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Indian **DEPARTMENT** **STORE** **Chains** **Missing the Mark**

- ➔ **FDI: Good for Retail**
- ➔ **Mobile Marketing: Driving Sales**
- ➔ **Indian Retail: Have You Got it Right?**
- ➔ **Social Media: The New Force Multiplier**


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Over the last few years, the Indian retail landscape has drastically changed with the entry of national-level department store chains, offering customers sophisticated air-conditioned environment, a huge variety of products, trained sales staff and competitive rates. But somewhere, something is missing. For all their razzle-dazzle and upmarket locations, many customers feel that their needs are not being fully met by these new-fangled department store chains.

The huge and impressive department stores of even East Asian countries now compare favorably with the top names of the West such as Harrods. The Indian store chains simply pale in comparison with even those of cities such as Bangkok. This is because our home-grown players are making some critical mistakes that have to be worked upon for them to quickly make their mark on the world stage. The cover story by Amit Bagaria explores this issue in great detail and discusses what needs to be done to propel Indian department stores into the best of the league.

Well, as you, dear reader, will already know, such vital issues facing the Indian retail industry are set to be deliberated upon at the India Retail Forum in Mumbai (September 21-22, 2011). It is a powerful platform for all of us to explore the emerging opportunities and threats facing the Indian department store chains, and how they can learn from and adopt the world's best practices internationally. So be there at IRF and be counted.



Amitabh Taneja

Corrigendum:

In the "Stores of the Month" section of *Images Retail*, August 2011 issue, the targeted turnover of luxury lifestyle retail chain Jade Blue for the current fiscal was erroneously mentioned as ₹2,200 crores. This is incorrect. The actual figure is ₹150 crores. The error is regretted.

– Editor

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Indian Department Store Chains

Missing the mark



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THE INDIAN DEPARTMENT STORE CHAINS HAVE A LONG WAY TO GO TO COME UP TO THE LEVEL OF INTERNATIONAL CHAINS. HERE IS WHAT THEY ARE DOING WRONG.

By Amit Bagaria

Indian Department Store Chains

Missing the

→ The Oxford dictionary (remember that thick book we used to refer to in our school/college days, when there was no Internet) defines a department store as “a large shop stocking many varieties of goods in different departments”.

Wikipedia, which is what most youngsters refer to today, defines a department store as “a retail establishment which satisfies a wide range of the consumer’s personal and residential durables product needs; and at the same time offering the consumer a choice of multiple merchandise lines, at variable price points, in all product categories”. It continues: “Department stores usually sell products including apparel, furniture, home appliances, electronics, and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photography equipment, jewellery, toys and sporting goods. Certain department stores are further classified as discount stores. Discount department stores commonly have central customer checkout areas, generally in the front part of the store”.



mark

A department store is supposed to satisfy a wide range of the consumer's needs. I am also a consumer, but no department store in India has ever satisfied even 50 percent of my needs!

I REMEMBER COUNTING THE NUMBER OF FLIES (BOTH LIVING AND DEAD) AT A PROMINENT GROCERY STORE IN A TIER-II CITY AS AT LEAST THREE TIMES MORE THAN THE NUMBER OF HUMAN BEINGS AT THAT STORE!

When a brand wants to enter any new market (country), its first choice is always to launch inside that country's major department store chains. Why is this not the case in India?

Whoever wrote this definition for Wikipedia needs to visit Indian department stores and think about how to rewrite it. What is meant by "satisfies ... consumer's ... needs"? I am also a consumer, but (alas!) no department store in India has ever been able to satisfy even 50 percent of my needs. I will explain this in more detail later in this article.

What are we Indians supposed to make of Wikipedia's statement that "certain department stores are further classified as discount stores and these commonly have central customer checkout areas"? Don't all Indian department stores have this phenomenon? Someone just told me that we don't even have "department" stores in India – we have "departmental" stores. Huh?

I first visited the Central Department Store in Bangkok's Chidlom area (the original Central, not the Future Group's Indian version) way back in 1987. (I shall refer to these two Centrals as Thai Central and FG Central in the rest of this write-up to avoid any confusion.)

FDI IN MODERN RETAIL WILL REDUCE WASTAGE ACROSS INDIA'S FARM-TO-FORK SUPPLY CHAIN, STRENGTHEN THE COUNTRY'S POSITION AS A SOURCING HUB TO THE WORLD AND RESULT IN INCREASED EMPLOYMENT.

→ India's overall retail sector is currently worth about US \$350bn. Though the share of modern retail in it is a miniscule five to eight percent, the segment is growing at an impressive CAGR of 15 to 20 percent.

Studies have ranked India as one of the world's most desirable and exciting retail destinations given its large market size, low organized retail penetration, large pool of demanding and aspirational consumers (300 mn middle class consumers and 500 mn young Indians under the age of 25 years), surging consumer aspirations and increasing business and consumer confidence.

Some of the world's largest retailers and brands are present in India's

retail market, undeterred by the fact that it is yet to be fully liberalized and accorded industry status. These premier global brands and retailers operate in India across categories including apparel and accessories, footwear, luxury products, consumer durables and electronics, quick-service restaurants, food and grocery and cash-and-carry.

Also present in the retail market are the incumbents who have presence in consumer electronics, food and grocery, luxury goods, apparel and accessories, footwear, malls and hypermarkets. In addition to these modern trade participants, there are also 12 mn mom-and-pop stores in India that comprise the unorganized retail trade.

Why FDI is Good for Retail

By N V Sivakumar



DEVELOPING MODERN RETAIL

PwC's thought leadership report, "The Benefits of Modern Trade to Transitional Economies," argues that further development of modern trade in India will bring significant benefits to the economy.

Studies of transitional economies show that modern trade reduces wastage across India's farm-to-fork supply chain, strengthens India's position as a sourcing hub to the world and results in increased employment. It also introduces increased choice and variety of products into the market, levels the playing field in terms of "lifestyle parity" and ushers in vital technology investments and transfer of best practices.

FDI into the retail sector will positively impact the government, consumers, unorganized trade participants, producers and farmers.

The consumption pattern of consumers anywhere is greatly influenced by the incidence of various taxes. A major issue facing India is

the variance in contribution to the exchequer. Collecting revenue from the unorganized retail sector can be a challenge for authorities. Modern trade players generate a larger turnover and are typically unable to avail of tax exemption limits.

The development of related sectors such as cold chains, logistics, transportation, warehousing and other related services is required to support the growth of the retail sector. Companies in these sectors also need to pay taxes to the exchequer, thus increasing government revenues.

Indian consumers are as global in their thinking, preferences and orientation as their counterparts overseas. Indians, who typically followed a savings-oriented approach in the past, are now enjoying the benefits of higher incomes and often splurging on lifestyle-oriented goods.

Increased spending power and the desire to acquire global and current products are incentivising Indian consumers to purchase goods across categories and brands. They

are trading up in some categories (personal care, apparel, accessories, footwear) and trading down in others (private labels in pulses, wheat, grain, among others).

Modern trade clearly results in increased availability of choice in products and services as well as rationalization and convergence of prices. The quality of food and non-food products becomes better and there is equalization in the standards of living available to consumers between countries. Modern retail also a zero-tolerance policy for inefficiencies since consumers will become unwilling to pay for substandard products.

FARMERS AND KIRANA SHOPS

Contrary to the popular belief that modern retail will gradually decimate the mom-and-pop stores, the kirana shops can actually exist alongside modern trade players and explore partnership models in a rapidly changing retail environment.

In the global context, as modern trade expanded, organized and unorganized retail players quickly learnt to co-exist. Kiranas are an important and critical element of the Indian retail ecosystem. They have strengths which will ensure their long-term sustainability in the face of modern retail. For one, they have a deep understanding of consumers in a local catchment area (purchasing behaviors, buying patterns, tolerance to prices and more). Kiranas also benefit from ingrained consumer behaviors where shoppers frequent neighborhood stores to fulfill their daily top-up needs for food and grocery items. Providing high levels of customer service (for e.g. free home delivery).

The supply chain in India is one-dimensional. It has several layers of intermediaries and is characterized by high wastage levels to the tune of 24 to 40 percent. Establishing an efficient supply chain that links farmers and small manufacturers (who have limited infrastructure or distribution strength) directly with retailers will maximize value for all stakeholders. Together with back-end infrastructure,



MALL OF AMERICA'S MOBILE METHODS

At Mall of America, mobile marketing is still evolving as management figures out what works and what doesn't. Jill Renslow, director of business development for the center, says the mall has used a couple of interesting programs in the past year. Management experimented with a tagging technology whereby, using a smartphone, the user took a picture of a bar code – like the printed bar code found on grocery store items. This bar code would then link the user's phone to rich content—maps, demographics, and research data – about a specific property.

For a prospective tenant, this was a quick way to access information about a shopping center. This integrated program brought together the customer – in this case the prospective retailer – to create a dialog about leasing space in the property.

Mall of America also had a sponsorship/marketing program with Phillips Electronics that assisted customers to navigate their way



through the center's parking garages. By texting a number provided on a sign in the garage, drivers were able to directionally recall where they parked.

Additionally, the center used Twitter December 2009 to communicate parking information to last-minute holiday shoppers hoping to find

available parking spaces during the busiest season of the year.

Foursquare, a mobile phone-based GPS application that encourages people to connect with each other and local venues, rewards visitors for "checking in" by offering specials to customers at participating retailers, restaurants or venues.

Foursquare tracks a marketer's performance of its specials for free. Mall of America has jumped on the Foursquare bandwagon and reserved its name as a venue. The center knows who is checking in (to the center) and is currently developing a Mall of America landing page on Foursquare. "We are constantly trying to educate our retailers about these new tools, especially [those] who can offer special deals to patrons," Renslow says. The great thing for users of this technology is the backend analytics. "We know who is opting in and opting out and it all gets tabulated for us," says the business development manager who uses this data to understand what promotions work best for customers.

Renslow's team is also working on other apps for smart phones to provide customers with rich content about new stores, center discounts and movie schedules inside the center.



SHARING BEST PRACTICES

In July, Madison Marquette, a Washington D.C.-based retail real estate firm, launched a web site, called

2011 Outlook for Retail and Consumer Products – Part 2

Slow and Steady

A PwC Report

ONLINE RETAILING

→ Online commerce represents the next major area for retail growth in Asia. In Japan, e-commerce lags behind the West, but the Japanese are nevertheless out in front of most of their Asian peers in this field. Retail sales in Japan have declined about 1 percent annually for the past decade, but e-commerce revenues have expanded by about 17 percent every year since 2005, and are expected to grow at nearly 10 percent annually through 2015. Japanese consumers may be staying at home in an effort to save money in uncertain economic times, but they also spend more time shopping on their computers.

One Japanese e-retailer, Rakuten, dominates the sector. It has pursued a “shopping mall” strategy, allowing retailers to set up digital shop fronts, providing hosting services, broking

KEY FINDINGS

- Online commerce will be the next major area for retail growth in Asia.
- Japan is ahead of its Asian peers, with the innovative e-retailer Rakuten, positioning itself for global expansion.
- Chinese online retailers are poised for massive growth but online retailing is still underdeveloped, particularly in terms of transaction security and credit card use.
- Online transactions with mobile phones are expected to rise, led by tech-savvy consumers in South Korea and Japan.

THE LAST ISSUE OF “IMAGES RETAIL” CARRIED EXCERPTS FROM A PWC REPORT ABOUT THE 2011 OUTLOOK FOR RETAIL AND CONSUMER PRODUCTS IN ASIA. THIS SECOND PART OF THE REPORT COVERS SECTORS SUCH AS ONLINE RETAILING, DURABLE CONSUMER GOODS, ELECTRONICS AND LUXURY BRANDS. THE OVERALL OUTLOOK FOR THESE SECTORS REMAINS POSITIVE IN THE REGION. THE DEMAND IS GROWING ACROSS THE BOARD, ENCOURAGED NOT JUST BY RISING INCOMES BUT ALSO BY INCREASING ACCESS OF PEOPLE TO TECHNOLOGY.

their advertising and processing their payments. Of Japan’s 90 mn internet users, a staggering two-thirds use Rakuten, and the company handles nearly one-third of all online retailing transactions. Rakuten is positioning itself for global expansion, starting with China. In January 2010, it established e-retail site RakuBai as a joint venture with Baidu, the biggest Chinese language search engine. RakuBai executives expect 100 mn consumers to shop on the website over the next three years.

Chinese online retailers are also poised for massive growth. Taobao, China’s largest online retail marketplace, announced in August that it handled 97 percent more transactions in the first half of 2010 than a year earlier, with household goods accounting for the most transactions. Goldman Sachs estimated the company’s 2009 revenue would reach US\$200 mn. Taobao is also intent on expansion, and with Yahoo Japan it has recently launched platforms that allow merchants in China to access Japan’s e-retail platforms and vice-versa.

Indeed, online shopping in China seems set to skyrocket. About one-



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Other halls will feature electronics & components, security products, hardware & building materials and bathroom products.

Admission policy: For trade only – No one under 18 admitted. Each visitor is required to submit three (3) business cards in order to qualify for entry. An admission fee of INR 200 will be charged at the door. Strictly no retail or sample sales.

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