising expenditure and interest costs, which are squeezing profit margins in a very competitive environment.

Raj Jain, MD & CEO, Bharti Walmart, called FDI in multi-brand retail an important step which will positively impact the Indian market. "We are willing to invest in back-end infrastructure that will help reduce wastage of farm produce, improve the livelihood of farmers, lower prices of products, and ease supply-side inflation," he said.

Shoppers Stop Vice Chairman BS Nagesh pointed out that all SME and SSI vendors of the Indian automobile industry have become billion-dollar market cap companies, and FDI will ensure the same benefits come to the retail industry vendors too. "IKEA is already sourcing from several Indian vendors for exports; with FDI in multi-brand retail, they will start sourcing for selling in India too," he said.

FDI in retail will create an ecosystem where consumers will have a wider choice, producers can achieve better realizations, wastage in the agricultural supply chain can be reduced, and fresh employment can be generated amongst the lesser educated, said Bijou Kurien, President and CEO, Lifestyle, Reliance Retail. "For the cash strapped domestic retailer, it provides a new opportunity for inducting fresh capital into the business or retiring high-cost debt. The policy change will also support the development of retail real estate," he added.

Aditya Birla Retail CEO Thomas Varghese felt that FDI in multi-brand retail will introduce much-needed capital to fuel the growth of modern retail and create a huge employment opportunity for the Indian youth. The FMCG companies will collaborate to fuel the domestic consumption story. "With a partnering approach, we can reduce prices for consumers and help them get more product choices. It will also boost investment in commercial properties and encourage development of well-thought retail spaces," he said. Sanjiv Goenka, Chairman of the RP-Sanjiv Goenka Group was of the view that FDI will lead to disintermediation of the supply chain and bring substantial investments and technology in the back-end, thereby reducing wastage and helping soften the rampaging inflation.

For Vinay Singh, MD, Max Hypermarkets India, the immediate impact of FDI, once allowed, would be to expand organized retail across India in a win-win scenario. The efficiencies of retail will increase and there will be a positive impact on the back-end support, since most of the investment will be focused there. This will benefit farmers, small manufacturers and even the vendors. The consumers will get better choices, quality, and comparative prices. "With FDI, global retail players who already have formed alliances with Indian partners will move faster to scale up their businesses. And those who are not present will become more interested in investing in India," he said.

Anirudh Dhoot, Director, Videocon Industries, said FDI will help consumers get a wide range of



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FDI in Retail

Integrating India's Economy Backwards

By Anshu Kumar

INDIA'S YOUNG POPULATION, HIGHER DISPOSAL INCOME, AND UPGRADATION IN LIVING STANDARDS, COUPLED WITH GROWING CONSUMER DEMAND, HAVE MADE THE COUNTRY AN ATTRACTIVE DESTINATION FOR FDI. GIVEN THE LOW CONFIDENCE LEVEL OF THE INDIAN BUSINESS COMMUNITY AND INVESTORS AT THE MOMENT, THE LIBERALIZATION OF THE FDI POLICY WILL ACT AS A LIFE-SAVING DRUG THAT WILL PROVIDE A BIG BOOST TO THE RETAIL INDUSTRY.

→ FDI in retail has the potential to bring into India foreign capital, technology, and managerial expertise of big international retailers. It can develop an efficient linkage between the back-end supply chain and the front-end via capital investment and technological inputs. FDI will also transform the way perishable agricultural produce is acquired, stored, preserved, and marketed, and thus help control India's persistent food inflation.

India is the second largest producer of fruits and vegetables but lacks an integrated cold-chain infrastructure and storage facilities. Inefficient supply chain infrastructure is evident from the fact that 35–40 percent of fruits and vegetables and nearly 10–15 percent of food grains produced in India get wasted.

Typically, if a farmer were to sell his produce, he needs to bring it to the local market where he usually auctions it to a retailer, who, in turn, sells it to the final consumers. This process of auctioning in the market is facilitated by middlemen who charge a commission from the farmers. The cost of transporting agricultural produce to the local market is also borne by the farmer. The price difference between what the farmers get and what the consumers pay is what the society loses out due to inefficiency. More intermediaries add to the inefficiency in the chain, leading to wastage and a drop in the product quality.

In India, organized retail currently stands at only 6–7 percent of the total retail market, while only 2–3 percent of food is sold through the organized sector, the least compared to other product categories. The country badly needs corporatization of the agriculture sector to even out distribution of income. Companies



Taking Indian Retail

SHOPKEEPING SHOULD NEVER BE CONFUSED WITH RETAIL WHICH IS ALL ABOUT AGGREGATING VOLUMES BY LEVERAGING SCALE AND AN EFFICIENT SUPPLY CHAIN. CURRENTLY, THERE IS ONLY A MARGINAL MOVE TOWARD ACTUAL RETAILING IN INDIA COMPARED TO SHOPKEEPING.

SO HOW TO ENSURE A SUSTAINABLE CHANGE FOR INDIAN RETAIL, ESPECIALLY THE MASS MERCHANDISERS, IN THE COMING YEARS?

By V Rajesh

→ Supermarkets and self-service stores are actually not new to India, as is often made out to be in the public domain. Take the case of Spencer & Company, a South India-based chain whose stores were popularly known as Spencer's. (Its legacy is being continued by RPG Retail now.) They were in operation from the 1860s and, at one point of time, their footprint stretched across cities spread all over the undivided Indian sub-continent. Their stores were operational in places as far flung from South India as Peshawar. Over a period of time, the company's fortunes saw a decline.

More recently, from the early '80s, India has been seeing some form of self-service stores emerge in various cities, especially the metros. However, most of them did not sustain and survive. The core reason for this was the lack of a clear understanding about what actually constitutes retail and the common mistake of confusing retail with shopkeeping.

DIFFERENTIATING RETAIL FROM SHOPKEEPING

Shopkeeping is simple enough to understand. One manages a shop, gets whatever product is available,



and sells the same. There are some efforts to align shopper preference to the products sold, but not to a great extent.

Retail, on the other hand, is all about aggregating volumes. This is where the role of a chain of stores comes in. Obviously, there is precious little aggregation anyone can do with one or a few stores. Scale is required to manage one of the fundamentals of retail: aggregation of volumes.

The second core foundation of retail is the efficient and effective management of supply chain. Needless to say, large volumes with improper supply chain will only lead to wastage and losses. The stores, or for that matter, websites, are the only

customer-contact points which enable these two core basics of retail. They are a means to the end.

In that context, let us examine the reality of Indian retail as it exists today:

- Conventional or traditional stores dominate the landscape. These operators account for almost 90 percent of the industry's turnover. They are stand-alone businesses (with a few exceptions) and obviously cannot consider aggregating volumes or supply chain management by themselves.
- Modern trade in India is present in various categories. Lifestyle products such as apparel and furniture are engaged in some

to the Next Level



PRESENT STATE OF AFFAIRS

As can be seen, currently there is only a marginal move towards actual retailing in India compared to shopkeeping. This has resulted in the margins being constrained to a large extent, while the cost structure of these businesses is significantly higher than traditional stores. The recent economic slowdown drove home this fact with brutality. As a shopper, one has seen many of these chain stores

completely close down or resize their operations by exiting certain stores which are not viable.

Also, these chains have realized that certain adjustments are required in the Indian operating environment with regard to space and size. One of the emerging thoughts is to operate with larger stores which follow the hypermarket model, as they are perceived to be more viable. This is largely due to two fundamental reasons. One, these stores have some space to receive and stock products. This eliminates or reduces the distribution center costs. The second is that their sales mix includes non-food categories such as basic apparels and houseware, which offer much higher margins and thus help improve the margin mix.

But will all this ensure a sustainable change for Indian retail, especially the mass merchandisers, in the coming years? Real-estate concerns regarding the rising cost and unavailability of suitable retail spaces need to be addressed. What will be the drivers that can propel Indian retail to the next level?

ONE OF THE EMERGING THOUGHTS IS TO OPERATE WITH LARGER STORES WHICH FOLLOW THE HYPERMARKET MODEL.

These stores have some space to receive and stock products, which reduces the distribution center costs. Their sales mix includes non-food categories which offer higher margins.

degree of volume aggregation and supply chain management. They have a more viable business model and therefore can grow in a more sustainable manner.

- The larger chunk of India retail comprises food and grocery – the supermarkets and hypermarkets. Although they have distribution centers (warehouses) and some amount of supply chain systems in place, they have not truly leveraged this by extending sourcing to the point of production or harvest. So, their volume aggregation does not yield the optimum benefits especially in light of their cost structure.



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