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Great changes in store for India's retail sector

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The retail industry in India may be on the verge of a paradigm shift. The Indian government, at the cost of angering its leftist partners, has in recent days hinted that it is inclined to allow foreign direct investment (FDI) into the sector. Commerce and Industry Minister Kamal Nath recently told reporters: "FDI policy cannot be static. Some areas where employment-generating potential is high are under consideration, like branded and dedicated retail segments." Even in February, he was heard singing similar paeans to retail's employment-generating potential.

Retail has played a major role the world over in increasing productivity across a wide range of consumer goods and services. Its impact is best seen in countries such as the US, UK, Mexico, Thailand and, more recently, China. The economies of Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai have also been heavily assisted by the retail sector.

Retail is the second-largest industry in the United States, both in terms of number of establishments and employees. It is also one of the largest worldwide, with a turnover of around US$7 trillion. Wal-Mart is the largest single global player, with annual sales of around $288 billion. Overall, there are nine retailers in the list of Fortune 100 companies.

Historically, the Indian retail sector has been dominated by small independent players such as traditional, neighborhood grocery stores and "mom and pop" outlets. In the 1990s, organized, multi-outlet retail gained acceptance, which has since accelerated. The retail sector in India is on a veritable take-off stage and organized retailing, which currently accounts for about $6 billion, is expected to touch $17 billion by 2010, according to a recently released study by the Associated Chambers of Commerce & Industry (ASSOCHAM). In 2005 itself, the organized retail industry is expected to grow to $8 billion. Overall, the sector is likely to grow into a $200-280 billion enterprise by 2010.

India's retail industry generates 10% of the country's gross domestic product (GDP), but remains one of India's least developed industries. Multi-brand stores, malls, and franchises are currently estimated to be only 3% of the total retailing business in India. Organized retail, however, is now poised for an exponential growth. It's expected to log 25-30% growth per annum until at least 2010.

Growth in Indian retail has been driven by the country's economic fundamentals over the past few years, including an increase in the proportion of upper-income households, rising consumption expenditure and the greater use of credit cards. Consumers are now showing a growing preference for organized retail, resulting in increased penetration. As a result, in 2003 alone, an estimated 10 million square feet was added to organized retailing in India, higher than the additional retail space added in the preceding decade.

Nothing seems to symbolize India's transformation from a stagnant Third World country into an emerging economic powerhouse as much as the sparkling new malls. American brand names such as Levi's and McDonald's clutter the plush air-conditioned malls as teenagers in low-cut jeans hang out in groups and cappuccino flows at coffee kiosks.

Over the past few years, the Indian retail sector has been characterized by: larger store formats; rapid expansion by existing players; and more players with a variety of formats. India's retail landscape is changing, with elaborate shopping malls and superstores springing up in all major cities. Domestic retail majors have announced huge expansion plans. Companies such as Pantaloon Retail, Shopper's Stop, Trent, Lifestyle and Subhiksha are expected to invest over Rs6.50 billion (US$149.3 million) over the next two years in capacity expansion and modernization.

Trent Ltd, the Tata group's retail arm, is set to use Rs1.18 billion to set up 17 new stores and expand existing ones by March 2008. Similarly, Shopper's Stop has just closed a public offer meant to raise up to Rs1.35 billion from the market. Proceeds from the issue will be used to set up 11 new stores, including two hypermarkets - one each in Bangalore and Pune - and for further expansion.

Pantaloon Retail Ltd has already received funding from the Bennett & Coleman Group of about Rs700 million and plans to finance a further capacity expansion program worth Rs1.20 billion through a combination of internally generated funds and debt, according to Fitch Ratings India. The company targets an addition of 1 million square feet of retail space in each of the next two years. Its total retail area increased by over 70% in the last financial year to 955,000 square feet, with hypermarkets accounting for a higher proportion of the total retail space. Between July and October 2004, the company added an additional 50,800 sq ft of retail area to its Food Bazaar operations by opening three new standalone stores. Not surprisingly, it hired another 1,000 people in October 2004 alone.

The coming retail storm has already pumped up the real estate sector. Up to 600 malls are likely to be up and running in India by the end of 2009 - up from 20 this year - according to KSA Technopak, a New Delhi-based consulting firm. The capital is the epicenter of the boom, with as many as 100 malls - some estimates put the number at 150 - planned for New Delhi and its vicinity in the next three years. The mall mania is also spreading from metros to smaller cities with population between 3 and 5 million. The trend is more toward integrated retail-cum-entertainment centers that offer both shopping as well as entertainment facilities. The traffic driver could also be the big discount stores. Sahara Group's Sahara Mall and Pantaloon's Big Bazaar are major crowd-pullers.

The key growth drivers of organized retail in India are:

- Growth in per capita income and household consumption
- Changing demographics and improved standards of living
- Changing consumption patterns and accessibility to low-cost consumer credit
- Infrastructure improvement and increased availability of retail space
- Access to capital markets and other sources of financing

The retail sector can generate huge employment opportunities and lead to job-led economic growth. In most advanced economies, the "services" sector, of which retailing is a major part, creates the most employment. The US has over 12% of its employable workforce engaged in the retail sector. The retail sector in India employs nearly 21 million people, accounting for roughly 6.7% of the total employment. However, employment in organized, multi-outlet retailing is still very low because of the small overall share of organized retail business in India. The market share of organized retailing in India - around 2% - is abysmally low, compared to 80% in the US, 40% in Thailand and 20% in China. A modern retail sector has the potential of creating over 2 million new jobs directly within the next six years in India (assuming only 8-10% share of organized retailing), according to KSA Technopak - as many as the business-process outsourcing (BPO) and the IT-enabled services sector put together can generate.

The retail industry is estimated to require more than 115,000 skilled workers to support its explosive growth. In 2003-04, the total number of employees in Pantaloon rose to 3,500 from 1,700 just a year ago. This number is expected to rise to 11,000 by 2007, according to estimates by Cygnus Research. Even the Planning Commission has identified retail as a prospective employment generator.

A strong retail outlet can also provide a necessary fillip to agriculture and food processing, handicraft, and small and medium manufacturing enterprises, creating millions of new jobs indirectly. Through its strong linkages with sectors like tourism and hospitality, retail has the potential of creating jobs in these sectors also.

As per AT Kearney's "Global Retail Development Index 2004" - an annual survey - which ranks 30 emerging markets in terms of their attractiveness as retail destination (based on four parameters: country risk, market attractiveness, market saturation and time pressure), India comes second, just after Russia but ahead of China. Obstacles such as stringent FDI rules and regulations thus haven't dimmed India's attractiveness to global retailers. India's country risk score is higher due to improved living standards and continued economic growth.

Looking ahead, India's market size offers tremendous potential as its population is expected to surpass China's by 2050. India's market attractiveness score is relatively low because of its large rural population, but the country scores well in other areas. Retail sales per capita have increased by one-third between 1999 and 2003. Also, India's retail market is fragmented, with the top 10 companies holding just about 2% market share, which means there is large untapped potential. Two foreign retailers - Hong Kong-based Dairy Farm and Germany-based Metro AG - are in the top five. South Africa retailer Shoprite has also started operations in Mumbai. A number of global retail majors, including Wal-Mart and Carrefour, have expressed interest if FDI regulations are eased. Once that happens, expect a stampede.

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