Retail & Consumer Industry

Confederation of Indian Industry

The Benefits of Modern Trade to Transitional Economies*

*connectedthinking

PricewaterhouseCoopers

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CII Foreword

I am happy to present this report from Confederation of Indian Industry and PricewaterhouseCoopers. This white paper, which is a second edition of our 2005 empirical study "The Rising Elephant–Benefits of Modern Trade to Economy", is a conscientious effort to sensitize all stakeholders on Benefits of Modern Trade and partner them in facilitating economic growth through modern retail.

With an estimated size of USD 350 billion, the Indian retailing industry is at an inflection point. It is set to enter a new growth trajectory owing to rising household consumption and the entry of corporate entities and global retailers. The Indian retail sector is exciting, dynamic and presents tremendous opportunities for growth.

This white paper asserts that the growth of modern trade will positively impact four major constituencies: government, consumers, unorganized trade participants and producers/farmers.

The expected takeaways from this study are:

- Establish that growth of modern trade in India will indeed bring significant benefits to the economy. The case studies presented in the report illustrate the benefits accruing to the various stakeholder groups.
- Influence policy makers in India to create legislation that could catalyze the growth of modern trade.

Our warm thanks to PricewaterhouseCoopers, our partner for this survey, for their detailed work and for sharing their knowledge in conducting this survey.

We would further like to extend our appreciation to everyone who helped us in our effort.

Chandrajit Banerjee
Director General
Confederation of Indian Industry

01 Preface

When the CII invited us to explore the issue of the benefits of modern trade to India, we were delighted at the opportunity to write a sequel to our 2005 empirical study entitled The Rising Elephant—Benefits of Modern Trade to Economy*. In our effort to provide a richer commentary, we chose to blend primary, secondary and internal insights to write this white paper study.

In this context, we are grateful to the following participants in India's retail sector who generously provided us with their time, thoughts and expertise—

Mr. Sumant Sinha, Former Chief Executive Officer, Aditya Birla Retail Ltd.

Mr. Amit Jatia, Managing Director, Hardcastle Restaurants Pvt. Ltd.

Mr. Andrew Levermore, Former Chief Executive Officer, HyperCITY

Mr. S. Sivakumar, Chief Executive, Agri Business, ITC Limited

Mr. Tim Eynon, Chief Executive, Prozone Enterprises Pvt. Ltd.

Mr. Pradipta Mohapatra, President & Chief Executive Officer, RPG Enterprises

Mr. Peter Bacher, Head of Operations—Reliance Fresh, Reliance Retail Limited

Mr. B.A. Kodandarama Setty, Chairman & Managing Director, Vivek Limited

Mr. B.A. Srinivasa, Director, Vivek Limited

This white paper study asserts that modern trade will positively impact the following constituencies—

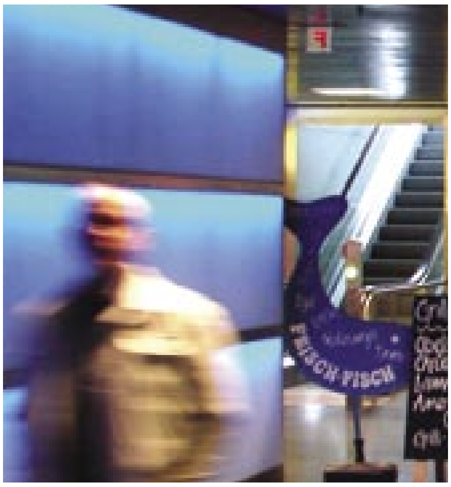
1. Government
2. Consumers
3. Unorganised trade participants
4. Producers/Farmers

It would be our pleasure to guide you through our findings, or answer any questions that you may have as they relate to this study, or to other retail-related issues.

Jairaj Purandare
Leader, Markets & Industries
PricewaterhouseCoopers

NV Sivakumar
Leader, Retail & Consumer
Products and Services,
PricewaterhouseCoopers

02 Executive Summary



The Indian retail sector—

- Is ranked as one of the world's most exciting retail destinations
- Is witnessing high rates of growth for the organised sector
- Is frequented by consumers who have some of the highest consumer confidence levels

India's retail sector is worth an estimated USD350 billion and is growing at between 30 to 40 percent per annum. Most global brands/ retailers have declared their interest in entering this complex, myriad and exciting retail market. Others have already entered the market and are making large-scale investments into the sector.

It has been observed that as modern trade grows and develops in transitional economies, opponents believe that organised retail will displace the kiranas, or the unorganised sector. That said, studies of transitional economies shows that modern trade—

- Reduces wastage across India's farm-to-fork supply chain
- Strengthen India's position as a sourcing hub to the world
- Results in increased employment
- Introduces increased choice and variety of products into the market
- Levels the playing field in terms of "lifestyle parity"
- Ushers in vital technology investments and best practices transfer

While the retail sector is yet to be liberalised, the Government has taken a step in this direction by allowing a maximum of 51 percent equity participation by foreign companies in a joint venture with an Indian company. Introduced in January 2006, single-brand entry has been used by several luxury brands/ players as a means to enter the dynamic Indian market.

This white paper puts forth the view that welcoming FDI into the retail sector will positively impact four major constituencies. We contend that the benefits of modern trade will extend to—

1. Government
2. Consumers
3. Unorganised trade participants
4. Producers/Farmers

Observation 1—Consumers to benefit from widely available choice

Indian consumers are becoming (almost!) as global in their thinking, preferences and orientation as their Western counterparts. The ability to travel abroad for business and recreation, the exposure to the Internet and other information and communication tools, lifestyle influencers from print, TV and film media, among other drivers, are shaping Indian consumers' shopping behaviours and mindsets towards consumption. Indians, who typically followed a savings-oriented approach, are enjoying the benefits of higher incomes and are often splurging on lifestyle-oriented goods. The increased spending power and the desire to acquire global, trendy and current products are incentivising consumers to purchase products across categories, in the mass, premium and luxury segments.

Modern trade results in —

- Increased availability of choice in products and services
- Rationalization and convergence of prices
- Better quality of food and non-food products
- Equalization in the standards of living available to consumers between countries
- A zero tolerance policy for inefficiencies since consumers will become unwilling to pay for substandard products and inefficiencies

Modern trade to benefit exchequer and farmers

Observation 2—Contributions to flow to exchequer due to increased transparency

The consumption pattern of consumers is greatly influenced by the incidence of various taxes. Taxes in India are in the form of either a direct levy on the income of the consumer (i.e., income tax) or indirect levies which are inbuilt in the cost of products and services and have to be borne by the final consumer on their purchase. Of the two types of taxes, indirect taxes gain prominence with respect to the retail business. Indirect taxes, such as customs duty, excise duty, service tax and value added tax, directly impact on the prices of goods and services. The incidence of such taxes is typically passed on to the final consumers, further underlying the significance of these taxes.

Although the retail sector has succeeded in evolving as an organised revenue generating sector, it still continues to be challenged by some issues under the present indirect tax regime. A major issue is the variance in contribution to the exchequer. Collecting revenue from the unorganized retail sector is a challenge for authorities. Modern trade players, on the other hand, are tax compliant. In addition to generating larger turnover, they are not able to avail of exemption limits. Their sale figures outnumber that of the unorganized sector and every sale of taxable goods is subject to payment of tax, resulting in the much higher contributions to the Government. In addition, the development of the organized support mechanism required by large retailers for their operations, like logistics, transportation and warehousing and other related services and activities, will further generate more revenues for the Government in form of service tax.

Observation 3—Farmers can benefit by being integrated into the food supply chain. Farmers and modern trade players can explore partnership models for mutual benefits.

The supply chain in India is fairly unidimensional and there is very little value-added activity since distribution remains fragmented and unorganised. 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, this will minimise wastage (especially for fresh foods and vegetables), will increase farmers' realizations, will encourage best practices in crop management and will improve food safety and hygiene. Allowing FDI will bring about the development of a robust supply chain which in turn will integrate farmers into the modern trade process, result in knowledge and skills transfer, ensure farmers receive higher prices for their produce, provide a more transparent mechanism for pricing, helps stabilize order quantities, eases the access to credit and provides for better planning at the time of harvest.

Suggested mechanisms through which farmers can be integrated into the food supply chain include—

- The retailer works with farmers to develop expertise in the farming and harvesting of produce to build volume and scale advantages. Once the produce has been harvested, the retailer can become a wholesale farmer (since they have aggregated volumes) to supply this produce to the retailer's food and grocery stores, act as a supplier to other modern trade formats and unorganised trade participants and export surplus produce overseas.
- Contract farming models, which bring together farmers and retailers, also improves food safety and results in best practices knowledge transfer.
- Kiranas to collaborate and partner with corporates such that best practices transfer in farming, sales volume projection and the provision of infrastructure result in higher incomes for farmers, improve food quality and reduce wastage.

Modern trade can integrate kiranas, increase employment and engage small vendors

Observation 4—Kiranas can exist alongside modern trade players and can explore partnership models in a rapidly changing retail environment.

In the global context, as modern trade expanded, both organised retail players and unorganised retail participants, have co-existed. Participants in the Indian retail sector believe that this will also occur in India. Kiranas, an important and critical element of the retail ecosystem, enjoy the following features and attributes which will ensure their sustainability—

- Knowledge intimacy is hard for modern retailers to replicate
- Ingrained consumer behaviours where consumers frequent kiranas to fulfill their daily top-up needs for food and grocery items
- Ability to partner with modern trade players (ie., become a franchise partner, embark upon smart sourcing strategies, participate in branding/marketing strategies through modernizing operations)

Observation 5—Retail to be the critical enabler for the rural, semi-urban and urban employed.

Studies suggest that 2 million individuals will be needed for retail operations by 2010. As a result, there is a need to foster retail education in India and in states where modern retailing rapidly being accelerated. Qualified manpower is needed to staff positions in malls, departmental stores, supermarkets, hypermarkets and convenience store formats. The retail sector generates both direct and indirect employment.

Allowing FDI into the retail sector will usher in the entry of large global companies who will need to hire millions for their pan-India retail operations. It is estimated that for every 50,000 square feet (sq ft) developed, direct employment is created for 200 people. At a most basic level, every square feet of retail space developed in the city generates employment — both at the development stage and subsequently. More retail developments in a country mean more employment opportunities for the country.

Observation 6—Small vendors can be engaged and integrated into modern trade.

Kiranas are small shops that cater to the food and grocery needs of a catchment area. Others, who are headload and pushcart vendors, also serve select catchment areas. Most small vendors, such as headload and pushcart vendors, require access to credit to fund working capital. However, small vendors are often unable to access credit due to issues pertaining to high interest rates and lack of access to institutions that can provide credit.

ITC is embarking upon experiments that integrate headload and pushcart vendors, and women, into the benefits of modern trade. These experiments, in addition to helping smaller participants in the retail sector also enable ITC to further enhance brand equity and increase sales.

03 India—The Fast Moving Global Player

Indians have some of the highest consumer confidence levels. Surveys suggest that over 90 percent of Indians expect job prospects to increase substantially and 90 percent believe that their personal finances are on a positive growth trajectory.

For the most part of its history after Independence in 1947, India has followed a socialist-inspired approach to trade, private sector participation and foreign direct investment (FDI). In 1991, India embarked upon a reforms-led liberalisation process which dissolved public monopolies, and ushered in FDI. The journey from 1991 till today has been exciting, dynamic and characterised by change.

Today, India is the world's second-fastest growing major economy. Several global studies predict that India will fare better than most of her counterparts in the developing world in terms of robust economic growth. India is experiencing a surge of economic growth, and with this comes an increased vibrancy and buoyancy in her desire to become a pre-eminent player in the global arena.

Some of India's major economic sectors include agriculture, automotive, manufacturing, pharmaceutical and services-based exports.

Often described as a "sunrise sector," the Indian retail sector comprises 13 percent of GDP and employs 6 percent of the nation's workforce. The retail sector, in addition to rapidly evolving, is becoming increasingly complex to operate within. Shifting demographics, globally exposed and educated consumers, new channel formats and changes in consumption patterns require that sector participants quickly adjust and modify to meet the needs of demanding current (and future) consumers.

While the Indian retail sector is still waiting to be granted industry status, many of India's leading retailers recognise that it is becoming increasingly important to serve customers, provide them with an optimal price-quality relationship, add value to the shopping experience and foster customer loyalty.

Demand & Supply Pressure Evident in Retail

The Indian retail sector is worth an estimated USD350 billion and has an organised retail penetration of between five to eight percent. The sector is growing at a rate of between 30 to 40 percent per annum. The Indian retail sector is exciting, dynamic and presents tremendous opportunities for growth. Both sides of the demand and supply equation are witnessing increasing upward movement.

Two of the main participants in India's retail sector include kirana stores (or mom-and-pop establishments) and organised retail trade formats. There are approximately 12 million kirana stores in India, most of which are operated by small family businesses using household labour. Kiranas experience some inherent advantages over modern trade players:

- Kirana owners typically own the land that their store is located on. As a result, most kirana owners do not incur major labour costs and rent expenses.
- Kiranas also enjoy strong relationships with customers; kirana owners have a pulse on the consumer behaviour in their catchment area. They know which products will sell, how fast some items will move off shelves, etc. The level of "knowledge intimacy" between kiranas and their customers is something that cannot be replaced, duplicated or eradicated. Many modern trade players are yet to duplicate this level of knowledge and awareness about customers.

Demand	Supply
Consumers are clamoring for faster access to good quality products and services, which are available globally.	Some of India's largest conglomerates are investing billions of dollars towards large-scale retail initiatives.
Niche segments are witnessing increased growth such as luxury watches and accessories, footwear, branded apparel.	Some of the world's most renowned retailers are entering the Indian retail sector or have announced plans to enter the sector once it is liberalised.
Easier access to credit, and the emergence of a "buy now and pay later" culture is placing a focus on consumption.	An increased proliferation of modern trade formats offers a mix of food and non-food items to consumers.
Global media influencers are placing an increased importance and premium on consumption of mass, premium and luxury products.	Increased product launches in a variety of segment areas, such as fast moving consumer goods, apparel, footwear and private labels ensures that consumers are flooded with choice.

Demographic Dividends—Advantage India

India boasts of a series of economic and demographic dividends that differentiate her from other emerging market and developed countries. In addition to soaring consumer confidence levels, India also has a youthful population, a burgeoning middle class and changing consumption patters, all of which are robust arguments for long-term growth.

The median age in India is 24 years.

More than 50 percent of India's one billion-plus population is under 25 years of age, compared to other developed countries, where the majority of the population is comprised of ageing baby boomers. Many of these young individuals are eager to consume products and services such as buying mobile phones, eating out, visiting the multiplex, etc.

One of the main drivers enabling this increased consumption is the growth of the IT and BPO sector in India. Since most call centers serve western countries, young employees interact with western customers and are exposed to a different culture, accent, language, customs and behavioural patterns. In addition, perquisites, such as overseas travel to understand customers' businesses, and the interaction with expatriates based in India, begin to alter and shape the mindsets of young consumers. Through this globalization process, young consumers begin to undergo a socialization process through which they integrate cultural aspects and consumption behaviours of both the east and the west. Interestingly, most youth who work in the IT and BPO sectors earn more than their parents, and this places them in a unique position when making household purchase decisions.

The BPO sector also employs thousands of women, providing a new career path for women who are seeking financial independence. Call centers executives believe that female workers are hard working, patient, loyal and have better interpersonal skills than other employees. Though many families perceive employment in a call center for women as a 'taboo' (due to late working hours), this perception is slowly changing. Due to the secure working atmosphere, higher salaries, gender-neutral policies, free pick-up and drop-off facility at home, the BPO/IT services sector is becoming a preferred employment option for women. This increase in the number of working women improves the overall spending power and independence of the Indian women. This will also positively inflect consumption and many industries, such as automobiles, consumer durables and financial services, are increasingly targeting their products and services to women.

In general, Indians are starting to save less and spend more, partly due to increases in disposable incomes, global lifestyle influencers and the desire to acquire and consume high-value, non-essential and lifestyle oriented goods and services.

The consumerist age-bracket (ages of between 15 to 64 years) as a proportion of the Indian population is growing rapidly and will represent more than 65 percent of the population in 2009. As the ratio of working population to non-working population increases in the future, there will be an increase in the overall purchasing capacity in the country, providing further buoyancy to the several product and service areas, such as consumer durables, apparel, footwear, watches, eating out and visiting the multiplex.

A Large and Demanding Middle Class

India's demanding and consumption-oriented middle class households form the major proportion of the consuming population and refers to households with annual income of between USD2,070 and 22,990. This section of the population is responsible for the acceleration of consumption in: consumer electronics, credit cards, mobile phones, mortgage loans, motorcycles and personal products.

The middle class is responding to products and services that are both mass (such as fast moving consumer goods, private label apparel) and premium (such as branded apparel, watches and footwear). Middle class consumers are characterised as having aspirational tastes, coupled with down-to-earth value-consciousness.

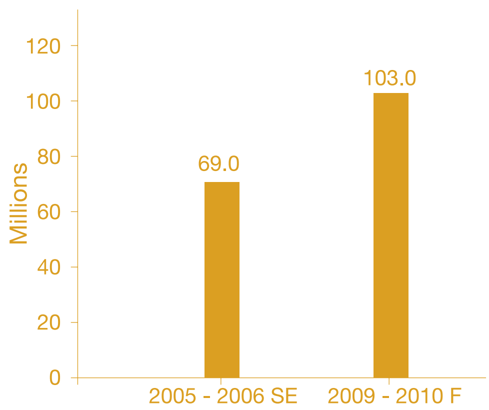
Research studies also suggest that a majority of consumers in metropolitan India are as global in orientation as those at the higher end of the consumption cycle. They are exposed to global culture and have no qualms about indulging themselves. An ACNielsen report puts forth that consumers residing in towns beyond metros are increasingly becoming open to spending and a better lifestyle. Taken together, the middle class has given fillip to consumer culture in India and marketers are hopeful that this enthusiasm will not abate.

Map of India's Income Class

Household Income Per Annum (USD)	2001-02	2006-06E	2009-10F
Deprived <2070	135 million	132 million	114 million
Aspirers 2070-4670	41 million	53 million	75 million
Seekers 4670-11500	9 million	13 million	22 million
Strivers 11500-22990	1 million	3 million	6 million
Near Rich 22900-45980	546,000	1 million	2 million
Clear Rich 45980-114,940	201,000	454,000	1 million
Sheer Rich 114,940-229,890	40,000	103,000	255,000
Super Rich >229,890	20,000	53,000	1,41,000

Source: NCAER

Number of Middle Class Households



The Status of the Retail Sector

Modern trade was first evidenced in the mid-1990s as initial forays and experiments were carried out in trying to sell products to consumers in a format that had more appeal, hygiene and atmosphere than a kirana. Initially consumers were apprehensive with trying out new shopping environments and straying from their trusted kirana. Indian consumers also had preconceived notions about pricing; often consumers linked air conditioned store formats with higher product prices. However, once Indian households began shopping in hygienic, clean and welcoming shopping environments, and were still able to avail of promotional offers, they began to become comfortable with frequenting new modern trade formats for their shopping needs.

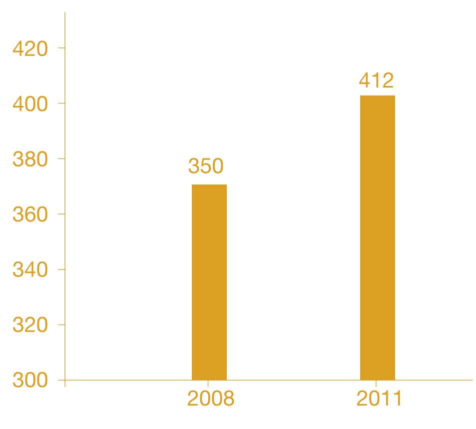
As transitional economies evolve and as modern trade assumes a larger portion of trade, the focus of many retailers, in the initial phase, is to capture consumers' attentions and provide them with new, exciting and enriching shopping experiences. Moving forward, the scale and pace of organised retail development mandates that retailers, in the face of increasing competition and margin pressure, will need to replace antiquated supply chains with more agile, less layered supply chains.

In 2007, select states protested the emergence and progress of modern trade. Protests were organised and media crews documented store lootings and damage. Interestingly, most participants seemed to be agents and middlemen and not farmers and kirana owners. Protestors were objecting against the advent of organised retail, believing that it would place their livelihoods in jeopardy. Some of the modern trade players that were operating outlets in these states closed operations and were forced to either terminate employment or transfer workers to operations in other states. In addition to losing jobs, these states also lost millions of dollars in investments that modern trade players were planning to make in terms of building supply chains, sourcing from local suppliers, etc.

The Indian government mandated the Indian Council for research on International Economic Relations (ICRIER) to embark upon a study to assess the impact of modern trade on kiranas. Initial findings from ICRIER suggest that any transitional impact of organised retail on mom-and-pop establishments will dissipate over time. Initial findings also suggest that jobs will increase and that farmers' earnings will increase.

According to research reports, FDI is needed to create infrastructure that will foster, generate and benefit India's economic development.

Size of India's Retail Sector (USD Billion)



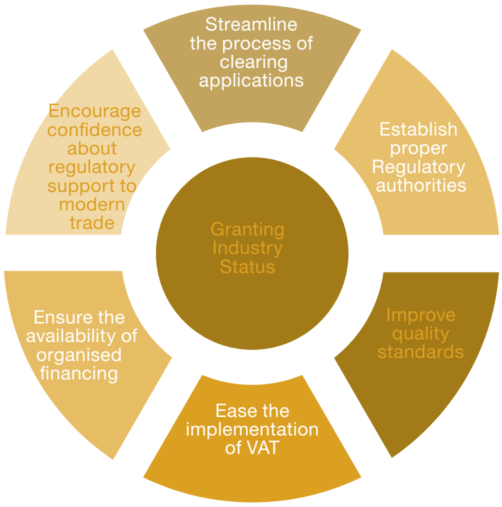
FDI—The Critical Enabler for Retail

A previous PricewaterhouseCoopers and CII publication entitled *The Rising Elephant—Benefits of Modern Trade to Indian Economy** indicated that liberalising the retail sector will result in three main macroeconomic benefits—

- Reduce wastage across India's food supply chain
- Increase employment
- Strengthen India's position as a sourcing hub

Other empirical studies in emerging market economies have shown that the growth of organised retail improves the quality of produce available in local markets since it creates local distribution channels for produce. At the same time, engaging with local suppliers, in turn, boosts the local economy. Modern trade also facilitates the introduction of more competitively priced products for all consumers, not just affluent members of society.

PricewaterhouseCoopers and CII believe that granting industry status to Indian retailing will be the first step in this direction. Some of the benefits of granting industry status are outlined below:



Modern Trade to Benefit Farmers, Consumers, Unorganised Sector and the Government

This white paper puts forth the view that welcoming FDI into the retail sector will positively impact four major constituencies. We contend that the benefits of modern trade will extend to—

- Government
- Consumers
- Unorganised trade participants
- Producers/Farmers

While the retail sector is yet to be liberalised, the Government has taken a step in this direction by allowing a maximum of 51 percent equity participation by foreign companies in a joint venture with an Indian company. Introduced in January 2006, single-brand entry has been used by several luxury brands/ players as a means to enter the dynamic Indian market.

Studies suggest that kiranas will continue to grow alongside organized retail. Kiranas can be actively engaged to assume a greater role in the evolution of and integration into modern retail. As modern trade develops in transitional economies, it has been observed that consumers and farmers are the early beneficiaries of modern retail.

Modern Trade Players—At-A-Glance Snapshot of the Indian Retail&Consumer Sector

Department Stores
Shopper's Stop
Westside
Lifestyle
Globus
Pantaloon

Malls
Central
Inorbit
Atria
Emporio

Cash and Carry
Metro Cash and Carry
SPAR

Hypermarkets
HyperCity
Big Bazaar

Food and Grocery
Food Bazaar
Subhiksha
Reliance Fresh
More

Books, Music and Leisure
Planet M
Crossword
Odyssey
Reliance Time Out

Quick Service Restaurant
McDonald's
Pizza Corner
Dominoes
Papa John's
Costa Coffee
Barista
Café Coffee Day

Gems and Jewellery
Tanishq
Reliance Jewels
Gilli

Footwear
Reliance Footprint
Bata
Inc. 5
Soles
Nike
Reebok

Apparel and Fashion
Peter England
Provogue
Guess
Bossini
Satya Paul
Ritu Kumar
Tommy Hilfiger

04 Observation 1 – An Explosion of Choice

Consumers to benefit from widely available choice

In the Indian market, per capita incomes are increasing and are expected to grow at an average of 8.5 percent per annum, till 2015. With increasing incomes, consumers have greater propensity to spend on products and services. This, coupled with the desire to consume the same products and services that are used by their counterparts overseas, is resulting in increased consumption levels among Indian consumers. One of the greatest benefits of modern trade will be experienced by consumers in the form of access to and availability of choice.

In a democracy, one of the fundamental tenets of progressive policy changes is that the main beneficiary must be the consumer. It is essential that nations, as they embark upon more sophisticated economic policies, should not be influenced by the politicization of issues. It is important that the government maintain a role in the development of viable and credible policies that focus on inclusive growth with minimal displacement. Providing policy change which benefits the consumer helps drive consumption, provides a boost to the economy and helps equalize standards of living between countries.

Opening up the retail sector and encouraging the growth of modern trade will result in—

Benefits of Modern Trade—From the Consumer's Perspective	
Choice	Consumers being able to avail of increased choice and range of products
Rationalization and convergence of prices	Due to increased competition, a larger supply of products into the market, competitively priced items sourced from other emerging market economies, etc. prices of products will converge to a more accurate representation of true market value.
Better quality	Better quality food products resulting from knowledge transfer regarding best practices in grading, sorting and processing techniques, the establishment of a robust cold chain system, etc.
"Lifestyle parity"	Equalization in the standards of living available to consumers between countries. This parity in product choice boosts consumption and helps level the consumption playing field.
A zero tolerance policy for inefficiencies	Modern trade helps usher in new tolerance levels for efficiencies and inefficiencies. Customers are willing to pay for efficiencies but are refusing to pay for inefficiencies due to access to wider choice, increased funding options, etc. This will bring about a paradigm shift in business practices, rate of innovation, availability of products and services, etc.

A Globally-Oriented Indian Consumer

Indian consumers are becoming (almost!) as global in their thinking, preferences and orientation as their Western counterparts. The ability to travel abroad for business and recreation, the exposure to the Internet and ICT tools, lifestyle influencers from print, TV and film media, among other drivers, are shaping Indian consumers' shopping behaviours and mindsets towards consumption. Indians, who typically followed a savings-oriented approach, are enjoying the benefits of higher incomes and are often splurging on lifestyle-oriented goods. The increased spending power and the desire to acquire global, trendy and current products are incentivising consumers to purchase products across categories, in the mass, premium and luxury segments.

Since the advent of modern trade in the 1990s, Indians were slowly exposed to an increased variety of food and products. Today, globalisation and liberalisation have converged and consumers are flooded with choice in the marketplace. As modern trade has expanded, consumers have been able to purchase products that have delighted and excited global customers for years. Due to increased availability of products India, instead of buying abroad, today Indian consumers shops in India resulting in revenue to Government in indirect taxes.

One example of a modern retailer wanting to leverage the change in consumers' shopping habits is Foodworld Supermarkets Ltd & Health and Glow Retailing (P) Ltd.

Global travel, exposure to the different behaviours and cuisines, makes Indians open to trying new products and tastes. Retailers are likely to take advantage of this by offering unique, new and exciting consumption experiences.

Leveraging Consumers' Preferences for New Taste Experiences

Foodworld Supermarkets launched a new concept store, called Foodworld Gourmet. This offering enables Indians to avail of an international food experience, given that 60 percent of food products are imported or sourced globally. Consumers can purchase products that they would otherwise have to travel to foreign locales to consume.

This format offers imported foods, wines, jams, pasta sauces, cheeses, Thai noodles, juices, vegetables, imported colas, tonic waters, pasta sauce, jams, biscuits, baked beans, breakfast cereals, etc. The format also offers sections dedicated to confectionery, juices, salads, Asian food, European food and organic food.

Apart from general grocery, the store has a dairy, meat and seafood section offering varieties of marinated meats, chilled crab and tiger prawns, Spanish turkey breasts or smoked Norway salmon, much of which has been flown into India different parts of the world.

"It's the right time for this store to be launched. India is fast becoming one of the favourite destinations for expats and there is also a boom in international travel that India is witnessing. It will fulfil the needs of high-end customers and an aspiration for those who wish to change their lifestyle."

-- Norman Yum, Chief Executive Officer, Foodworld Supermarkets

05 Observation 2 – Contributions to the Exchequer to Escalate

Contributions to the Exchequer to Escalate

Contributions to flow to exchequer due to increased transparency

The consumption pattern of consumers is greatly influenced by the incidence of various taxes. Taxes in India are in the form of either a direct levy on the income of the consumer (i.e., income tax) or indirect levies which are inbuilt in the cost of products and services and have to be borne by the final consumer on their purchase. Of the two types of taxes, indirect taxes or consumption taxes gain prominence with respect to the retail business. Indirect taxes, such as excise duty, service tax and value added tax, directly impact the prices of goods and services. The incidence of such taxes is typically passed on to the final consumers, further underlying the significance of these taxes, since consumption costs go up as a result.

However, indirect tax reform over the past few years has been significant and has benefited consumers. The State Governments merit praise for having successfully implemented the Value Added Tax ("VAT") system of levying taxes on goods. The VAT replaced the earlier system of the single point levy under the erstwhile sales tax laws. The VAT provides an input tax credit mechanism (i.e., the dealer is eligible to set off the tax paid on input goods against the tax payable on output goods). This enables pricing of goods to be moderated for taxes.

Current Tax System Places a Heavy Burden on Retailers

Although the retail sector has succeeded in evolving as an organised revenue generating sector, it still continues to be challenged by some issues under the present indirect tax regime.

Service tax on immovable properties is a major burden for retailers who are operating on thin margins.

The service tax on renting of immovable property has proved to a very significant cost for the retail business in India. Real estate costs account for between 30 to 40 percent of the operating costs of a typical retail business. Normally, the service tax payable on renting of immovable property would be available as a set off against the service tax liability on output services. However, in the case of the retail sector, the business transacted involves purchase and sale of products and, per se, no services (taxable under the service tax laws) are provided. Due to this inability to offset the service tax paid on renting of immovable property, the tax cost on account of rentals increases. The increase in rentals due to levy of service tax of 12.36 percent is likely to have an impact on the growth of the retail sector. The additional burden of the service tax on immovable property would have to be borne by the retail stores as they may not be in a position to pass on this additional cost to the final consumers. The retail sector is already functioning on a 'large volume, low margin' basis and may not be able to absorb this additional cost burden. As a consequence, the targeted growth rate set for the industry may not be achieved.

Excise tax poses a challenge to retailers.

Another indirect tax issue is with regard to the excise tax. The retail sector typically undertakes activities such as packing and repacking of goods procured in bulk quantities into retail packs. Such activities with reference to specified products may be treated as deemed manufacture under excise laws and accordingly would be liable to excise duty. As a result, the retail stores would be burdened with the responsibility to comply with the rules and procedures prescribed under excise law. The retailers would have to ensure timely payment of such taxes, filing of returns etc. leading to practical difficulties and increased compliance costs. Further, the additional excise duty burden would possibly be borne by the retail sector as increases in the price of products may not always be possible.

The aforesaid problem highlighted with regard to the inability of the retail sector to offset its input taxes will of course be resolved once the Goods & Services Tax (GST) is introduced in India by the expected date of 1st April, 2010. This is for the reason that subsequent to the introduction of the GST, in the form in which it is currently contemplated, input taxes would be fully offset or refunded, in the event that such offsets are not possible. The problem therefore is one that the retail sector has to be grapple with till such time as the GST is introduced. Given the relatively nascent state of the organized retail sector in India, this problem would need to be expeditiously addressed.

Tax Contributions from Modern Trade Players to Benefit the Exchequer

State VAT lacks uniformity and requires retailers to adhere to compliance requirements that differ by State.

The State VAT structure lacks uniformity, in terms of tax rates of certain products and the prescribed threshold limits. The threshold limits prescribed by the different States vary from INR200,000 to INR4,000,000. Further, there continues to be non-uniformity with respect to the rates of VAT across the States. The same product may attract VAT at 12.50 percent in some States and 4 percent in some other States.

In addition, the retailers are also required to meet compliance requirements such as timely payment of taxes, filing of returns, etc. prescribed under the different State laws. The retailers have to ensure that the documentation of transactions is as prescribed under the individual state laws. For example, the contents of a tax invoice / retail invoice are prescribed under the individual State VAT laws and they are, at times, different. Besides VAT, the products would also be subject to the levy of local taxes such as Entry tax, Octroi, etc. This poses a serious problem to the retail stores located in the different regions of India.

Variances in contribution to the exchequer

The organized and unorganized retail sectors differ not only in their size and infrastructure but also in terms of their contribution to the Government exchequer. Collecting revenue from the unorganized retail sector is a challenge for authorities.

- Kirana stores and the kiosks are located across geographical distances, in urban and rural areas.
- Street vendors and rural outlets do not have a postal address.
- Most people who own and operate these stores or kiosks do not have basic education.

As such, it is problematic and difficult to make the owners aware of the tax laws and unrealistic to expect that they will come forward and comply with the necessary tax obligations. In addition, the availability of exemption or composition schemes enabling small retailers to effectively not pay VAT of any significance leads to a large number of retailers not contributing much to the exchequer. There is also the allied problem of such schemes facilitating possible evasion of taxes.

Organised retailers, on the other hand, are both tax compliant and large tax payers. Given their significantly larger turnover, there is typically no means by which they would be in a position to avail of tax exemptions/concessions. In addition to this stellar role, the organized retail sector also facilitates the generation of significant tax revenues through the building up of a robust and sophisticated supply chain which impacts the logistic, transportation, warehousing, freight forwarding and other similar service sectors, all of which contribute to the exchequer through payment of indirect taxes, primarily the service tax.

Increase in State VAT Revenues as Modern Trade Grows

An attempt has been made to assess the likely increase in State VAT revenues as a result of the shift in the composition of retail trade from the unorganized sector to the organized sector, keeping in mind the underlying growth projections relating to the retail sector. This page incorporates these computations.

The VAT collections have been projected based on data available in the public domain on the size of the retail market. However, very little data exists on the composition of retail trade and its further breakdown into categories as relevant for the VAT computations. The following are the assumptions underlying the calculations -

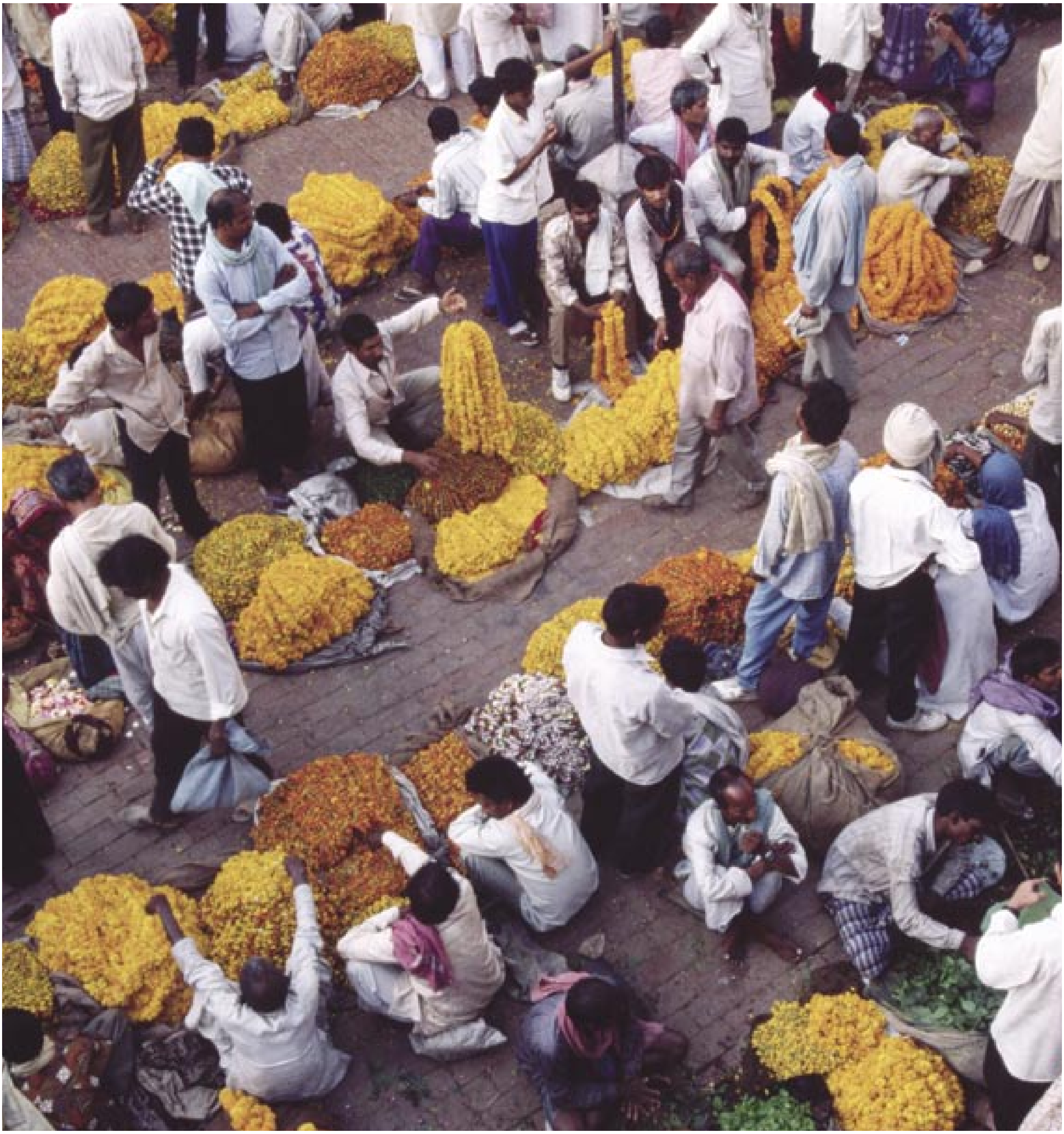
- There will be a growth of 30 percent in the retail market in the years 2007 to 2010.
- There will be a growth in organized retail from 5 percent in the year 2007 to 22 percent in the year 2010.
- The retail prices of goods and their VAT rates will remain constant.
- The average VAT collections from the retail sector have been worked out taking an average VAT rate of 10 percent keeping in view that certain retail products may be chargeable to VAT at 4 percent whereas the majority will be chargeable to VAT at 12.5 percent.
- Out of the total unorganized retail sector, 60 percent are unregistered dealers whose revenues are below the threshold limits for registration under VAT and consequently such dealers are will not pay any VAT.
- 30 percent are small dealers paying VAT under composition scheme at a rate of 1 percent
- The balance 10 percent pay VAT at full rate i.e. at the rate of 10 percent as above.

Based on the above assumptions, VAT revenues are expected to grow by INR34205 crores (USD8.6 billion) in the years from 2007 to 2010. The aforesaid total growth in VAT revenues is attributable to the following:

- Growth attributable to increase in size of retail sector (INR10265 crores or USD2.6 billion)
- Growth attributable to shift from unorganized to organized (INR23940 crores or USD6.0 billion, taking into account a 10 percent increase in VAT collections where the shift is from unregistered dealers to registered dealers and a 9 percent increase in VAT collections where the shift is from Composition to registered dealers).

Therefore, an increase of approximately of INR24000 crores (USD6.0 billion) in VAT revenues is expected by 2010 as a result of the shift from unorganized retail to organized retail. This suggests State revenues will benefit from the increase of modern trade.

06 Observation 3 – Integrating Farmers with Modern Trade—Exploring Partnership Models



Models can be explored through which farmers can become partners and truly integrated into the food supply chain.

Like other developing economies, India lacks in the last mile distribution segment. The supply chain in India is fairly unidimensional and there is very little value-added activity since distribution remains fragmented and unorganised.

India is a fragmented country with 70 percent of the population residing in rural areas. The ability to reach consumers and transport goods to them is challenging given the absence of robust infrastructure and logistics systems. With growing urbanization the necessity of robust roads, highways and public transport systems are essential. Due to the presence of large local and multinational companies, India has a fairly organised and developed non-food manufacturing supply chain. However, the food supply chain in India is fragmented and unorganised.

As modern trade grows, supply chain efficiency will become essential in offering competitively priced products, responding to customers' changing needs and providing good customer service. Supply chain management involves: supplier management, purchasing, materials management, manufacturing management, warehousing, material handling, transportation, physical distribution and customer service. The government can also demarcate special warehousing zones / distribution centre zones in each state, which could be developed for use by retail chains, could be incorporated as today the warehousing sector is quite fragmented. The food supply chain can be divided into the following sectors:

- Primary—Agriculture, horticulture, fisheries and aquaculture are the primary producers
- Intermediate—Manufacturers who process the food for ready-to-eat or cook format together with the packaging companies
- Last stage—Retailers, wholesalers and caterers are in this last stage of the supply chain.

Modern Trade to Bring in Much Needed Funds to Improve India's Farm-to-Fork Supply Chain

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, this will minimise wastage (especially for fresh foods and vegetables), will increase farmers' realizations, will encourage best practices in crop management and will improve food safety and hygiene. Allowing FDI will bring about the development of a robust supply chain which in turn will integrate farmers into the modern trade process, result in knowledge and skills transfer, ensure farmers receive higher prices for their produce, provide a more transparent mechanism for pricing, helps stabilize order quantities, eases the access to credit and provides for better planning at the time of harvest.

The current food supply chain situation in India is replete with inefficiencies:

- There are inadequate cold chain units
- Technologies are not incorporated into supply chains
- The regulatory environment protects middlemen, penalizes farmers and results in inflated pricing structures. Farmers also have little or no bargaining power.
- The absence of physical, social, institutional infrastructure, such as evolved commodity markets, dispute resolution mechanisms
- Several levels of intermediaries exist in the supply chain
- Wastage levels are between 24 to 40 percent
- Several small stakeholders (farmers, wholesalers, food manufacturers, retailers) work in silos
- Absence of technology systems for demand forecasting, order replenishment, etc.

Geographical and cultural diversity, regional complexities, outdated regulatory frameworks and an absence of capital for investing in technology and modern retail formats have hampered India's food supply chain. Existing intermediaries cause delays and consume a large portion of the earnings that essentially belong to the farmer.

Pricing in the Farm-to-Fork Supply Chain

Consumer pays over 40% for products

Retailer Margin

Trader Margin

Farmer Margin

Observations

- *Several layers of intermediaries*
- *Farmers and consumers are disadvantaged*
- *High wastage levels*
- *Produce travels for 1-3 days from farm-to-fork*
- *Customer pays more for produce which has no value addition*

High Wastage Levels are a Major Issue

One of the arguments in favour of FDI is that it will bring with it the technologies and expertise required to build robust food supply chains and integrate farmers within the food supply chain. While Indian consumers demand fresh products, hurdles in transport, logistics and infrastructure, combined with large distances that produce has to travel, coupled with a warm climate, ensure that consumers only receive produce days after it has left the farm. Huge quantities of fresh fruits and vegetables are lost due to the lack of a cold chain infrastructure. While inefficiencies increase consumer prices, farmers suffer from extremely low realisations.

Some IT companies are working alongside development organisations to establish IT architecture and systems that support and connect farmers and buyers, such as retailers and supermarket chains.

Utilizing IT to Connect Farmers and Retailers

One example of a means to better link farmers with retailers is an initiative funded by US Agency for International Development (USAID). One of India's premier software exporters, Bangalore-based Infosys Technologies Ltd, is developing a supply chain management solution to connect fruit and vegetable growers with buyers (i.e., large retailers and supermarket chains). This USD6.3 million initiative is funded by USAID is currently being implemented by ACDI/VOCA, a non-profit international development organization under its growth-oriented micro-enterprise development (GMED) programme.

Donald Taylor, head of GMED in India, said farmers either individually or through cooperatives can access the application through hand-held devices such as general packer radio service (GPRS) or code division multiple access (CDMA) phones and through personal computers.

The solution is being piloted with about 1,700 farmers at Nandani Fruit and Vegetable Growers Cooperative Society in Maharashtra and would be taken to other parts as well in the coming years. In a media statement, Infosys put forth that, "Over the next five-eight years, the usage is expected to increase to a million farmers." Compared with agricrops, fruit and vegetables are victims of many more pests and diseases, and growers require extensive extension services, which GMED hopes to facilitate using the Infosys application. The solution application helps in managing supply chain issues ranging from profiling of farmer clusters to crop planning, scheduling, tracking, forecasting, and also covers traceability aspects.

Supply Chain Efficiency is a Critical Enabler for Retail

To unlock operational efficiencies, facilitate growth, reduce costs and improve the time it takes for food to move from point of manufacture to point of consumption, robust and scalable supply chains need to be built. The Government too needs to bring in appropriate legislative changes to catalyse this transition in the food supply chain.

It is estimated that supply chain costs form over 50 percent of total operating costs. Unfortunately, Indian retailers fare poorly when compared to global players on key supply chain parameters. Researchers estimate avoidable supply chain costs (wastage, excess inventory and excess transportation costs) in Indian Food and grocery sales to be about INR1 trillion (USD 24 billion).

Suggested mechanisms through which farmers can be integrated into the food supply chain are outlined over the following pages.

Retailer becomes a wholesaler

In this model, the retailer works with farmers to develop an expertise in the farming and harvesting of a range of produce. Considering volume and scale parameters, it would make the most sense, in this model, to interact and deal with a large number of farmers to cultivate the produce. Once the produce has been harvested, the retailer can become a wholesale farmer (since they have aggregated volumes) to —

- Supply this produce to the retailer's food and grocery stores
- Act a sourcing agent and supplier to other modern trade formats and unorganised trade participants
- Export surplus produce overseas

Integrating Farmers into Modern Trade

Contract farming models bring together farmers and retailers

The Food and Agriculture Organisation's report on contract farming indicates positive results from a project involving a large FMCG major and farmers in north India. The FMCG company issued contracts to approximately 400 farmers to grow select varieties of tomatoes. A study of the project revealed that production yields and farmers' incomes increased as a result of the use of hybrid seeds and the availability of an assured market. The yields of contract farmers were 64 percent higher than those not under contract. Typically, farmers do not have access to finance, equipment, seeds, fertilisers and machinery; under contract farming, companies provide access to funds and materials to farmers.

Contract farming is likely to also improve food safety since large corporate companies will be partnering with farmers to teach them best practices in crop management and food safety. Studies suggest that almost everything edible contains some bacteria, heavy metals, artificial additives or chemical residues, which are the result of increasing pollution and the use of pesticides.

Teaching farmers best practices in crop management, organic farming, use of pesticides will help decrease the hazards associated with fresh foods and produce. Also proper cold chain facilities which refrigerate foods adequately, robust transportation networks, etc will also help in maintaining the freshness of foods and will help to reduce heath risks.

Cooperative models

Farmers, retailers and agri-universities can explore partnership models. Through collaboration, stakeholders can share best practices in harvesting, crop management, soil conservation and protecting the environment.

Best practices transfer

ITC Collaborating with Farmers to Project the Volume of Produce Required

In this model , the modern trade player engages with small farmers via a value proposition which is a complex process that requires a personalized relationship, keeping in mind social and cultural elements; the farmer believes that "someone on the other side knows me and is keeping my interests in mind."

ITC's Choupal Fresh fruits and vegetables format utilizes best practices transfer in farming and sales volume projection that results in higher income generation for farmers. If farmers can provide what is demanded by the market there would be no spoilage and wastage since produce could be harvested, when required. Each Choupal Fresh outlet is linked to between 15 to 40 farmers, who are given a calendar of which items to produce and harvest. ITC provides infrastructure in terms of tools and knowledge transfer (nursery management, farming management etc.) A truck collects produce from farmers and transfers this directly to stores, which can then be bought fresh by consumers.

The benefits of this model are felt by the farmer, consumer and modern retailers—

- Farmer—The farmer is assured of orders, higher prices, more fair marketplace interactions, benefits from knowledge transfer and management
- Consumer—The consumer receives produce that is more fresh, and safer
- Modern retailer—The retailer pays more competitive prices for produce and can also brand this to consumers. In the case of ITC, the fresh produce is branded as "Today's Harvest." Consumers in a catchment area begin to observe when the fresh produce arrives into stores and time their store visits accordingly. Consumers also do not mind paying a slightly higher price for fresher and hygienic produce. Thus with self interest the farmer is co-opted and a larger share of the consumer price flows back to the farmer. Modern retailers do not mind since it increases their profitability too on a more sustainable basis.

McDonald's Support Improves Farmers' Practices

How McDonald's Integrated Suppliers into Modern Trade

With over 125 outlets in India, McDonald's is planning to add 40 additional outlets in 2008. McDonald's commitment to support and develop local owners, suppliers and growers is evident in their efforts and initiatives to involve members of the food supply chain. McDonald's aims to support other Indian businesses through local sourcing and skills transfer and exchange; this helps to further local employment. This commitment has translated into enduring benefits for businesses at the grass root level, in the introduction of new crops, in the adoption of new agricultural practices and food processing methods.

McDonald's unique cold chain, on which the quick service restaurant (QSR) major has spent more than six years setting up in India, has benefited both farmers and customers; customers receive high quality fresh food products at competitive prices.

Each McDonald's burger requires six different ingredients which are sourced from 35 suppliers across the country:

- Sesame seeds come from Ghaziabad, Uttar Pradesh
- Bun is sourced from Noida and Khopoli, Maharashtra
- Vegetable sauce comes from Phillaur, Punjab
- Cheddar cheese from Baramati, Maharashtra
- Vegetarian and non-vegetarian patty from Taloja, Maharashtra
- Lettuce from Talegaon (Maharashtra), Ooty (Tamil Nadu) and Nainital (Uttaranchal)

"Every year, INR50,000 crore worth of food produce is wasted in India because of lack of proper infrastructure for storage and transportation under controlled conditions. These range from physical damage and vermin infestation to improper temperature, humidity and air-flow. McDonald's, through its unique cold chain, has been able to both cut down on its operational wastage, as well as maintain the freshness and nutritional value of raw and processed food products. This has involved procurement, warehousing, transportation and retailing of perishable food products, all under controlled temperatures."

-- Amit Jatia, Joint Venture Partner and Managing Director, McDonald's (West & South India)

Collaborating with McDonald's Improves Farmers' Incomes

Harvesting McDonald's signature iceberg lettuce enabled one supplier to build a refrigerated transport system, maintain post-harvest facilities and export to international markets

Trikaya Agriculture is a major supplier of iceberg lettuce to McDonald's India. Through its association with McDonald's, Trikaya was exposed to more robust agricultural management practices and sharing and transfer of advanced agricultural technology. Initially lettuce could only be grown during the winter months but with McDonald's knowledge and assistance in agriculture, the McDonald's supplier can grow this crop all the year round.

McDonald's also assisted with the selection of seeds and exposed Trikaya to advanced drip-irrigation technology. McDonald's also facilitated the development of a refrigerated transportation system that enabled this small agri-business to provide fresh, high-quality lettuce to McDonald's urban restaurants, located thousands of kilometers away.

Post harvest facilities at Trikaya include a cold chain consisting of a pre-cooling room to remove field heat, a large cold room and a refrigerated van for transportation where the temperature and the relative humidity of the crop is maintained between 1°C and 4°C and 95 percent, respectively. The pack house, pre-cooling and cold room are located at the farms itself, ensuring no delay between harvesting, pre-cooling, packaging and cold storage.

With this cold chain infrastructure in place, Trikaya also plans to export this high value product to other international markets, especially to McDonald's Middle East and Asia Pacific operations. McDonald's expertise in packaging, handling and long-distance transportation enabled Trikaya to produce trial shipments to the Gulf successfully. In addition to exports, McDonald's assistance enabled Trikaya Agriculture to supply this crop to several of star-rated hotels, clubs, flight kitchens and offshore catering companies in India. Therefore, in collaboration with McDonald's, Trikaya was able to increase its customer base, grow its revenues and develop refined knowledge in the area of farming produce.

Developing dedicated quality procurement programme for milk alleviates farmer travel to collection centres and improves revenue and collections of a dairy.

McDonald's supplier of cheese, Dynamix Dairy, recognising the importance of having quality milk to produce quality cheese, established a dedicated quality program for milk procurement. Significant investments have been made in building bulk coolers at all milk collection centres in its area of operation in Baramati. Efforts have been made to see that the bulk cooling centres are located such that farmers do not have to travel more than an hour from their farms to reach the collection centre. This significantly reduced the time from milking to refrigeration, which is critical, especially since the absence of proper refrigeration can greatly impact the quality of milk. On receipt, the milk is immediately stored in bulk coolers at the collection centres, to prevent growth of bacteria in the milk and preserve its freshness, thereby maintaining the cold chain.

Partnering with McDonald's Enables the Farming Community to Supply to Additional Local and International Customers

Vista Processed Foods Pvt. Ltd. are McDonald's suppliers for the chicken and vegetable range of products. Technical and financial support extended by US-based OSI Industries Inc. and McDonald's India Private Limited enabled Vista to establish world-class infrastructure and support services. This includes hi-tech refrigeration plants for manufacture of frozen food at temperatures as low as - 35°C. This is essential in ensuring that the frozen food retains it freshness and the 'cold chain' is maintained.

With continued assistance from its international partners, Vista installed hi-tech equipment for both the chicken and vegetable processing lines, which reflect the latest food processing technology (e.g., de-boning, blending, forming, coating, frying and freezing). For the vegetable range, Vista utilizes the latest vegetable mixers and blenders. Also, in order to address cultural sensibilities, both processing lines are segregated and stringent care is taken to ensure that the vegetable products do not mix with the non-vegetarian products.

These products, besides being supplied to McDonald's, are also offered to institutions like star-rated hotels, hospitals, project sites, caterers, corporate canteens, schools and colleges, restaurants, food service establishments and coffee shops. Today, the production of better quality frozen foods that are both nutritious and fresh improved Vistas brand image and equity in the food segment.

Working with an international partner yields high quality products and enables the supplier to offer products to other customers.

Developing process-grade varieties of potato enabled McDonald's to work with farmers and ensure that farmers received monetary gains as suppliers.

In 1991, McDonald's was searching for a particular variety of potato for manufacturing its world famous French fries. One of McDonald's supplier, Lamb Weston, invested heavily in establishing production lines to process potatoes and make fries. However, production was discontinued, since robust quality of potatoes could not be sourced. The right quality potato in India was unavailable since farmers used seeds from the preceding crop, which resulted in a single variety of poor quality potatoes. McDonald's needed the process-grade variety of potato for its products, which is required, according to its international quality standards. The variety of potato required by McDonald's had to have a certain length, high solids content and low moisture content while the ones that were available were of the table-grade variety.

Nonetheless, according to its initial commitment to local sourcing, McDonald's and its supplier partner, McCain Foods Pvt. Ltd., began to work closely with farmers in Gujarat, M.P. and Maharashtra to develop process-grade potato varieties. Leaders in agronomy, technology and innovation, McCain Foods Pvt. Ltd. Along side McDonald's worked with agronomists and field assistants to demonstrate best practices to farmers. This included the impartation of better agronomy techniques such as irrigation systems, sowing seed treatments, planting methods, fertilizer application programmes and more robust storage methods for produce.

In addition to this, the farmers also benefited through incremental monetary gains since they sell directly to McCain Foods Pvt. Ltd. instead of to commission agents. The result of these efforts has been that the Gujarat potato crop has been utilised to make McDonald's 'Chatpatey' Potato Wedges.

07 Observation 4 Kiranas and Modern Trade can Co-exist in India's Retail Sector

Kiranas can exist alongside modern trade players and can explore partnership models in a rapidly changing retail environment.

Modern trade players, on the other hand, are subject to high operating costs in the form of renting land, employing people, paying for air conditioning and bright lighting, making capital investments in IT such as retail software,

There are an estimated 12 million kiranas in India, most of which are owned and managed by small business owners and their families. Kirana stores are typically located in good catchment areas, and in addition to having a detailed understanding into consumer behaviour in that area, have virtually no operating costs; kiranas often own the land that their shop is located on and use household labour to operate the store.

CEOs from leading retail companies who participated in this study believe that as modern trade grows, the kirana will continue to be a mainstay in Indian retail. In the global context, as modern trade expanded, both organised retail players and unorganised retail participants, have co-existed. Participants in the Indian retail sector believe that this will also occur in India. Currently, organised retail is only between five to eight percent, indicating that the rest of the USD350 billion sector is being served by kiranas. One senior executive interviewed for this study remarked that kirana stores address the converging needs for efficiency, convenience and customer service. In addition, kiranas are often located in neighbourhood catchment areas and are easy for residents to access; this differs from some organised players, who among other formats, do operate large-format stores that can be a 30 to 45 minute drive away.

Key Strategic Levers Ensuring the Survival of Kiranas

Kiranas, an important and critical element of the retail ecosystem, enjoy the following features and attributes which will ensure their sustainability—

Knowledge intimacy is hard for modern retailers to replicate—Consumer insights

Kiranas have a detailed understanding of consumers' shopping preferences and habits, in a catchment area. This knowledge and insight has typically developed over decades! Kirana owners often know which products their patrons prefer, who buys vegetables on what day, which consumers are more price sensitive than others, etc. It is hard for a modern retailer to develop this same level of insights, considering that kiranas have been firmly ensconced in a catchment area for, in many cases, decades.

Unforgiving consumers—The visit vs. buy decision

While consumers do enter modern retails format to look around, browse the selection of goods, compare prices, etc., they typically leave the store and move towards their preferred kirana to meet their shopping requirements. This is even moreso if the modern player does not have the products that the consumer wants on the shelves.

Ingrained consumer behaviours—The kirana's value proposition

Kiranas meet the needs of consumers who need to do daily top-ups of select food and grocery items. Modern retail formats offer the ability to buy several SKUs under one rood; often consumers use modern formats for weekly top-ups. Consumers are likely to visit department stores and malls for apparel and fashion needs but will continue to frequent kiranas for categories such as groceries, vegetables, fruits and FMCG items.

Sourcing, Credit and Partnership

To adapt to the developing retail sector, kiranas can also explore a variety of options to upgrade themselves and in some cases, partner with modern trade players—

Credit facilitation models

The government should provide access to credit and other means through which kiranas can grow in an environment that is increasingly becoming modernised. The limited availability of credit is a major constraint for kiranas who are looking to expand and upgrade operations.

Smart sourcing models

Kiranas, in order to avail of competitively priced products, can enter into sourcing agreements with modern trade players for food and grocery items. This reduces costs and helps the kirana offer competitively priced products to the customer base.

Exploring partnership models—franchise relationships

Kiranas can also become franchisee partners to retailers and benefit from retailers' supply chains, promotional assistance and offers to train and upskill staff. This mechanism allows the kirana owner to become part of a larger brand and this in turn, improves brand image and builds brand equity.

SPAR to Offer Licensee Arrangements with Larger Kiranas

Media reports suggest that Dutch retail major SPAR International, which has partnered with Dubai-based Landmark Group for its hypermarket foray in India, may offer a large format kirana store. Alongside its India master licensee, Max Hypermarkets, the Dutch behemoth plans to enter into sub-licencee arrangements with larger kirana stores to initiate its neighbourhood supermarket format in the country. (Globally, the neighbourhood store or the local supermarket is the most widespread format of SPAR International.) With focus on fresh food, these supermarkets aim at meeting local needs. Under the sub-licencee arrangement, SPAR will provide assistance with store layout, expertise with regard to using technology know-how and merchandising.

"As modern retail progresses in India, people who run the small stores will expand into large neighbourhood stores. We will work with these people who run their own local supermarkets. These independent retailers can be part of the Spar umbrella in India."

– Gordon R. Campbell, Managing Director, SPAR International

Upgrading Operations, Increasing Choice

Modernise operations

Kiranas can upgrade and modernise interiors by placing clear signage over aisles, maintaining a clean and hygienic environment, increasing availability of products, offering imported items, using IT software to improve and hasten billing processes.

Increase product choice

Some consumers, especially those based in India's metropolitan cities are demanding more choice and variety in the products that they consumer. Kiranas are leveraging these new customer needs towards increasing the choice and availability in there stores.

For example, some kirana stores are beginning to stock "different" products that appeal to the well traveled and globally-influenced shopper, such as organic (unfertilised) eggs, speciality cheese, persimmons, avocadoes, tri-coloured pasta, sea salt, brown rice, organic lentils, unrefined sugar, red and yellow bell peppers, fennel bulbs and jalapenos, etc. Consumers are demanding these ingredients owing on account to—

- Experimentation—They are increasingly cooking a variety of cuisine at home
- Health conscious—Many consumers want access to varied food and grocery items that are either organic or fresh
- Access—Consumers want to be able to have access to specialty ingredients at the neighbourhood kirana store



Umbrella Branding Strategies, Continuing Education

Cluster branding strategies to build brand equity and presence in the marketplace

The Indian Institute of Packaging (IIP), according to media reports is developing a cluster branding strategy for kiranas. Packaging can be undertaken by small and medium units at a minimum cost. From the customer's perspective, a common branding platform creates an identity which will have visual appeal, cache and a quality assurance that can be leveraged by kiranas. According to IIP chairman BS Kampani, the institute has spoken to 800 kirana shops in Mumbai and over 250 kirana shops in Ahmedabad.

Classroom training on basic and important retailing concepts

The Ahmedabad Management Association (AMA) provides training programmes for small traders and shopkeepers. Two programmes are conducted on a monthly basis and over 200 traders and vendors have participated in the programme.

Programme participants, with the use of computers and presentations, are taught how to understand consumer needs and expectations and improve the atmosphere of their stores. The partiipiants also learn concepts such as stock analysis, shelf life, unique selling proposition, reorienting distribution, delivering in quality packs, tactics at generating customer loyalty, etc.

The day-long programmes were founded by Amit Vasavadam, the head of a local non-profit organisation, Prasanna Fundation. The AMA is hoping to extend this initaitive to other parts of the state.

"The numbers involved may look small for now, but judging from the feedback the programme is eliciting, there is every indication that this movement will grow in intensity."

– Amit Vasavadam
Founder, Prasanna Foundation

"We want to club the kirana shops of a locality under a single brand. These kirana shops can sell packaged rice, pulses or other groceries under that brand rather than selling it in just conventional paper wraps."

– B S Kampani, Chairman
Indian Institute of Packaging

08 Observation 5
Employment Opportunities for Millions of Indians

Retail to be the critical enabler for the rural, semi-urban and urban unemployed

India, in addition to being the largest English-speaking country in the world, also produces the second-largest contingent of scientists and engineers. Many of these technically-gifted individuals assume positions in preeminent corporations in India and overseas. However, not everyone in India has the opportunity to be educated at nurturing, well-recognised institutions. Due to economic disadvantages, many Indians have barely passed 10th or 12th standard and have not continued with higher education. While it is difficult to gain an accurate view into India's unemployment rate, it is safe to say that there are large amount of unemployed people in rural and semi-urban India and that many migrant labour drift between India's major industrial towns, looking for employment.

Many of these individuals can be trained to work in the retail sector and can overcome the "qualification barrier" to participate in a respectable career with opportunity for advancement. Current estimates suggest that six percent of the nation's workforce is employed by the retail sector. Our interviewed CEOs were confident that retail can be the country's main source of employment, assuming the sector becomes liberalised. Retail as an employment generator is quite unique, in that it generates employment from the smallest level of shops (kirana stores) to the largest department stores and hypermarkets. From an employment perspective, retail has relatively low entry barriers, as compared to other sectors. This is an important characteristic which empowers employment generation for those at urban and rural levels.

Estimates suggest that while India's labour force is growing at a rate of 2.5 percent annually, employment is growing at only 2.3 percent. Thus, the country is faced with the challenge of not only absorbing new entrants to the job market (estimated at seven million people every year), but also clearing the backlog of people who need to still be hired. A potential solution to this "hiring mismatch" is that retailers can absorb many of these individuals into their operations.

Studies suggest that 2 million individuals will be needed for retail operations by 2010. The retail sector will create employment at the local level and a significant percentage of hires will become first time taxpayers in India. Studies also suggest that over 50 percent of these employees will be women.

In order to help build this workforce, there is a need to foster retail education in India and in states where modern retailing rapidly being accelerated. Qualified manpower is needed to staff positions in malls, departmental stores, supermarkets, hypermarkets and convenience store formats. The retail sector generates both direct and indirect employment.

Direct Employment	Indirect Employment
Merchandising	Maintenance staff
Warehousing	Parking attendants
Transportation	Security personnel
Shop floor workers	Facilities management personnel
Customer service agents	
Visual merchandisers	
Supply chain staff	
Managers	
Buying Agents	
Category managers	

FDI in Retail to Spur Employment

It is also important to note that most individuals who are currently employed by unorganised retail players do not receive healthcare, educational or other benefits. Once individuals become absorbed in retailers' operations, they can access more equitable wages and benefits.

Developed economies like the US, which have a high penetration of modern retailing formats, employ between 10 to 11 percent of their workforce in retailing, as compared to seven percent employed in India today. Allowing FDI into the retail sector will usher in the entry of large global companies who will need to hire millions for their pan-India retail operations. Some of India's largest domestic retailers have plans to enter both Tier I and II cities in the hopes to creating reach, penetration and increased sales. Due to retailers' aggressive expansion plans, there is an increased demand for individuals to work on the shop floor, in the back office and in the front office.

There is a growing concern about the paucity of trained retail personnel both at the store and managerial levels. While there should be no manpower shortfall in India, given its large working population, the gap lies in finding people with the right mixture of skillsets and who:

- Have the right mix of hard and soft skills
- Can be customer service oriented without being subservient
- Can address and deflect questions relating to bargaining when prices are fixed
- Are willing to "go the extra mile" in serving and delighting the consumer

Operating in the Indian retail sector has unique implications. For example, many frontline staff in retail require training, particularly in soft skills, as they interact with customers. Retail staff need to have the confidence and ability to answer questions relating to products and services and provide a satisfactory experience to consumers. As a result, many retailers are using soft skills coaches and trainers to work with these staff members to increase their self confidence and esteem.

20 percent organised retail employees will become tax payers and 50 percent of the workforce in modern retail are expected to be women

Furthermore, retailing is yet to become a preferred career option for most of India's educated class that has opted to enter other industries. Globally retailing has high employee attrition. Even large retailers face attrition of between 40 to 60 percent annually. Indian attrition levels are currently low compared to global standard; that said, attrition levels are expected to worsen due to rapid expansion and existing shortages.

It is estimated that for every 50,000 square feet (sq ft) developed, direct employment is created for 200 people. At a most basic level, every square feet of retail space developed in the city generates employment — both at the development stage and subsequently. More retail developments in a country mean more employment opportunities for the country.

The Imperative of Proactive Training Programmes

Given the shortage and availability of skilled labour, proactive training is a key imperative for Indian retailers. Some retailers are partnering with management institutes to develop specific training programmes for staff. Others are helping to create jobs in the sector for students opting for part-time jobs and self-employed persons and flexi-working hours for housewives. With attrition levels in the retail industry between 35 to 40 percent, retail chains are developing initiatives to ensure talent management and retention. Some initiatives include retail management courses in partnership with management institutes, hiring talent from other sectors and developing career pathing strategies for existing staff.

Case Examples—Programmes for Skills Development, Career Pathing, Training and Upskilling Current Staff and New Hires

Grooming the salesforce

Lifestyle, part of the Dubai-based Landmark Group, partnered with the National Institute of Fashion Technology, Hyderabad to groom its sales force. The three month course in Fashion Retail Management Studies will be fully sponsored by Lifestyle. Trainees will later be employed by Lifestyle stores. Lifestyle has also entered into similar initiatives in other major cities.

Retail certification programmes

Tesco Hindustan Service Centre launched the 'Tesco Retail Certification programme'. This programme is aimed at developing retail management knowledge and skills among Tesco HSC staff. The Indian Institute of Management Bangalore will provide academic input and Integrated Retail Management Consulting will conduct workshops to reinforce the learning.

NSHM Knowledge Campus entered into an agreement with RAI to offer a postgraduate programme in retail management. The association plans to start a subsidised training course for the retail sector in West Bengal targeting the unemployed youths.

Soft skills training modules

One major branded apparel retailer plans to invest in mobile training modules for staff. The retailer plans to build schools to teach grooming, etiquette, the basics of selling, etc. They will also likely develop a manager training course where other retailers can send people to be trained. These schools will be in rural areas and in Tier II cities.

"There are instances where the silent brewmaster would prepare coffee exactly the way a customer would want it, the moment they see them in the cafe. Some customers are impressed by such a personalised service."
Regional Manager, Café Coffee Day

Involving a Variety of Constituencies

Working with the hearing impaired

Café Coffee Day (CCD) provides employment opportunities to hearing impaired individuals as part of its Silent Brewmaster program. This initiative leverages the skills of the hearing impaired. The idea was conceptualised a few years ago, when a hearing impaired individual approached CCD for a job. CCD then partnered with Enable India, an NGO, in regularly employing the hearing impaired in outlets as brewmasters. The NGO identifies the candidates and provides pre-employment counseling, before they arrive at CCD's 20-day training session, where they are taught to prepare 10 of the frequently ordered coffee varieties by experienced brewmasters. CCD regional managers praise the silent brewmasters' loyalty, work ethics and ability to build relationships with customers. The hearing impaired have also become more confident since they spend more time beside the coffee machine. As customers approach them, the brewmaster hands them a paper declaring their disability and asks the customer to write down the order, instead of speaking it out. The difficulties of the job are sufficiently explained to the staff in pre-employment counseling sessions, in order to avoid any awkward moments with customers. The programme has since evolved and addresses a range of issues. CCD is confident regarding the abilities of the hearing impaired employees and addresses issues, as and when they arise.

Upskilling staff

One major quick service restaurant (QSR) player prefers to take non-graduates so that they can be trained and upskilled to assume challenging front-office roles. This QSR player has also partnered with an educational institution to impart training. The QSR player can hire a crew member who is a 10th to 12th standard pass and they can be trained to become a management trainee and then a store manager.

Academics and real-world applicability

Future Group, in order to address the issue of an absence of well-trained staff for retail operations, has partnered with several a schools to offer specialised retail management courses. These programmes blend academic rigour with a practical interface, which is comprised of weekly visits and project work. Typically, on completion of the course, students are placed with Future Group.

Retailer	Current Employment Levels	Employment Forecasts
Viveks	54 stores, 850 direct, 600 indirect	154 stores, 2,000 direct, 2,000 indirect
AV Birla Retail	2 hypermarkets, 577 supermarkets, over 12,000 direct	over 20,000 direct
Provogue	1,100 direct	75,000-100,000*
McDonald's	125 stores, 7,000 direct, 10,000 indirect	500 stores, 25,000 direct, 25,000 indirect

** with launch of shopping centers*

09 Observation 6
The "Smallest of the Small" Vendors can Leverage the Supply Capacities of Modern Players

Small vendors can also be engaged and integrated into modern trade.

Kiranas are small shops that cater to the food and grocery needs of a catchment area. Others, who are headload and pushcart vendors, also serve select catchment areas.

Headload vendors are a particularly vulnerable group since many are middle-aged widows or deserted women with little family support. They earn small profit margins and are impacted by sales from food and grocery stores, modern or unorganised. A major asset of headload vendors is their mobility since all traverse areas on foot. Demand for headload vendors exists in areas that are not in close proximity to food and grocery outlets-

- For consumers who are not mobile
- For consumers who do not have refrigeration facilities
- For consumers who wish to complement their stocks of vegetables on a daily basis

Most small vendors, such as headload and pushcart vendors, require access to credit to fund working capital. However, small vendors are often unable to access credit due to issues pertaining to high interest rates and lack of access to institutions that can provide credit. Credit is required to fund daily and longer term working capital needs, smooth out sales/ seasonal fluctuations and also fund the familial needs, such as school fees, clothes bills, etc. Cash flows, and savings, for small vendors is typically low.

ITC's Innovative Experiments to Involve Small Vendors

ITC is embarking upon experiments that integrate headload and pushcart vendors, and women, into the benefits of modern trade. These experiments, in addition to helping smaller participants in the retail sector also enable ITC to further enhance brand equity and increase sales.

Marketing and branding initiatives involving small traders

ITC will negotiate with gated communities to permit ITC-branded pushcarts into a locality. Vendors will enter gated communities at fixed times. So far, consumers have been responsive to these carts since they are ITC-branded. The vendor also receives training to engage with customers and follows a dress code of wearing an apron over their clothes. Each pushcart is outfitted with an electrical scale.

"The Indian growth story is double-edged. If one is indifferent, the divides turn wider. If you adopt innovative methods, you can reduce the gaps."

– S Sivakumar, Chief Executive-Agri Business, ITC Limited

Providing back-end assistance to small vendors

Although in the development and modification stages, ITC plans to provide logistics support for unbranded pushcart vendors. ITC is passing on live information to vendors such as being at high traffic zones at different times of the day and different days in a week, etc.

Hub and spoke system

This unbranded effort will involve the supplying of food, fruits and vegetables, any time of the day, to pushcart vendors. Vendors can walk into Choupal Fresh Wholesale outlets anytime of the day to refill their carts, unlike just once at the traditional mandi. There are multiple Choupal Fresh outlets that vendors can visit. At this juncture, these carts will not be branded since there are some nuances to this model that still need to be modified. ITC said that produce items that remain unsold can be brought back to Choupal Fresh. ITC is proposing this scheme at a national level and some government engagement would be required.

Offering microfinance to small vendors as a means to upgrade operations and increase income

ITC is also working with microfinance institutions to lend money to headload vending women to buy/lease a pushcart, obtain working capital to purchase a load of produce, etc. ITC would supply the produce and vegetables for the women to sell through pushcarts. For six hours, a headload vendor makes between INR30 to 40 profit; with ITC model, the headload vendors would earn between INR100 to 150 per day. This can help to move headload vendors across the socioeconomic scale to become pushcart vendors, ensures them higher daily incomes, and enables them to provide more food and resources to their families. "We are working with a micro-finance institute (MFI) to help head-load vegetable vendors to move on to push-cart selling. The MFI would support them financially, while ITC would help providing the goods," said S. Sivakumar, Chief Executive-Agri Business, ITC Limited.

10 Appendices

Appendix One

High retail real estate costs are crippling retailers.

The explosion and growth of modern retail in India has resulted in a mismatch of supply and demand. The challenge of finding robust real estate in central areas is on account of several factors including unavailability of large land tracts in central areas of metro cities, urban planning norms, development controls, land prices and zoning, which varies from state to state. Hence quite a few issues need to be addressed in this regard for the issue to be solved.

Most retailers in India indicate that spiraling property rentals are a major impediment to expanding operations. Rent for land has become expensive and is a major cost component of retailers' expenses. (On average, rentals account for between eight to 10 percent of revenue for retailers.) Given that major national and regional retailers plan to expand operations, access to good quality retail real estate is a necessity.

A survey assessing retailer sentiment suggests that retailers in India have more ambitious expansion plans today, than they had a few years ago. A majority of survey respondents indicated that they plan to expand operations within their current city, and a similar percentage is willing to open new stores in other cities within India. The availability of affordable retail real estate is a critical enabler for the continued growth of organised retail in India.

The increasing costs of doing business in Tier I and II cities are making Tier III cities an attractive destination. Tier III cities offer more competitive labour costs, lower real estate costs and relatively more reasonable real estate rental rates. That said, it is important to note that while these cities offer robust cost efficiencies—

- Demographics may differ by region/area.
- Some cities, such as Kochi, Ahmedabad and Jaipur, since they are historically regional commercial hubs and have more mature retail real estate markets, have higher costs than other developing cities.

Rising Rental Rates

Another survey suggests that the total real estate requirement of upcoming organised retail chains will be more than what the construction industry can supply. The demand for quality real estate will grow exponentially over the next four to five years fuelled by increasing demand from organised retailers. According to the report, organised retail will require 500 million square feet of realty space in the next five years, out of which 250 million square feet will be required by shopping malls itself. That said, according to real estate developers' plans, only 143 million square feet of mall space is being planned over the next five years, leaving the retail industry with a shortage of more than 40 percent.

High rentals have resulted in an increase in the toll on per square feet (sq ft) realisation, especially for specialty retail stores, thereby placing intense pressure on the profitability of these outlets. Retail industry sources suggest that property rentals have increased by between two to three times over the last 15 months. In order to maintain margins, some retailers are either downsizing existing outlets or are becoming more selective in choosing locations for upcoming outlets

In addition to rising rentals, from 1 June 2007, a service tax of 12.36 percent has been introduced on rent of INR800,000 (USD17,778) or more per annum from leased commercial properties. The developer will charge the new service tax to tenants, who are likely to pass the burden to customers. This will impact customers in shopping malls and departmental stores. Shops in malls and departmental stores typically have areas ranging from between 500 sq ft to 10,000 sq ft and rents can vary from INR100 to INR500 (USD2.22 to 11.11) per sq ft per month.

City	Q-on-Q (%)	Y-on-Y (%)	USDpsm pa
Beijing	0.9	4.4	808
Hong Kong	3.3	2.3	4457
Singapore	1.1	4.1	2946
Delhi	3.3	34.8	929
Mumbai	0	19.6	824
Bangalore	3.7	9.4	419
Chennai	0	8.3	195
Sydney (Regional)	1.2	4.3	703

Source: Jones Lang LaSalle, Asia Pacific, Property Digest

The Challenge of Finding Robust Retail Real Estate

In most cities, it is difficult to find suitable properties in central locations for large format retail stores, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners. This led to a shift in retailers preferring to establish operations in the suburbs of metropolitan cities.

Developers, in an attempt to address the issue of a supply imbalance have been building malls which are in good catchment areas, have parking facilities, offer food courts, multiplexes and entertainment zones and which boast of modern interiors and amenities. Some malls, due to poor facilities management, do not meet international standards and are beginning to suffer from decreased spend per footfall.

Luxury retailers, for example, need to be very selective in choosing the right retail real estate to position their brands. Many luxury retailers who entered the Indian retail sector, did so by establishing stores in five-star hotels which may have less retail footfalls, but which perhaps ensure a more serious buyer of luxury products. Luxury retailers are anticipating the opening of luxury malls, whereby their brands can be positioned alongside other high-end aspirational brands. Other luxury brands are opening outlets in stand-alone heritage homes that have a posh, old-world feel.

Apart from luxury retailers, other international retailers are surprised at the absence of good quality retail real estate in India given that they have been able to expand operations in dozens of countries outside of their home country! Often, the senior leadership team in the home country simply cannot understand why it would be challenging to locate robust retail real estate in India.

Typically, the demand and supply dynamics of retail real estate play out over a period of time to arrive at optimal pricing levels and product formats which assist in retail growth. Till now in India, we have witnessed the supply rush of new malls and are still in the "building of the pipeline stage" which inevitably will adjust to future demand levels.

Appendix Two

The Retail Sector in Other Transitional Market Economies

One aspect of organized retail growth and its impact on cities is that of enhancing image and providing a well-rounded experience for tourists. The linkage between tourism and retail is quite important and forms a critical part of the overall experience of tourists visiting cities. The presence of high quality and high visibility organized retail whether through malls or superlative high streets is a hallmark for all global tourism hubs and leading cities such as London, Singapore, Dubai, New York and Hong Kong among others.

The retail boom in some emerging market economies suggests some similarities and differences when compared to India. The lessons learned by these economies as they liberalised their markets can also be applied to India. Organised retail penetration levels for select emerging economies are below—

India	China	Malaysia	Thailand
5-8%	10%	55%	40%

China is witnessing robust economic growth, and increasing urban and rural incomes (real year on year increases of 8.2 percent and 6.2 percent according to PricewaterhouseCooperss research) are fueling consumption levels in this vast and complex retail environment. Increases in per capita income, improvements in standards of living and the spread of modern retail formats have led to a change in household consumption patterns. According to Euromonitor, retail sales in China, which was nearly USD554 billion in 2003, will continue to grow rapidly to reach USD900 billion by 2009.

China and India both have value-conscious consumers; as such, establishing appropriate price points becomes crucial, especially for certain product categories, such as consumer durables, footwear, private label offerings, etc. Both countries also have “markets within a market” whereby consumers differ according to preferences, price sensitivities and spending habits, by region. In China, the consumer market is growing rapidly in cities with population ranging from half to three million. Companies that focus on the large, high-profile coastal cities seem to be missing out, just as those in India that are focusing on the principal urban centres.

Foreign players have been entering China ever since the sector was initially liberalised in 1992. Unfortunately, Chinese consumers then lacked the spending power to support these ventures, and other foreign retailers who entered the market were able to gain a foothold in this complex market. China opened up its retail sector completely in December 2004. Some of the changes that have occurred in China post liberalisation of its retail sector are—

- Over 600 hypermarkets were opened between 1996 and 2001
- The number of kiranas increased from 1.9 million to over 2.5 million
- Employment in the retail and wholesale sectors increased from 28 million people to 54 million people from 1992 to 2001

Modern Trade Helps Usher in Higher Standards of Living

In Malaysia, there are four main retail segments:

- The informal sector, which includes hawkers and peddlers selling fresh produce, cooked food and daily provisions in designated market areas.
- The small-scale, single-propriety shops located on major roads. Examples of such trading include jewellery, spices, apparel, accessories, personal items and medicinal herbs and coffee shops.
- Large department stores and supermarkets, which are typically modern in architectural style.
- Super regional shopping centres feature several department stores and small-scale shops located under one roof. These commercial complexes also provide for leisure and social activities alongside shopping.

The country's standards of living have been improving and changing, partly due to rising education levels in the country. In addition, global retailers, through their entry into the country, have also been an enabler for increased choice and availability in the marketplace. Malays are becoming more discerning and sophisticated in their product choice and accept foreign products.

Since the emergence of foreign-owned hypermarkets, people residing in urban regions have become accustomed to shopping for their household needs in supermarkets and hypermarkets. That said, many rural Malaysians continue to purchase goods from traditional kiranas, convenience stores and min-marts. The key drivers for growth in the Malaysian retail industry include gradual market liberalization, boosting tourist inflows and increasing dependence on imports of food. (Tourist inflows are a major factor contributing towards the growth of Malaysian retail industry.) A survey by Jones Lang LaSalle also confirms that Malaysia's strong retail growth has been partly fuelled by the entry and establishment of new outlets by foreign retailers.

The Thai retail market, while highly competitive, is also dynamic and offers opportunity for further growth. With its large population and unsaturated consumer market, Thailand is an attractive market for foreign retailing investment. Nevertheless, future developments concerning the legal conditions and the overall political stability should be taken into account.

The Thai retail industry was dominated by wet markets and small family-owned grocery stores, which formed part of the local community. Wet markets are currently struggling, but they remain a popular choice for fresh food shopping, whereas small traditional local grocery stores have come under substantial pressure; those that fail to adapt and upgrade, are being forced to close down.

Modern retail outlets, primarily Thai ventures, came to prominence during the economic boom in the early to mid-1990's. However, with the economic crisis of 1997, the retail landscape has changed significantly as many modern retailers suffered major debt problems and required capital investment from international partners. These international retailers have brought in new business practices and transformed local shopping patterns. A new breed of more budget conscious and more demanding consumers has emerged. These shoppers have become accustomed to the convenience and price advantages offered by discount stores.

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Founded over 113 years ago, it is India's premier business association, with a direct membership of over 7500 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 83,000 companies from around 380 national and regional sectoral associations.

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