The Rise of India’s Consumer Market

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Outline

- Growth of India’s Consumer Market – Key Trends and Drivers.
- Understanding the Organized Retail Sector – Why India?
- Delhi NCR: One of the key Organized Retail Markets
- Growth of Local and Foreign Retail Players in India.
- Success Case Studies – Bharti Wal-Mart & McDonalds in India
- Singapore Companies success in India
- Challenges before Organized Retail Sector
- Conclusion: Critical factors for success in India
Growth of India’s Consumer Market – Key Trends and Drivers
India In Numbers

Area: 3.2 million sq km, 7th largest country

Population: 1.3 billion, Urban: 30%, Rural: 70% 2nd most populous country

Population Growth Rate: 1.6% per annum

GDP (2011): US$ 1.84 trillion, 10th largest economy

GDP composition:
- Agriculture - 17%
- Industry - 28%
- Services - 55%

Indian Consumer a few years back to now ..........

Mom and Pop shops ("Kiranas")
Forum Mall, Bangalore (above)
Big Bazaar supermarket, Mumbai (below)

South City Mall, Kolkata (above)
McDonalds outlet in Pune Mall (below)
Why do Global Businesses bother with Consumer India?

Indian Economy is expected to touch US$ 3.1 Trillion in the next 10 years in real terms, from US$ 1.84 Trillion in 2011. Bigger than current size of UK, Italy and France.

In 2011–12, India’s GDP is expected to grow between 6-7%, making it one of the fastest growing major economies, despite the ongoing challenges in India and rest of the world.

India has the 4th largest Gross Domestic Product (GDP) in the world in Purchasing Power Parity, it is young - over 500 million people below the age of 25 and it is accelerating its consumption journey.

Share of private consumption forms the key component of India’s GDP and remains high at 58%, compared to China’s at 39%.

Urban Population will be more than the combined population of US, UK and Germany.

Consumer India is a market where average per capita incomes have increased more than 5 times since 1991.

Rural India is decreasing its dependence on agriculture, rise in self employed population, rising aspirations, sophistication of middle class, comfort with technology are all the more reasons to bother Consumer India.
Market Potential

- India has the potential to grow from the current position as the 12th largest consumer market to become the world’s 5th largest consumer market by 2025 (McKinsey Global Institute, Aug 2008)

- India is expected to overtake China as the world’s most populous country by 2030, with half of its population below 25 (McKinsey Global Institute, Aug 2008)

- Retail market in India set to grow into a US$450bn market by 2015, with organised retail projected to take a 14% - 18% share (McKinsey Global Institute, May 2007)
Consumer demographics and spending patterns

- The ‘**Affluent**’ have annual household income above US$ 18,500. These consumers are typically well educated, have mid to large businesses or good jobs with sufficient income to allow significant indulgence. This segment constitutes six percent of households in India.

- The ‘**Aspirers**’ have annual household income between US$ 7,400 and US$ 18,500. These consumers are educated, have mid-sized businesses or stable jobs with income sufficient to live comfortably as well as indulge a little. This segment constitutes 14 percent of households in India.

- The ‘**Next Billion**’ have household income between US$ 3,300 and US$ 7,400. Typically, they have basic education and have small businesses or hold low paying jobs. Their income levels allow them to sustain a basic lifestyle. This segment constitutes 30 percent of households in India.

- Finally, ‘**Strugglers**’ have household income of less than US$ 3,300. Typically illiterate with limited education, these consumers have jobs that are manual labour based with very low income, generally daily wage. This is the largest segment today, constituting nearly 50 percent of households in India.

Source: Euromonitor, BCG analysis.
<table>
<thead>
<tr>
<th></th>
<th>Professional Affluent</th>
<th>Traditional Affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Household</strong></td>
<td>Husband, wife and son, ages 35 and 32 and 6</td>
<td>Husband, wife, daughter and husband’s mother, ages 39, 37, 14 and 62</td>
</tr>
<tr>
<td><strong>Occupation</strong></td>
<td>Husband is a senior sales manager at a leading paint company; wife works in the administration department of a trading company</td>
<td>Husband is a trader of iron and steel rods; wife is a homemaker</td>
</tr>
<tr>
<td><strong>Home</strong></td>
<td>Own two-bedroom apartment in Mumbai</td>
<td>Own three-bedroom apartment in Mumbai</td>
</tr>
<tr>
<td><strong>Annual Household Income</strong></td>
<td>US$ 40,000</td>
<td>US$ 35,000 to US$ 40,000</td>
</tr>
<tr>
<td><strong>Spending as Share of Income</strong></td>
<td>50 to 60 percent</td>
<td>45 to 50 percent</td>
</tr>
<tr>
<td><strong>Household Budget</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>20 percent</td>
<td>20 percent</td>
</tr>
<tr>
<td>Education and leisure</td>
<td>20 to 25 percent</td>
<td>15 to 20 percent</td>
</tr>
<tr>
<td>Clothing</td>
<td>10 to 15 percent</td>
<td>10 to 15 percent</td>
</tr>
<tr>
<td>Trans. and comm.¹</td>
<td>10 to 15 percent</td>
<td>10 to 15 percent</td>
</tr>
<tr>
<td>Housing</td>
<td>20 percent</td>
<td>10 to 15 percent</td>
</tr>
<tr>
<td>Health</td>
<td>5 percent</td>
<td>5 to 10 percent</td>
</tr>
<tr>
<td>Other²</td>
<td>15 to 20 percent</td>
<td>10 to 15 percent</td>
</tr>
<tr>
<td><strong>Favorite Brands</strong></td>
<td>Body Shop and Adidas shower products, Surf Excel, Lizol, Olay cream, and Oreo, Good Day biscuits</td>
<td>Cinthol, Himalaya, and Pears soap, Rin, Amway cleaner, Olay face cream, and Pickwick and Britannia biscuits</td>
</tr>
<tr>
<td><strong>Favorite Grocer</strong></td>
<td>Big Bazaar, Sahakari Bhandaar, Reliance Fresh</td>
<td>DMart for monthly shopping and local shops for quick purchases</td>
</tr>
<tr>
<td><strong>Household</strong></td>
<td>Urban Aspirer Class</td>
<td>Rural Aspirer Class</td>
</tr>
<tr>
<td>---------------</td>
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<td>---------------------</td>
</tr>
<tr>
<td><strong>Occupation</strong></td>
<td>Husband is a high-school teacher; wife is a homemaker</td>
<td>Husband is a wholesaler of staples in the village; wife is a high-school teacher</td>
</tr>
<tr>
<td><strong>Home</strong></td>
<td>Two-bedroom apartment in Ghaziabad, Uttar Pradesh</td>
<td>Own three-bedroom house in Barabanki, Uttar Pradesh</td>
</tr>
<tr>
<td><strong>Annual Household Income</strong></td>
<td>US$ 8,500 to US$ 9,000</td>
<td>US$ 8,500</td>
</tr>
<tr>
<td><strong>Spending as Share of Income</strong></td>
<td>70 to 80 percent</td>
<td>75 to 80 percent</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Household Budget</strong></th>
<th>Urban Aspirer Class</th>
<th>Rural Aspirer Class</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food</strong></td>
<td>30 to 35 percent</td>
<td>30 to 35 percent</td>
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<tr>
<td><strong>Education and leisure</strong></td>
<td>15 to 20 percent</td>
<td>10 to 15 percent</td>
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<td><strong>Clothing</strong></td>
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<td><strong>Housing</strong></td>
<td>10 to 15 percent</td>
<td>10 percent</td>
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<tr>
<td><strong>Health</strong></td>
<td>5 percent</td>
<td>5 percent</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>10 to 15 percent</td>
<td>5 to 10 percent</td>
</tr>
<tr>
<td><strong>Favorite Brands</strong></td>
<td>Aashirwad flour, Dove and Lifebuoy soap, Tide and Surf Excel, Domex</td>
<td>Pears Soap, Rin and Wheel, Lakme cream, and Britannia Cream and</td>
</tr>
<tr>
<td>Household</td>
<td>Large Town Next Billion</td>
<td>Small Town Next Billion</td>
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<td>---------------------------------</td>
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</tr>
<tr>
<td></td>
<td>Upwardly mobile, Selectively Trading Up</td>
<td>Dreaming big</td>
</tr>
<tr>
<td>Husband, wife, daughter and son, ages 41, 39, 18 and 15</td>
<td>Husband, wife and two daughters, ages 30, 28, 10 and 8</td>
<td></td>
</tr>
<tr>
<td>Husband is a supervisor at a manufacturing company; wife is a homemaker</td>
<td>Husband runs a canteen at Airforce office; wife is a teacher in the local school</td>
<td></td>
</tr>
<tr>
<td>Own two-bedroom apartment in Ghaziabad, Uttar Pradesh</td>
<td>Own two-bedroom house in Bhauli, near Lucknow, Uttar Pradesh</td>
<td></td>
</tr>
<tr>
<td><strong>Annual Household Income</strong></td>
<td><strong>US$ 4,000</strong></td>
<td><strong>US$ 3,500 to US$ 4,000</strong></td>
</tr>
<tr>
<td><strong>Spending as Share of Income</strong></td>
<td>80 to 90 percent</td>
<td>85 to 90 percent</td>
</tr>
<tr>
<td><strong>Household Budget</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>40 to 45 percent</td>
<td>40 to 45 percent</td>
</tr>
<tr>
<td>Education and leisure</td>
<td>10 to 15 percent</td>
<td>10 to 15 percent</td>
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<tr>
<td>Clothing</td>
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<td>10 percent</td>
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<tr>
<td>Health</td>
<td>5 percent</td>
<td>5 percent</td>
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<tr>
<td>Other²</td>
<td>15 to 20 percent</td>
<td>15 to 20 percent</td>
</tr>
<tr>
<td><strong>Favorite Brands</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shaktibhog flour, Rin / Tide, Local floor cleaner, Fair and Lovely cream, Bakery / Parle G biscuits</td>
<td>Loose staples, Lux / Santoor soap, Wheel detergent, Local floor cleaner, Fair and Lovely cream, Parle G biscuits</td>
<td></td>
</tr>
<tr>
<td><strong>Favorite Grocer</strong></td>
<td>Local Shopkeeper</td>
<td>Local Shopkeeper</td>
</tr>
</tbody>
</table>

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**Driving Singapore’s External Economy**

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India’s private consumption growing

• With rising incomes, massive middle class and growing population, India’s consumption will increase at an aggregate rate of 7.3% annually over the next 20 years and will reach US$ 1.5 T by 2025. More than that of Italy, Brazil and Germany.

• India’s real consumption per capita though will expand more than 3 times from US$ 334 B to US$ 1064 B by 2025, but still lag behind many developed economies like United States.

• India set to become one of world’s largest consumer market by 2025.
Rising Household incomes coupled with India’s Consumption Growth

Urban India’s income and consumption growth is faster than rural India due to difference in economic activity, demographics and level of education attainment, though they will still remain in minority part of India’s population even in 2025.
While rural consumption growth will lag behind wealthier urban areas, but by way of comparison, in the next 20 years it will be larger than the consumer markets of Canada, South Korea today and in fact 4 times of today’s urban India market.
Major Cities will dominate, but Niche Cities will also provide opportunities

- Tier 1 cities are growing rapidly, but multinationals and retailers are ramping up operations in Tier 2 cities as well to tap on the rising middle class. Consumption will also spread from Mumbai, Delhi & top 8 cities to other mid-tier cities such as Amritsar and Ludhiana.
India’s spending on discretionary items growing

• As Indian incomes are rising, spending patterns are also changing significantly. Percentage spending on discretionary items is growing fast.

• Today, the largest category of Indian spending is F&B. By 2025, it will still be the biggest category, but its share will drop from 42% to 25%. Transport and Healthcare will be the second and third biggest categories.

• Communication which accounts for only 2% of consumer spending today, will be one of the fastest expanding categories with growth of over 13% a year (on an aggregate basis).
Understanding the Organized Retail Sector – Why India?
Advantage India

- India’s retail industry growing at a CAGR of 7.5% for the period 2011-16 and 6.4% since 1998-2010. Estimated at US$ 470 Bn in 2011 and is projected to grow to US$ 675 Bn by 2016.

- Second largest employer after Agriculture, employing more than 35 million people with wholesale trade generating additional 5.5 million employment more.

- India’s organized retail space is evolving fast and achieve penetration level of 7%, which signifies huge potential growth.

- Indian luxury market currently stands at US$ 3.5 Bn and expected to grow to make India the 12th largest luxury retail market in the world by 2015.

- Food and Grocery segment contributes largest part of total value of retail market, followed by fashion, leisure & entertainment and fashion accessories.

- The current market for non-store retailing (e-retailing) in India is estimated at US$ 3.2 Bn and is growing at over 23%.

- Hypermarket would be the largest retail segment, accounting for 21% of the total retail space by 2013-14.

- Significant global positioning of Indian retail sector. India ranks 4th in the A.T Kearney’s 2011 Global Retail Development Index and 6th in the 2011 Global Apparel Index.
Main growth drivers

Growth drivers of retail in India

- Increase in consumer class
- Rise in income and purchasing power
- Easy consumer credit
- Change in consumer mindset
- Brand consciousness

Source: Aranca Research
Retail Value Chain

Products

- Food, Apparel, Bags, Foot-wear, Furniture

- Import
  - Local Manufacture

Source

- Import

Distribution / Ownership

- Distributor
- Importer
- Buying House
- Wholly owned
- Partnership
- Franchisee

Retail Point

- Malls
- Department Store
- Online
- Multi-label Stores / Boutiques
- Single-brand Stores

End Consumer
India’s Organized Retail in growth momentum

The organized retail market in India is estimated at US$ 26 Bn in 2011 and is projected to grow to US$ 84 Bn by 2016, a CAGR of 26% for the period 2011-16.

Organised Retail Penetration (ORP) in India is low (85 per cent) compared to other countries such as the US (81 per cent) and China (94 per cent). Organised retail in India is expected to be 9 per cent of total retail market by 2015 and 20 per cent by 2020.

Retail penetration across countries (2010-11)

Source: E&Y report, Aranca Research

Driving Singapore’s External Economy

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Categories moving into organized retail

Percent Share of Organized Retail

- Watches
- Electronics
- Apparel
- Food and grocery
- Footwear
- General Merchandise
- Jewellery

Organized retail size in 2005
Organized retail size in 2015

Source: Ernst & Young
### Indian consumption expenditure expected to increase 3.6 times by 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>2000</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food</strong></td>
<td>135</td>
<td>328</td>
<td>895</td>
</tr>
<tr>
<td><strong>Housing and consumer durables</strong></td>
<td>47</td>
<td>186</td>
<td>752</td>
</tr>
<tr>
<td><strong>Transport and communication</strong></td>
<td>43</td>
<td>168</td>
<td>664</td>
</tr>
<tr>
<td><strong>Education and leisure</strong></td>
<td>17</td>
<td>71</td>
<td>296</td>
</tr>
<tr>
<td><strong>Apparel</strong></td>
<td>18</td>
<td>59</td>
<td>225</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>14</td>
<td>49</td>
<td>183</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>25</td>
<td>129</td>
<td>570</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>299</td>
<td>991</td>
<td>3,584</td>
</tr>
</tbody>
</table>

Source: Euromonitor, NSSO, BCG India consumer survey 2010, n=6278, BCG analysis.

Note: All spends in nominal dollars. Years represented as calendar year, 1 USD = 46 INR.
1. Includes spend on alcoholic beverages and tobacco (excludes food sold by catering services such as restaurants, hotels, kiosks, etc.)
2. Includes spend on utilities, home care products, servant salaries, consumer durables, home renovation, rent
3. Includes spend on internet, entertainment (picnic, eating out, etc.), children education
4. Includes spend on personal care, baby care, EMI, loan payment, holidays, social gatherings
Luxury retail market in India growing

Driving Singapore’s External Economy

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NCR-Delhi and Mumbai constitute ~ 65% of pan India retail mall space.
Growth expected across retail mall formats

Additional mall space requirement by 2013-14

Top 4 Cities*  Next Four Cities**

<table>
<thead>
<tr>
<th>Demand (million sq ft)</th>
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<tbody>
<tr>
<td>45</td>
</tr>
<tr>
<td>21</td>
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</tbody>
</table>

Hypermartks would be the largest retail segment, accounting for 21 per cent of total retail space by 2013-14

Break-up of all mall space by format (2013-14)

- Hypermarkets: 21%
- Apparel stores: 19%
- Multiplexes, gaming & food court: 14%
- Department stores: 10%
- Footwear stores: 9%
- Restaurants & fastfood outlets: 8%
- Mobile stores: 8%
- Supermarkets: 6%
- Jewellery & time wear outlets: 3%
- Others: 1%

Source: Technopak Advisors Pvt Ltd, Cushman & Wakefield Research

* NCR, Mumbai, Kolkata and Chennai
** Bangalore, Pune, Hyderabad and Ahmedabad
High Streets of India still do well…….
High Streets of India still do well…….
FDI policies opening, but with some political hiccups

1997 - FDI in cash and carry (wholesale) with 100 per cent ownership was allowed under the Government approval route.

2006 - FDI in cash and carry (wholesale) with 100 per cent brought under the automatic route.

2006 - FDI upto 51 per cent in single brand product trading under Government approval route allowed.

2010 - Discussion paper on FDI in multi-brand retail trading introduced by Government.

2012 - FDI upto 100 per cent allowed in single brand product trading under the Government approval route subject to certain conditions.

States up the ante against FDI in retail

TN, UP lead opposition against policy

Who stands where

FOR

Congress
NCP
BJP
SAD
UPA

AGAINST

BJP
UPA
DMK
AIADMK
Trinamool Congress
BSP
Rajasthan, Orissa and Punjab.

States ruled by it will not permit multi-brand global players to set up shop.

State Governments have a key role to play in allowing FDI in retail. Under the Shops and Establishments Act, these players will have to get the State governments’ permission to launch their operations.

According to a Press Trust of India report, piling up by the 2010-11 Census, global players such as Walmart, Tesco and Carrefour may face hurdles in 28 of the 54 cities that have been thrown open to them as the opponents.

The Union Commerce and Industry Minister, Mr Anand Sharma, said on Saturday that five States have agreed to allow FDI in Indian retail. These are Harayana, Maharastra, Rajasthan, Orissa and Punjab.

More trouble could brew for the Manmohan Singh Government this week, with the Janata Dal (United) taking an adjournment motion against the policy. The issue, that had stalled proceedings on Friday, could figure again in Parliament on Monday.

The controversial move is seen as being some interesting political real-alignment. While the Akali Dal, a long-time National Democratic Alliance ally, is supporting the policy, key UPA members such as the DMK are opposed to the move.

The Telugu Desam Party, which has opposed the policy, has also moved a similar amendment in Parliament.

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Strikes call

An all-India strike has been called for on December 1 by some trade organisations: the NDA and the Congress have extended support to it. More of the major business chambers have welcomed the decision but organisations representing small and medium industries are apprehensive of the move.

The Centre on November 24 cleared the policy to allow FDI in the retail sector, whereas in the multi-nationals will be allowed to own as much as 51 per cent of a retail venture selling more than one brand. The Government also approved plans allowing companies that sell a single brand to own 100 per cent of their operations, removing the previous limit of 51 per cent.
Regulations opening but with certain conditions

- Single-brand retail: 100% FDI is allowed. **Condition:** for FDI beyond 51%, mandatory sourcing of min 30% of value of products must be from Indian small industries.

- Multi-brand retail: Efforts underway to obtain broad-based consensus with various State Governments to allow 51% FDI. **Conditions:** (i) Foreign multi-brand retailers will have to invest US$100m over 5 years, with at least 50% spent on developing rural infrastructure, (ii) min 30% sourcing from small and medium sized suppliers, (iii) Foreign retailers only allowed to set up shops in cities with population of over 1m.
Uniform Tax systems would further spur demand

New Goods and Service Tax (GST) would simplify tax structure

- Production and distribution structure:
  - The abolition of Central Sales Tax (CST) in favour of GST would lead to a re-evaluation of procurement and distribution arrangements.
  - Removal of excise duty on products would result in cash flow improvements.

- Pricing and profitability:
  - Elimination of tax cascading is expected to lower input costs and improve profitability.
  - Application of tax at all points of supply chain is likely to require adjustments to profit margins, especially for distributors and retailers.

- Cash flow:
  - Tax refunds on goods purchased for resale implies a significant reduction in the inventory cost of distribution.
  - Distributors are also expected to experience cash flow from collection of GST in their sales, before remitting it to the government at the end of the tax-filing period.

- System changes and transition management:
  - Changes need to be made to accounting and IT systems in order to record transactions in line with GST requirements.
  - Appropriate measures need to be taken to ensure smooth transition to the GST regime – through employee training, compliance under GST, customer education and inventory credit tracking.

Source: Aranca Research
Retail E-Commerce – The “Channel” forward

• E-Commerce market size in India is estimated at US$ 14 B in 2012 and projected to reach US$ 74 B by 2017.

• Currently very small part of overall retail in India (0.2%), but expected to grow at a fast pace (~ 2% by 2017).

• Currently e-tailing in India is selling of product and services thru internet. Prominent categories of purchase are consumer electronics, books and music. Lifestyle categories also becoming prominent.

• Key drivers include – Increase penetration of technology enablers, Young demographics and changing consumer lifestyle driving convenience shopping, e-tailing going beyond Tier 1 cities etc.

Customer insights

Indian consumers are generally perceived as price-driven and value-conscious. While that may be true, senior management at Flipkart believes that their online consumer is driven by both price as well as a minimum level of quality (in terms of the end-to-end experience). As the economy grows, incomes rise and aspirations increase, the Indian consumer will evolve into a more quality-conscious consumer.
Delhi NCR – One of the key organized retail markets
Gurgaon is a fast emerging organized retail hotspot

Gurgaon, a sleepy Haryana town a few years ago, is today becoming New Delhi's upmarket suburb witnessing massive gentrification and construction of Mega Malls. It is also North India's Info Technology hub for Multinationals, Customer Call Centres & Software Corporate Offices.

Distribution of retail stock

- Delhi - 36%
- Noida - Greater Noida - 15%
- Faridabad - 8%
- Ghaziabad - 12%
- Gurgaon - 29%

Total Area 17.8 mn sq.ft.
Source: Knight Frank Research
Gurgaon rentals catching up with Delhi, but Delhi high streets still fetch much higher

**Average Mall Rentals**

- Delhi: 158
- Noida-Greater Noida: 96
- Faridabad: 82
- Ghaziabad: 88
- Gurgaon: 117

**Highstreet Rentals**

- Connaught Place (Inner Circle): 900
- Connaught Place (Outer Circle): 450
- South Extension: 1000
- Greater Kailash 1: 700
- Greater Kailash 2: 350

Source: Knight Frank Research
Who is behind Gurgaon’s growth.............

The DLF group has contributed to the development of Gurgaon and is a leading real estate developer based in New Delhi, India. The company has 345 msf of planned projects with 45 msf of projects under construction.
Building retail malls to tying up with brands

The Retail Malls business is a major thrust area for DLF. Currently, DLF is actively creating new shopping and entertainment spaces all over the country. The company has land resource of 66 msf for office and retail development, with 7 msf of projects under construction.

DLF Brands, a subsidiary of realty major DLF operates standalone stores for 11 global brands in India. The company has been instrumental in bringing to India some of the most sought after international brands including like Mango, Boggi Milano, DKNY, Alcott, Sunglass Hut, ELC and Mothercare.
Distribution of cost of living expenses in Delhi NCR

This data is based on 3034 entries in the past 18 months from 239 different contributors.
Last update : August, 2012
Source: www.numbeo.com/
Growth of Local and Foreign Retail Players in India
Growing number of local and foreign retail brands in India
Competitive Landscape in Indian Retail Sector

**Departmental stores**
- Pantaloons has 48 stores
- Trent operates 40 stores
- Shoppers Stop has 30 stores
- Reliance Retail has launched Trends in this format

**Hypermarkets**
- Pantaloons Retail is the leader in this format with 145 Big Bazaar stores
- HyperCITY, Trent (Star Bazaar), Spencer's (Spencer Hyper), Aditya Birla Retail (More.) and Reliance are other players

**Supermarkets/Convenience stores**
- Aditya Birla Retail (More., 500 stores)
- Spencer's (Daily, 188 stores)
- Reliance Fresh
- KB Fair Price Shop (123 stores)
- REL 6Ten (350 stores) are the major players in this format

**Specialty stores**
- Titan Industries is one of the largest players, with 300 World of Titan, 130 Tanishq and 70 Titan Eye+ shops
- Vijay Sales, Croma, E-Zone and Viveks are into consumer electronics and Landmark, Crossword and Odyssey focus on books, entertainment and gifts

**Cash & Carry stores**
- Metro started the cash-and-carry model in India; the company operates five stores across Mumbai, Kolkata, Hyderabad and Bangalore
- Bharti Walmart started cash-and-carry outlets, with the first one being set up in Amritsar, Punjab
India’s Modern Retail Sector comprises of local and foreign players

<table>
<thead>
<tr>
<th>Food and grocery</th>
<th>Consumer electronics/durables</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td><strong>Global</strong></td>
<td><strong>Global</strong></td>
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<tr>
<td>Carrefour</td>
<td>Bang and Olufsen</td>
<td>Diesel</td>
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<tr>
<td>Max Hypermarket-SPAR</td>
<td>Bose</td>
<td>Esprit</td>
</tr>
<tr>
<td>Metro</td>
<td>LG</td>
<td>Levi’s</td>
</tr>
<tr>
<td>Tata</td>
<td>Samsung</td>
<td>Mango</td>
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<tr>
<td>Tesco</td>
<td>Sony</td>
<td>Marks &amp; Spencer</td>
</tr>
<tr>
<td><strong>Indian</strong></td>
<td>Croma</td>
<td>Chemistry</td>
</tr>
<tr>
<td>Bharti-Walmart</td>
<td>eZone</td>
<td>Dolphin</td>
</tr>
<tr>
<td>Food Bazaar</td>
<td>Pai Electronics</td>
<td>Liliput</td>
</tr>
<tr>
<td>More</td>
<td>Reliance Digital</td>
<td>Mustard Seed</td>
</tr>
<tr>
<td>Nature’s Basket</td>
<td>The Electronics Store</td>
<td>Provogue</td>
</tr>
<tr>
<td>Reliance Fresh</td>
<td>Vivek’s</td>
<td>Wills Lifestyle</td>
</tr>
<tr>
<td>Spencer’s</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Luxury products</th>
<th>Footwear</th>
<th>Watches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
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<td><strong>Global</strong></td>
</tr>
<tr>
<td>Chanel</td>
<td>Aldo</td>
<td>Baume &amp; Mercier</td>
</tr>
<tr>
<td>Christian Dior</td>
<td>Bata</td>
<td>Cartier</td>
</tr>
<tr>
<td>L’Iadro</td>
<td>Charles &amp; Keith</td>
<td>Chopard</td>
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<tr>
<td>LVMH</td>
<td>Hush Puppies</td>
<td>Citizen</td>
</tr>
<tr>
<td>Mont Blanc</td>
<td>Nike</td>
<td>Longines</td>
</tr>
<tr>
<td><strong>Indian</strong></td>
<td>Nine West</td>
<td>Omega</td>
</tr>
<tr>
<td>Amrapali</td>
<td>Catwalk</td>
<td></td>
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<tr>
<td>Manish Arora</td>
<td>Inc. 5</td>
<td></td>
</tr>
<tr>
<td>Rohit Bal</td>
<td>Reliance Footprint</td>
<td></td>
</tr>
<tr>
<td>Ritu Kumar</td>
<td>Woodland</td>
<td></td>
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<tr>
<td>Tarun Tahiliani</td>
<td></td>
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<tr>
<td>Titan Nebula</td>
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</tr>
</tbody>
</table>

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Brands with **large footprint** have **substantial footprint on the high streets**

Probable Reason – undersupply of **quality Mall Space** beyond tier II cities.

Source: Shopping Centre Advisory, Jones Lang LaSalle Q2 2011
Franchising is seen as the preferred entry mode

<table>
<thead>
<tr>
<th>Operating Structure Type</th>
<th>Illustrative Apparel Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Venture</td>
<td>Zara, Diesel, OVS, Jack &amp; Jones, DKNY, Blacksoul, Alcott, Gas, Ed hardy, S. Oliver</td>
</tr>
<tr>
<td>Master Licensee</td>
<td>Calvin Klein, French Connection, Tommy Hilfiger</td>
</tr>
<tr>
<td>Exclusive Licensee</td>
<td>Esprit</td>
</tr>
<tr>
<td>Wholly Owned Subsidiary</td>
<td>United Colors of Benetton (has Franchisee agreement with Trent)</td>
</tr>
</tbody>
</table>

Source: Industry Research by Third Eyesight

51% FDI limited to 100% Subsidiary or Joint Venture (incl. minority stakes)
Success Case Studies – Bharti Wal-Mart & McDonalds in India
<table>
<thead>
<tr>
<th>Case study - Bharti Walmart Private Limited(^{64})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company profile:</strong></td>
</tr>
<tr>
<td>Operates ‘Best Price Modern Wholesale cash and carry stores’ in India. As on March 31, 2012, Bharti Walmart Private Limited has opened 17 such stores across various states in India.</td>
</tr>
<tr>
<td>Best Price Modern Wholesale cash and carry store is one-stop shop primarily for ‘Horecas’ (hoteliers, restaurateurs and caterers).</td>
</tr>
<tr>
<td><strong>Engaged in:</strong></td>
</tr>
<tr>
<td>Whole cash and carry of wide range of merchandise (food and non-food items) with 90% of the goods and services sourced locally.</td>
</tr>
<tr>
<td><strong>Format adopted in India:</strong></td>
</tr>
<tr>
<td>Bharti Walmart Private Limited is a joint venture between Bharti Enterprises (an Indian conglomerate) and Walmart (international retailer).</td>
</tr>
<tr>
<td><strong>Salient features:</strong></td>
</tr>
<tr>
<td>Bharti Walmart Private Limited, a joint venture is establishing wholesale cash and carry and back end supply chain management operations. In addition to the joint venture, Bharti Retail (wholly owned subsidiary of Bharti Enterprises) has entered in to a franchise agreement with Walmart whereby Walmart provides certain technical support to Bharti Retail for its front end retail venture. Bharti Retail has opened 170 stores called easyday, compact hypermarket stores called easyday Market, and hyper market stores called easyday Hyper.</td>
</tr>
</tbody>
</table>

Source: Nishith Desai & Associates
## Case study – McDonald India

<table>
<thead>
<tr>
<th>Company profile:</th>
<th>McDonald Corporation, USA, pioneer in fast food franchising has a network of more than 250 restaurants in India.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engaged in:</td>
<td>Food service retailing (popularly known as quick service restaurants) with formats like kiosks, drive thru’s, web delivery and petrol pumps in addition to the restaurants.</td>
</tr>
<tr>
<td>Format adopted in India:</td>
<td>In India, McDonald’s operates through Hardcastle Restaurants Private Limited (“HRPL”), which has been awarded a development licensee status by McDonald’s Corporation, U.S.A for McDonald’s operations in West &amp; South India and McDonald’s restaurants in North &amp; East India are managed by Vikram’s Bakshi’s Connaught Plaza Restaurants Private Limited (“CPRPL”), which is a joint venture with McDonald’s Corporation.</td>
</tr>
</tbody>
</table>
| Salient features: | Both HRPL and CPRPL have further entered into franchise agreements locally within the permitted network of franchisee agreements.  

Globally, under the standard McDonald’s franchise agreement, the franchisee agrees to operate the business in accordance with McDonald’s standards of quality, service, cleanliness and value. In return, the franchisee is granted the right to operate a McDonald’s restaurant for a certain number of years with rights to use the trade marks, restaurant decor designs, signs and equipment, formula for menu items, method of operation, method of inventory control, book keeping and accounting and marketing activities.

Source: Nishith Desai & Associates
Singapore companies success in India
Singapore companies growing in India – Fashion and Food, to…….
Furniture, to........

Unicane Furniture

Goodrich Global

Kingsmen Creative

Cellini Design Center

Lorenzo International

Technigroup

Driving Singapore’s External Economy

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Real Estate, Hospitality, Education and Healthcare

Ascott Serviced Residences

Frasers Serviced Residences

CapitaMalls

Raffles Millenium

Eton House

Parkway Healthcare
Challenges before Organized Retail Sector
## Opportunities amidst Challenges

### Opportunities

- India’s twin growth engines – economic growth and demographic profile.
- Rapid urbanization and nuclearisation.
- Increasing personal incomes.
- Large number of aspirational consumers – middle class, young people, rural population etc.
- Young Indian have more money, aspiration, independence and value for products.
- Low organized retail penetration.
- FDI policies opening up – Cash & Carry, Single Brand Retail and will benefit many stakeholders.
- Consumers shifting from essential to non-essentials buying.
- Organized retail real estate – malls.

### Challenges

- India’s lack of quality real estate and high cost of real estate.
- Shortage of trained manpower in the retail sector.
- Competition from unorganized sector.
- Technology, Supply chains and distribution channels inefficient.
- Multiple clearances are required for setting up retail outlet.
- Inadequate support infrastructure.
- Organized sector does not have industry status.
- Government restrictions on FDI limit are resulting in limited exposure to international best practices.
- Complex tax structure varying across states.
- Customer service can be improved.
Conclusion: Critical factors for success in India
Success Factors for an Intl Brand

Understanding consumers needs, preferences and wants.

Understanding the regulatory and tax framework.

Securing the right partner and business model.

Securing the right real estate and formats.

Attaining geographical footprint.

Localizing the product to excite consumers.

Mastering the supply chain.

Dynamic and varied product range. Create strong brand.

Differentiation through service.

Technology adaption.

And, lastly pricing right.
The Indian retail sector has matured over the years but is still highly unorganized. The country’s estimated annual retail opportunity of US$ 500 billion is a great opportunity for both domestic and international retailers.

Additionally, despite the regulated environment, as per the recently released World Investment Report for 2012, India is the third most desirable destination for FDI. The report further states that FDI inflows to India stood at US$ 32 billion in 2011, registering a growth of 33 per cent over 2010. It is expected that FDI inflows will move up by 25 per cent by the end of 2012 and 20 per cent by next year.68

The country needs more investment in the retail and allied sectors such as cold chains, warehousing & logistics. The impending reform in FDI in both single brand (relaxing of certain conditions) and multi brand retail and further investments by and joint ventures with domestic retail players will give the industry a fillip and have a trickle-down effect on the agricultural and food sector in India.

Source: Nishith Desai & Associates
Thank You

www.iesingapore.com
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