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ON MODERN
RETAIL

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FOOD



in Retail The India Opportunity



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THE UPCOMING FDI BONANZA

The year 2012 ended on a positive note for the Indian retail industry. In the last week of December, the government finally managed to get parliamentary approval for further liberalising its policy of FDI in retail. With this, all doubts about foreign investment in retail have been laid to rest and global retailers can now firm up their plans to enter the country without any apprehension of an abrupt policy change. Though there have not been any earth-shaking announcements of investment plans yet from foreign retail chains, the Indian retail industry remains enthusiastic about a lot of money flowing into the country in the near future.

Yet I believe, that the impact of the entry of foreign retailers will go far beyond just money. Hundreds of new international concepts will eventually enter the country, offering Indian customers choices galore and giving them access to the same shopping experiences as their peers abroad. The global retail brands will demand quality retail spaces in every city, thus giving a boost to the retail real estate sector and ensuring that world-class malls and shopping centers sprout in all corners of India. They would also bring with them experienced expat managers, new ways of doing business and global best practices. The Indian retailers will benefit tremendously from this, as most global players would prefer to enter the country with local partners, transfer key competitive skills, and an international outlook to them.

The year 2012 is now a part of history but I hope that 2013 brings to the Indian retail industry more good news about prominent global players deciding to enter India in a big way to exploit the enormous opportunity that the country offers to them. On that note, I wish a very happy new year to you all.

Amitabh Taneja

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Organic Googly

FROM TEST CRICKET TO LUXURY BRANDS AND NOW TO ORGANIC FOOD, FORMER CRICKETER **DILIP DOSHI**'S REPERTOIRE IS BURSTING AT THE SEAMS. HAVING BEEN A SILENT CAMPAIGNER FOR ORGANIC FOOD FOR ALMOST 28 YEARS, DOSHI FINALLY DECIDED TO BRING THE CONCEPT TO INDIA. THUS WAS BORN ORGANIC HAUS ('HAUS' STANDS FOR *HOUSE* IN GERMAN). THE CHAIN HAS NOW GROWN TO THREE STORES AND SEVERAL SHOP-IN-SHOP FORMATS.

IN A CHAT WITH SHANTI PADUKONE, DOSHI RECOUNTS THE STORY BEHIND ORGANIC HAUS, HIS LEARNINGS ALONG THE WAY, THE MANY HOPES WITH WHICH HE PLANS TO GROW THE BRAND, AND WHY HE THINKS HE IS ON A FIRM WICKET WITH ORGANIC FOOD

→ Cricket is a life-long passion, but as a profession I left it a long time ago. Later, I went on to establish the Entrack Group of Companies, which was the first one in India to get an import license for luxury goods in the early 1990s. Through this, we became the sole distributors of Montblanc in the country, and still are.

Organic food happened to me a long time ago when I lived in London and came in close proximity to Germany for business purposes. I discovered it when I shopped for high-quality food, and soon it became a way of life. Then, one day, I thought it was time I introduced this concept to my fellow countrymen, and here I am.

UNDERSTANDING ORGANICS

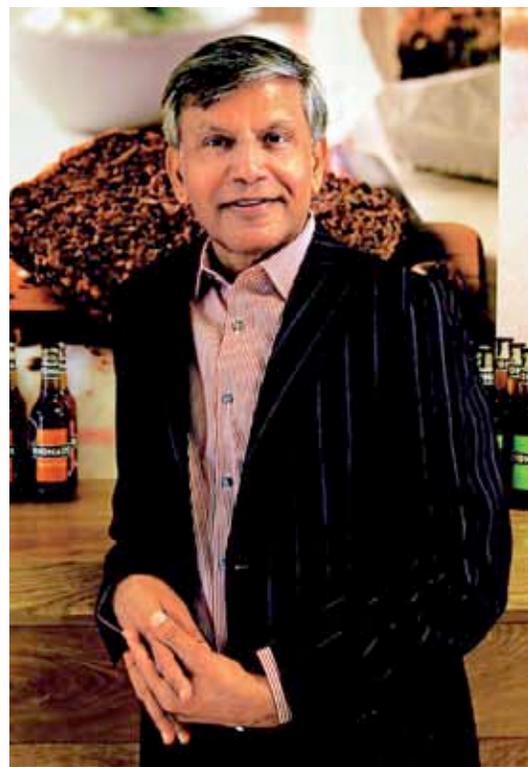
To me, organic food is the result of a product harvested from soil that has not been abused or is clear of abuse after several years. The land around this soil has to be free of contamination and the aerial fall-out of chemicals should be minimal. This means that even if the soil in a backyard in Mumbai is good, the aerial fall-out of chemicals is so high, it is not organic in the true sense.

Moreover, the method of farming has to be scientific, using natural compost entirely devoid of artificial chemicals and preservatives that are used to enhance production or the life of the plants. That's why organic food will not be homogeneous to look at prior to processing, nor will the quantity of the produce be as much as in a conventional harvest.

GERMAN TOUCH

Organic Haus has chosen to flaunt the technology and organic products by institutions located in Germany. I call them "institutions," even though they are commercial houses, because they inspire confidence in their clients. And what creates this confidence is the passion, dedication, R&D, and authenticity with which they produce their foods and have been doing so for up to 125 years!

In many developing countries, one would find several brands that are termed as organic. However, once you scratch the surface, these products turn out to be "nearly" organic. But a food is either fully organic or it is not. Germany is way ahead of the rest



Dilip Doshi, Founder, Organic Haus

of the world in producing authentic, organic vegetarian food. And these German facilities have created their own machines through intense R&D to ensure that the value of the foods they produce is not decreased and lasts for as long as it can without additives.

STORE STORY

Armed with this information in hand and after several visits to the farms and manufacturing units in Germany, I decided to open my first store in Ahmedabad selling purely organic and vegetarian products from Germany. I played by my gut. It didn't make sense to hire market research professionals for the purpose since I feel this field is too niche. Moreover, I knew what I was doing – they wouldn't!

We opened our first-ever store in Ahmedabad in November 2011, spread across 3,300 sq.ft. We chose this city for several reasons, the main one being that we own the property there. Also, Gujarat is a predominantly vegetarian state, and, finally, Ahmedabad is the most upcoming city in the country.

The idea is to create a feel of Organic Haus throughout our stores for the food connoisseurs. We decided to weave a story around every range to give the store and our products a sense of belonging with the customers. The sense of space in our stores, even the Gurgaon one which is just around 430 odd sq.ft., is palpable along with the freshness of products.

The Organic Haus stores are unique even by German standards. My brief to the designer included clean lines, white walls, some colour to brighten up the range, and an average area of 1,500 sq.ft. The furniture and fittings have all been sourced from Germany, keeping in with the design as well as the quality they boast of.

Organic Haus operates in three ways in India. We have our own stores in Ahmedabad, Gurgaon, and Mumbai and several shop-in-shop formats. We are also looking for franchise options from various parts of the country. Currently, shop-in-shops are our most widely used format, with the latest one being in the newly opened Hypercity mall in Pune.

We also have some shop-in-shops in Mumbai in places like Naturally Yours (Chembur and Bandra); The Tasting Room (Lower Parel); Dolce Vita and Le Pain Quotidien (Bandra) and so on. Apart from this, our products are also available at Bon Appetite in Pune, Orga Foods in Pondicherry

CUSTOMER PROFILE

Given that the quality and variety of our products are our mainstay, we target anybody as a customer who loves or is interested in trying out organic food – someone like you and me who is aware of the importance of eating right and leading a healthy lifestyle. Our customers can be broken down into (i) people exposed to the concept of organic food and, in many cases, who are already used to these brands, and (ii) the “converts” who know about organic food and come to the store to see what’s new.

PRODUCT RANGE

We have a wide range of products on show at our stores. All of these are vegetarian in keeping with my own vegetarianism and philosophy. We have juices which have no added sugar or preservatives. The vegetables and fruits for the juices are harvested at full moon and bottled using a heat shot (similar to vacuum packing) so that they remain preserved for a longer time. Typically, they have a shelf life of a year and need to be consumed within a few days of being opened.

We also have a range of wafers that are made in fresh oil, coffee that has been freeze-dried at a certain temperature, herbal teas, crackers, nut butters made from pure nut oil, gluten-free bread (made of rye, oat, spelt), sauces (to complement Italian cooking), mustard, popcorn, nuts, instant pudding powders, dry fruits (apricots, grapes, prunes), breakfast cereals (muesli, oats). We even have organic honey where the bees are not killed and the flavours are not infused. Instead, the honey with orange flavour that we sell would be honey collected from a hive located in an orange orchard, where the flavour is part of the nectar. Organic Haus also stocks a variety of rice (jasmine, wild rice, risotto rice), pasta (semolina, millet, etc), curry pastes, veg pates, cooking oils (olive, linseed, sunflower), chocolates (milk, dark and flavoured) and vinegar (balsamic, spice, raspberry, apple).

Our non-food items include home care (hand-wash, softeners,



STORE FORMATS

The initial response to our stores has been great! I think people have taken well to our offerings. However, now we need to convert this into a more vibrant business. While we are confident it will happen, it is taking its own course. We are trying to speed up the process by creating awareness through various media including print. We are scouting around for more like-minded partners and food store owners who believe in our concept and are willing to carry the torch forward.

and Magsons in Coimbatore, Baroda and Ahmedabad. In these places, we sell all our products, do the billing ourselves and operate through our own team members. The risk is ours, stock is ours and we are in quite a comfortable understanding with our partners.

In addition, some brands also buy our products and sell these at their stores or restaurants. For instance, the Pali Village Cafe in Bandra, Mumbai, has incorporated some of our products into their menu.

concept

TO DIFFERENTIATE ONE'S OWN PROPERTY FROM OTHERS AND ATTRACT HIGHER FOOTFALLS, DEVELOPERS ARE CONSTANTLY INTRODUCING UNIQUE CONCEPTS IN THEIR MALLS. FOLLOWING THE TREND, THE ALPHAONE MALL IN AHMEDABAD HAS RECENTLY ADDED A KIOSK CALLED "CHERISHING MOMENTS" TO ITS TENANT MIX. IT OFFERS INNOVATIVE PRODUCTS MADE OF WAX AND OTHER RELATED MERCHANDISE.

Cherishing the Moments

By Payal Kapoor

→ A unique concept called Cherishing Moments was set up a couple of months ago in the AlphaOne mall, Ahmedabad. It is a 100 sq.ft. kiosk that deals in innovative products such as wax hands, designer candles, baby memory prints, and body copy. This is its first-ever outlet but the retailer is planning to take a franchise route for expansion.

HOW IT STARTED

Cherishing Moments founder Sugandha Malhotra, an MBA in design management from INIFD Chandigarh, first came across the concept of "wax hands" in Malaysia. She realised that there is a huge gap in people's thinking in India about the usage of wax – it is mostly perceived as raw material for making candles and nothing much else.

To rectify this, Malhotra decided to launch a new concept on wax and

other products and went to Australia for training on the subject. She kick-started the venture by opening a small kiosk in the AlphaOne mall in Ahmedabad in November 2012. It is currently attracting a footfall of 60 to 70 people on a weekday.

THE KIOSK

The kiosk is positioned as a customised memory/souvenir provider to give a joyful experience to customers in all age groups, from a new-born baby to an adult on the wrong side of 60. Visitors can collect the memories of their own hands and feet or those of their loved ones through wax replicas, prints, etc.

Says Malhotra: "Cherishing Moments has been established with an idea that in today's busy schedule, we forget to relish the moments of joy which we can capture by doing small things in life. This is the differentiation that we follow – enjoy



Sugandha Malhotra

and make people enjoy by making a wax hand, taking a baby print or making a body copy."

According to her, setting up a Cherishing Moments kiosk needs an investment of ₹8-10 lakh and the concept works on a quick-returns business model. It should take six to seven months to break even in this format. The average



HOW DO YOU THINK FDI WILL CHANGE THE RETAIL LANDSCAPE OF INDIA?

I think we are going to see two things happening. One is modernisation and the other is scale. I think every retailer will have to scale in order to build the brand and create a footprint. The focus on retail performance is going to be very high. Retailers will need to be even more diligent about their store operations, product quality and customer experience.

In an amusing sort of way, the kiranas have retained a solid advantage over modern retailers. They know their customers by name and have a relationship with them. They also offer monthly credit and just-in-time service. Many times, they

know more about the products than the customer and things are delivered right at their doorsteps. The biggest challenge for retailers in India as they modernise will be how to maintain an intimate relationship with thousands of customers, and that's where I think loyalty has a role to play.

HOW DO YOU THINK LOYALTY PROGRAMMES CAN HELP RETAILERS IN INDIA?

Loyalty is not just a programme, it's a device to identify customers. Once the retailer knows his customers, he can start to build some understanding of how they shop. Every time a customer uses the loyalty card, not only is he getting some rewards but his buying

pattern is also being detected by the retailer. So, instead of doing mass campaigns and trying to assume that everybody who is 25 wants the same things, a retailer can now say that he has a segment of customers who come in to buy utility goods, another buys only luxury goods, and so on.

The retailer can thus have differentiated experiences for different customer profiles. He can actually organise his store accordingly, based on what he knows about his customers. In India, people think of loyalty as offering their customers a bunch of points that will make them happy. But loyalty is much deeper than that. It's a strategy for knowing your customers. A loyalty card is just

“Know Your Customer”

THE BIGGEST CHALLENGE FACING INDIAN RETAILERS AS THEY MODERNISE AND SCALE UP NATIONALLY IS HOW TO MAINTAIN AN INTIMATE RELATIONSHIP WITH THEIR CUSTOMERS IN THE SAME FASHION AS A KIRANA STORE OWNER. THIS IS WHERE CUSTOMER LOYALTY PROGRAMMES HAVE A MAJOR ROLE TO PLAY.

IN A CHAT WITH PRIYANKA DASGUPTA, **CAROLINE PAPADATOS**, SENIOR VICE-PRESIDENT WITH LOYALTYONE INTERNATIONAL, ARGUES THAT LOYALTY PROGRAMMES ENTAIL MUCH MORE THAN MERELY OFFERING POINTS – THEY ARE VERY POTENT DEVICES TO IDENTIFY AND UNDERSTAND YOUR CUSTOMERS AND THEIR BUYING HABITS

A map of India is shown on a background of interlocking puzzle pieces. A keyhole is cut into the map, and a golden key is inserted into it. A magnifying glass is positioned over the keyhole, and its lens shows a close-up of several US dollar bills. The overall theme is about opening up the Indian market to foreign investment.

FDI in Retail

The India Opportunity

THE GOVERNMENT HAS FINALLY OPENED THE DOORS FOR FOREIGN INVESTMENT. WHAT KIND OF IMPACT WILL IT HAVE ON THE INDIAN LANDSCAPE? READ THE COVER STORY.

By Images Retail with information support from Third Eyesight

→ In September 2012, the Indian government decided to further open the retail sector to foreign investment. This reform received a mixed response, as expected, not only in terms of opposition from various segments within politics but also tempered enthusiasm from the industry itself, due to ambiguities that have created an unpredictable landscape for investors.

Finally, in the first week of December, the central government

managed to get approval of both the houses of Parliament for opening up single- and multi-brand retail to foreign investment. This finally puts to rest all doubts about the sanctity of the new FDI policy and the global retailers can now firm up concrete investment plans for their India entry. International players which enter India would find that the country's organised retail is on the brink of a revolution. The last decade has seen rapid transformation in many

areas of retail and setting up scalable and profitable retail models across different categories such as fashion and consumer electronics. Indian consumers are rapidly evolving and accepting modern retail formats with gusto. With rising consumerism, unprecedented awareness about global brands and a youth-heavy customer base, India has emerged as the promised land for international retailers. But it was not always like that. Because of India's socialism, the

mindset lasted barely a few years, as the government cautiously reopened the market, including becoming a joint-venture partner itself to the automotive company Suzuki. IBM came back, jeans brands Wrangler and Lee walked in, as did fashion retailer Benetton and also Pepsi, and then Coke in due course. British retailer Littlewoods invested in India in a fully-owned subsidiary, hoping to ride out its troubles in its home market with the help of some of India's sparkle.

However, the Indian government explicitly blocked foreign investment in the retail sector in the latter half of the 1990s. Foreign investors already invested in retail operations in the country at that time had to either restructure their holding or commit to specific restrictive terms. The playing field was open for large Indian retail businesses to come into being.

As the economy grew, under representation from both international investors as well as Indian companies, the government began to consider ways in which foreign retailers could be allowed to invest in the market. It eventually introduced two new terms into the vocabulary of retail: single-brand retail and multi-brand retail. These "categories" were based on the perceived threats and likely objections from domestic lobbies.

Single-brand retailers were defined as those who sold all their merchandise under the name carried on the store fascia. Such retail operations were allowed to have up to 51 percent foreign investment in the Indian business. These are primarily fashion and lifestyle brands.

Multi-brand retailers, including large food-grocery and hypermarket operations such as Walmart, Tesco, Carrefour and other global giants, were perceived to be a larger threat to domestic business and more objectionable to the trader community as well as retailer lobbies, among others. These remained barred from making any investments in retail operations in India. However, multi-brand operations have been allowed for several years in the form of cash-and-carry formats which are ostensibly wholesale operations

licensed to sell only to other businesses (whether retail or other types of business), not to consumer. Metro was the first to launch in India under the cash-and-carry format, and more recently Walmart and Carrefour have set up cash-and-carry stores in India.

In November 2011, the Indian government relaxed the policy, but was forced to roll it back on the multi-brand front and to put restrictive conditions on single-brand operations by mandating 30 percent sourcing from Indian SMEs for businesses with more than 51 percent FDI, which were largely infeasible for most single-brand retailers.

Since then pressure to open up further has continued directly from international retailers (and indirectly through their governments), as well as from Indian retailers who would benefit from foreign equity for their cash-hungry businesses. Internal pressures have also built up within the government and the Congress party to demonstrate the will to create further economic reforms, leading to the recent announcement to open the retail sector further to foreign investment.

STEP CHANGE FOR SINGLE-BRAND RETAILERS

Under the policy update in November 2011, foreign investment was allowed up to 100 percent in single-brand operations. However, two conditions have been seen as serious restrictions: investment in Indian operations being mandatory from the owner of the brand, and at least 30 percent of the sourcing mandated from small and mid-sized Indian companies for any single-brand retailer that has more than 51 percent foreign investment. Both these restrictions now have been significantly loosened.

Single-brand retail operations in India with more than 51 percent FDI should now ensure that the foreign investor in the Indian operation must either be the brand owner or operating under an exclusive license or franchise agreement granted by the brand owner to operate the brand's retail operations in India. This addresses the concern of retailers

country remained closed to global players and funds for many decades. As a result, modern retail even today remains at less than 10 percent of the total retail market of India.

A LOOK BACK

The first policy barriers to foreign businesses in India came in the 1970s, which led to the exit of the likes of beverage brands like Coca-Cola on the one hand, and technology companies like IBM on the other. This closed

event

TWO BIG INDUSTRY EVENTS – THE **FOOD AND GROCERY FORUM INDIA** (FGFI) AND THE **INDIA FOOD SERVICE FORUM** (IFSF) 2012 – WERE ORGANISED SIDE BY SIDE BY THE IMAGES GROUP AT THE BOMBAY EXHIBITION CENTRE IN MUMBAI FROM DECEMBER 12 TO 13. THESE PROVIDED AN OPPORTUNITY FOR MODERN RETAILERS, PROGRESSIVE GROCERS, AND FOOD SERVICE OPERATORS FROM ACROSS INDIA TO BRAINSTORM HOW TO INCREASE CONSUMPTION IN INDIA AND OVERCOME THE VARIOUS CHALLENGES FACING THEM IN BOOSTING GROWTH. AN EXCLUSIVE REPORT.

The FGFI and IFSF began with a lot of enthusiasm among the delegates. In a session titled “Food and Grocery Retailing: Diversity in Retail Purchases Behaviour Across Different Geographies in India,” Karishma Bhalla, Principal with the Boston

Consulting Group (BCG), talked about the importance of modern retailers in the food markets. She said: “We are all brand-conscious, which means we will pay more for a brand, but there has to be a discernible quality. Indians will not pay for the emotional quality of owning a brand. So the question is, how do we create these price quality trade offs for Indian consumers?”

Prof. Piyush Sinha, Chairperson, Centre for Retailing, IIM (A), discussed the benefits of FDI for the food and grocery industry in retail in the session titled “The Big Window of FDI: Opportunities in F&G Retailing.” He said that incomes are rising in India and opportunities are everywhere, but we have to know how to harness them. Every type of retail format is growing in the country with increasing consumption, but the food and grocery format is growing the most currently.”

The inaugural session at the event saw a discussion on the opportunities for FMCG and retail companies in the next two years and the importance of modern retail. Jamshed Daboo, CEO,

Trent Hypermarkets, stated: “The job of modern retail is to take the consumer closer to the producer, and organised retail is able to understand the consumer better because it is aggregating the demand.”

Citing examples of popular Bollywood and regional films, Sadashiv Nayak, CEO, Future Value Retail, talked about significant learnings for retailers. According to him, retailers should build habits and regimes for consumers, look at building scale, generate easy access, and introspect on the stories they tell.

INSIGHTS ON PRIVATE LABELS

Private labels are proving to be an advantage for the retailers, but are they proving to be a challenge for manufacturers? The session titled “Debate on Private Labels: How Retailers View It as an Opportunity and Why FMCG Brands Have a Counter View on It” brought forth insights on the pros and cons of private labels and how they affect both retailers and brands.

Manish Behl, Business Head, Sahara

Winning Strategies for Foodservice, Food and Grocery Players



A session in progress at the FGFI 2012



A HUNDRED THOUSAND REASONS TO CHEER THIS NEW YEAR

The stupendous success of the Orion Fashion Week earlier in December set the mood for a joyous Christmas and New Year celebration at Orion mall. Patrons flocked the mall to enjoy one of the tallest Christmas trees in Bangalore, took part in some warm caroling in the presence of Father Christmas, and joined in on the season's shopping and fun frenzy. While all this was happening, Orion mall's Facebook page notched up over a 100,000 likes; proving once again that Bangalore loves this mall like no other. **Happy New Year!**



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