FICCI

FEDERATION OF INDIAN CHAMBERS OF
COMMERCE AND INDUSTRY

CONSUMER MARKETS

Indian retail: on the fast track

Time for bridging capability gaps

Foreword

The Indian consumer is changing rapidly. The average consumer today is richer, younger and more aspirational in his/her needs than ever before. Consumers now value convenience and choice at par with getting value for their hard-earned money. A range of modern retailers are attempting to serve the needs of the 'new' Indian consumer. The last few years have witnessed an explosion of organised retail formats like supermarkets and hypermarkets in an otherwise fragmented Indian retail market.

To tap this growth opportunity, Indian retail organisations need to be prepared for a quick scale up across dimensions of people, processes and technology in addition to identifying the right formats and value proposition for the Indian consumer.

With this backdrop, FICCI invited KPMG to conduct a survey to gain a better insight into the retail sector. KPMG met with CEOs of twenty leading retail organisations in India to get their perspective on the readiness of Indian retailers across these dimensions. This report is a synthesis of the findings from this survey conducted over the last two months.

This report addresses some top of the mind questions that existing retailers and potential new entrants have on Indian retailing viz.,

- Which segments and formats have the maximum potential?
- What is the right format for India? Are multiple formats necessary for success?
- Where are we today on the supply chain practices and IT usage?
- How good is the support infrastructure in terms of supplier maturity, real estate space availability, financing etc?
- Where are we on people availability and capability?

In addition to finding the answers to these and other questions, relevant best practice examples from international retailers and experiences of other countries have been highlighted to indicate directions that Indian retailers may want to look at to address some of the challenges in the Indian marketplace.

We hope this report succeeds in adding another dimension to the growing knowledge base on Indian retail.

Deepankar Sanwalka
Executive Director
KPMG

Dr. Amit Mitra
Secretary General
Federation of Indian Chambers
of Commerce and Industry

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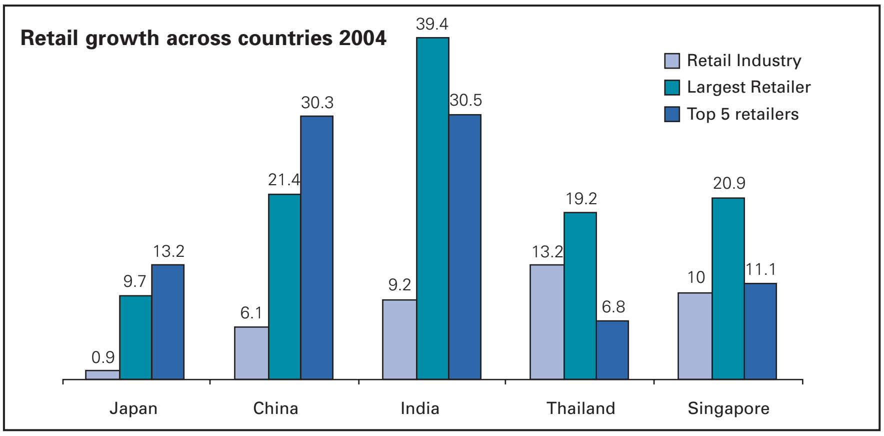
Executive summary

"No power on earth can stop an idea whose time has come"
Dr Manmohan Singh, then Finance Minister of India, quoting Victor Hugo while presenting the Union Budget 1994-95, making a reference to the Indian economy's unlimited potential. If Dr Singh were to use the quote again today, he would probably apply it in the context of the promise contained in the Indian retail industry, and in particular, organised retail in India in the days to come.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organised retailing makes up 3 percent or USD 6.4 billion. By 2010, organised retail is projected to reach USD 23 billion[1].



Source: Retail Asia, KPMG Analysis

Indian retailing set to double in the next three years, to see the emergence of more national retail chains

The optimism about Indian retail is corroborated by the KPMG Retail Survey. More than 70 percent of our survey respondents expect to grow in excess of 40 percent per annum in the next three years. Going by the growth plans of the retailers we met, modern retailing is expected to double in terms of the number of outlets and retail space in the next three years, with emergence of more national retail chains.

Modern retailing action is in urban areas – but India is witnessing experiments to tap the rural retail potential

A majority of our survey respondents felt that the opportunity for modern retailing is in the urban areas. While there is a large potential in rural areas, fragmentation and the cost of market access are deterrents.

Rural retailing is witnessing explorations by both corporates and entrepreneurs – ITC's Choupal Sagar, HLL's project Shakthi and Mahamaza are some of the models being tried out. While conclusive evidence to identify the winning rural retailing model is yet not available, such experiments are steps in the right direction.

Opportunity is there for taking – Are the retailers prepared?

In such a scenario of rapid growth, the preparedness of Indian retailers in terms of having appropriate formats, scalable processes, appropriate technology and relevant organisation capability would be crucial to success. The KPMG Retail Survey explored these aspects.

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[1] KSA Technopak: Consumer outlook for 2005

Can Indian retailers learn from international experience and leapfrog to the most successful formats abroad?

The survey respondents felt that it may be difficult to transplant a successful international format directly and expect a similar performance in India. Local conditions and insights into the local buying behaviour have to shape the format choice. The lessons from multinationals expanding to new geographies too point to this.

India would see experimentation by retailers to identify the winning format suited to different geographies and segments – implying multiple formats by retailers. Such experimentation and identification of an appropriate format for the local conditions would differentiate winners from losers in the Indian retail market of the future.

India is heading towards mall over-capacity

A majority of respondents felt that India is heading towards mall over-capacity. A reason for this opinion is the fact that there may not be sufficient anchor tenants to occupy all the malls that are being planned.

Also all emerging malls have very little differentiated value propositions. Malls need to differentiate themselves clearly and one option may be to specialise.

Operations – At a nascent stage of evolution

KPMG surveyed the retailers in India along three dimensions: Internal processes (supply chain management, private label management and loss prevention), real estate availability and costs, finance availability and costs.

Easy availability of finance at competitive rates is a key enabler for growth in India. Retail space availability and costs are also prime issues to be dealt with. With respect to operations management and leveraging technology, retailers in India are at a nascent stage. This would be another area of opportunity for winners of the future to distinguish themselves clearly from the rest of the industry.

Human resources – The impending war for talent

India is already facing retail manpower and capability shortage. This is set to intensify, given the rapid growth forecasted for the industry. Attrition levels, while low compared to global standards, are set to aggravate going forward.

Winning the imminent war for talent is imperative for success in Indian retailing. Indian retailers need to develop a combination of good HR practices to enhance competency and retention while simultaneously develop processes and systems to ensure that high people turnover does not disrupt operations.

Winners of tomorrow will be those that experiment and innovate

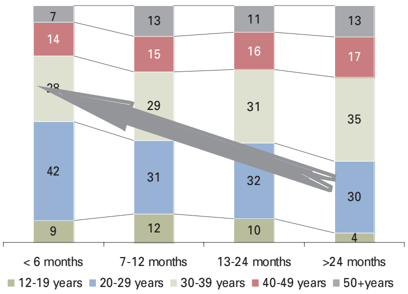
While there are obstacles, there is a clear opportunity in modern retailing in India. There are ample lessons India can take from other countries which have moved along the path of retail evolution. There are also several best practice organisations from which Indian retailers can pick relevant learnings and tailor to suit local requirement.

Organisations that experiment and innovate across different aspects shall be the ones that emerge as winners.

"I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I-
I took the one less traveled by,
And that has made all the difference."
Robert Frost, The Road Not Taken

Indian retail: shifting gears

Age distribution of cellphone buyers



Source: NRS 2005

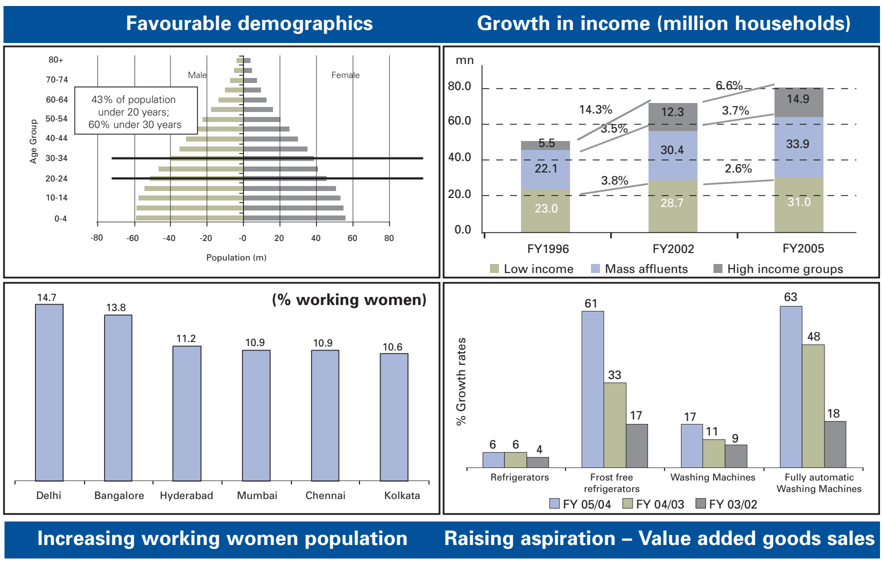
India is witnessing an unprecedented consumption boom. The economy is growing between 7 and 8 percent and the resulting improvement in income dynamics along with factors like favourable demographics and growth in aspirational consumption are the drivers.

Retailing in India is currently estimated to be USD 200 billion, of which organised retailing (i.e. modern trade) makes up 3 percent or USD 6.4 billion. Organised retail is expected to grow at 25-30 percent p.a., and is projected to attain USD 23 billion by 2010.[1] At these levels, organised retail would constitute up to 9 percent of overall retail sales.

Indian retail – The right enablers are falling in place

There are multiple factors driving Indian retail growth. With roughly 60 percent of the total population below 30 years of age, favourable demographics are expected to drive consumption across categories. The purchasing power of a young consuming middle class has been talked of considerably since the time of economic liberalisation in 1991. However, it is only today that we are witnessing the spending power associated with this consumer segment. For example 50 percent of the cellular phone purchases in the past year were by the under-30 age group[2]. This consumption is expected to continue due to the aspirational nature of spending associated with this consumer segment. The AC Nielsen Online Omnibus Survey 2005 rates India in the highest category of Aspiration Index in Asia along with China, Indonesia and Thailand.

Multiple Drivers leading to a consumption boom…



Source: NSSO; AC Nielsen; IRS-2002; KPMG Analysis

[1] KSA-Technopak – Consumption Outlook 2005
[2] Source : IRS 2005

Percentage of organised retail	
Food & Grocery	8 percent
Clothing	2 percent
Consumer Durables	5 percent
Jewellery & Watches	4 percent
Footwear	1 percent

Source: HSBC, KPMG Analysis

The aspirational nature of consumption is underlined by the trends witnessed in the consumer durables sector. While the overall refrigerator segment has been growing at 6 percent, frost-free refrigerator sales have been growing at 61 percent; similarly, while the washing machine market grew at 17 percent in FY2005, the sales of automatic washing machines grew by 63 percent.

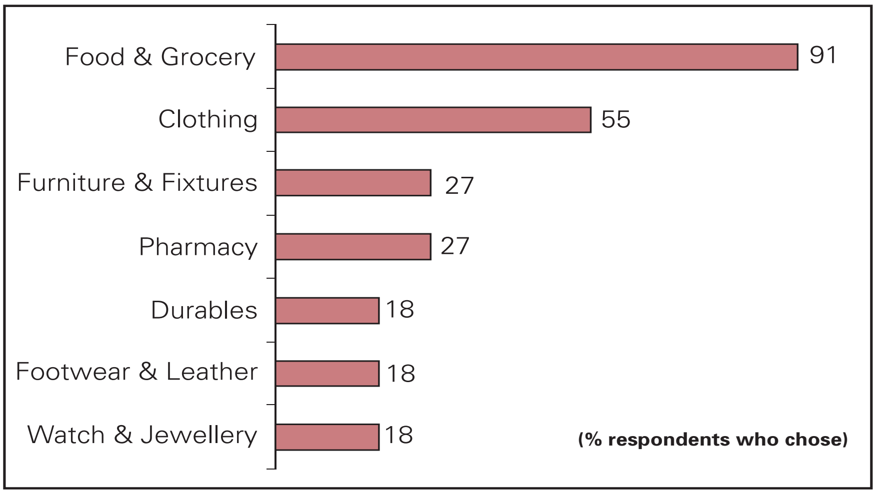
The positive demographics and the Indian consumer's increasing disposable income have been highlighted by several studies. Increasing double income families in cities is another positive factor. Salary hikes too in India are expected to increase at a faster pace than other developing countries. All these portend a sustained growth in discretionary spending in India.

Food and apparel retailing likely to drive growth

With various factors impacting growth in retail, some segments are bound to grow faster than others. For instance, increasing affluence is driving growth in the watches and jewellery segment, while awareness of health is driving growth in lifestyle pharmaceuticals.

The retailers who participated in the KPMG Retail Survey expect growth in retail segments across the board; however, food and grocery is expected to see the highest growth with clothing emerging as the second fastest growing segment.

Fastest growing retail segments in India



Source: KPMG Retail Survey

A Contrarian approach to growth

The age cohort of "Silver Spenders" (age group 60+ years) is well researched in countries like Japan where the post retirement period is marked by affluence and a willingness to spend on lifestyle products.

In India, there is a generation of people who have spent a substantial portion of their career during the pre-liberalisation era and will retire in a few years. This category flush with post retirement funds and lower dependency ratio will spend on items like books, holidays, music.

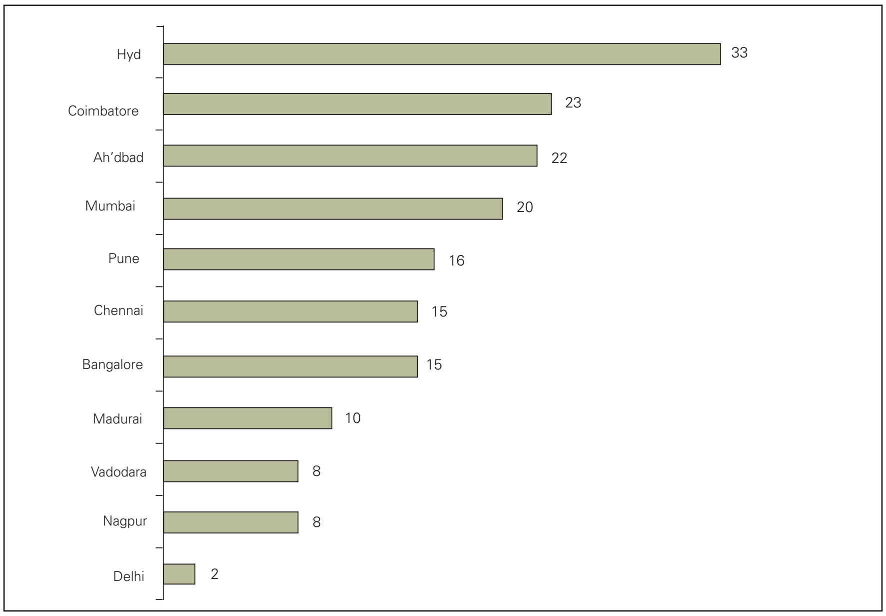
So, while it might make sense to target the "YULIC" (Young Urban Liberalised Indian Consumer), Silver Spenders will emerge as an attractive segment.

Interestingly, some of the retailers we met are planning to target this segment soon.

The modern retailing action is in the urban areas…for now

A distinctive feature of organised retailing in India is that it is largely an urban phenomenon so far. Organised retail has been more successful in cities more so in the south and west of India.

Organised retail as a percentage of FMCG sales by city



Source: AC Nielsen

"The modern retail opportunity is in the top 20 cities. Tier two towns could take five more years."

CEO, Durables retail chain

The reasons for this regional variation range from differences in consumer buying behaviour to cost of real estate and taxation laws.

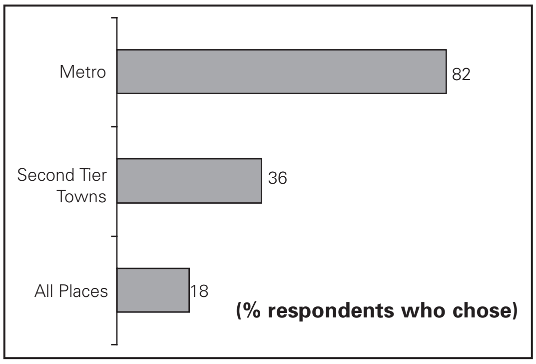
More than 80 percent of our survey respondents indicated that the largest opportunity for modern retail is in the urban centres, specifically metros. While

"The sachet phenomenon is an example of reaching to the bottom of the pyramid. It was a recognition that a lot of people in India are just not willing to buy a whole bottle of shampoo. That doesn't mean they won't buy shampoo."

A senior manager at a consumer goods company

several respondents agreed that from a potential for retailing perspective, all regions had significant latent demand. However, the adverse cost equation in serving rural markets is a key issue preventing rapid retail growth in non-urban centres.

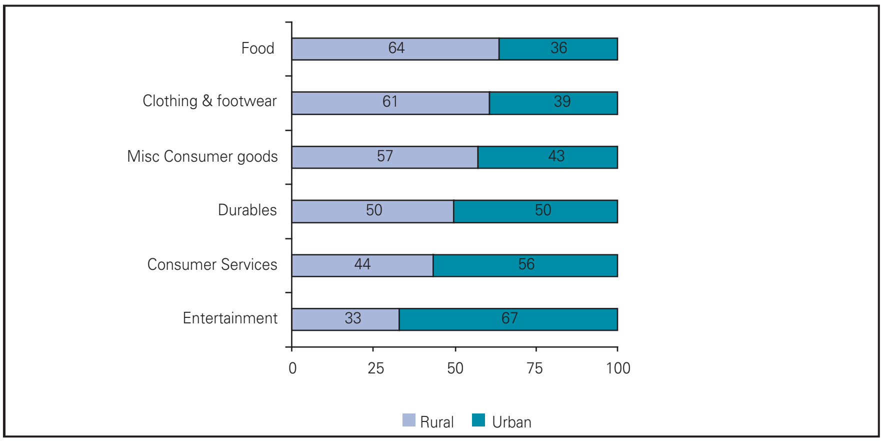
Where is the retail market opportunity in India



Source: KPMG Retail Survey * All includes Rural

Nonetheless, the case for Indian retailers to explore rural markets is strong. Factoring the size of the rural population and agricultural income growth in rural India, the rural market is definitely an opportunity for retailers with an innovative retail proposition. A clear indicator of this potential is the share of rural market across most categories of consumption.

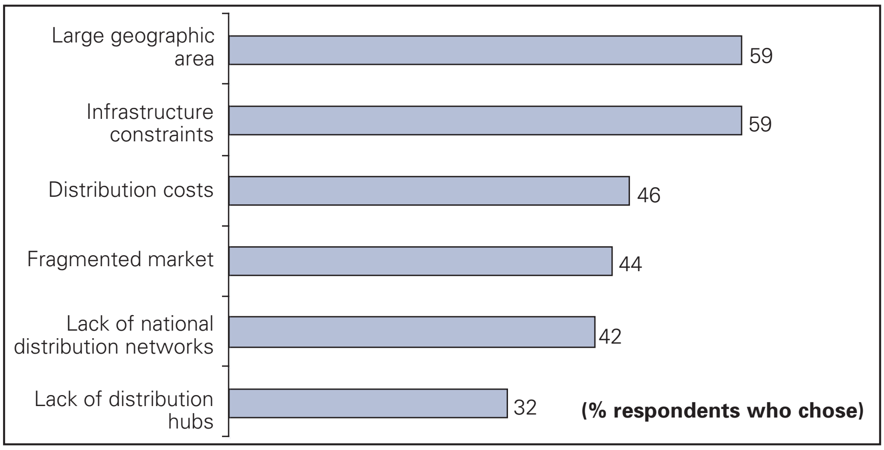
Share of market: urban vs. rural



Source: NSSO 5th round; KPMG Analysis

Key challenges in tapping this potential are the fragmentation of the market given the geographic spread and infrastructure issues like lack of distribution and logistics.

Key challenges in the Indian retail market



Source: KPMG Consumer Markets Survey

Rural retailing – In the experimentation phase

India is witnessing different experiments to tap this latent potential. ITC is experimenting retailing through its e-Choupal and Choupal Sagar – rural hypermarket. HLL is using its Project Shakti initiative – leveraging women self help groups – to explore the rural market. Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets.

A common theme that emerges is the need for business model innovation to tap the rural retail potential. India may not have the winning rural retailing model yet but players are experimenting and this is a step in the right direction.

Mahamaza.com - Reaching the rural hinterland

A business model which sells INR 15 million worth Nokia phones in one month, 3000 cycles in 3 months, 28 brands across 15 industries and services 275,000 dealers. The company in question, Mahamaza, ended the year with a turnover INR 1.2 billion.

The Mahamaza model is quite simple. Any person wishing to be a dealer can sign up with Mahamaza by making a one-time payment (around INR 5,000). Then, the dealer gets orders from his town or villages and places these orders with Mahamaza. The company further consolidates orders and gets discounts from durables and FMCG companies due to its bulk buying. A part of this discount is passed to the dealer as his commission.

People in rural areas like Medak in Andhra Pradesh and Abhohar in Punjab, are buying cellphones and inquiring about Plasma TVs!

"All regions have potential- key is in slicing the relevant customer segments and developing an appropriate format/ value proposition."
CEO, Large Indian retailer

Emerging channels – Increasing traction

India is also witnessing action in different non-store retailing channels. Hindustan Lever Limited has initiated Sangam Direct, a direct to home service. Network marketing has been growing quite fast and has a few large players today. Gas stations are seeing action in the form of convenience stores, ATMs, food courts and pharmacies appearing in many outlets.

Information technology is another tool that has been used by retailers ranging from Amazon.com to eBay to radically change buying behaviour across the globe. The e-tailing channel is slowly making its presence felt in India. Companies in India are using either their own web portal or are tying up with horizontal players like Rediff.com and Indiatimes.com to offer their products on the web. A driver for growth of the e-tailing channel is coming from the Indian Diaspora which is leveraging these websites to send gifts home (see box on LGezbuy.com).

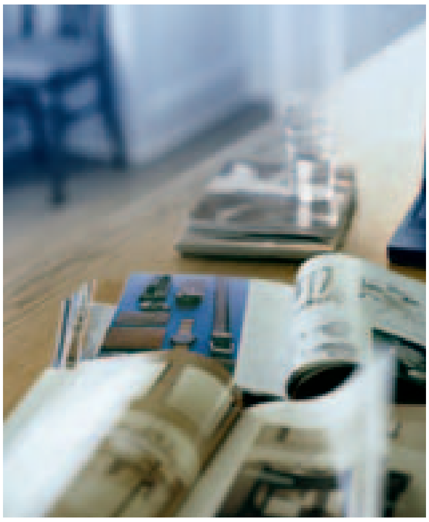
Another model, though in its infancy, may become a significant channel in future. The m-Cash venture supported by ICICI Bank enables purchases through mobile phones, one of the most commonly owned consumer product in urban India. With the increased pace of mobile network rollout in Tier-II towns and rural areas, it would be a matter of time before mobile phone penetration becomes significant in these areas. Mobile phones could eventually prove to be the medium that takes innovative retailers to places where computers and e-commerce are yet to arrive.

LGezbuy.com an interesting case in e-tailing[3]

Lgezbuy.com is a leading e-tailing portal launched by LG Electronics, a key player in the consumer durables space. Although the prices offered are 5-6 percent higher than the offline channel, this channel provides assured quality, multiple payment options and free delivery.

To avoid conflict of interest with their offline channels, LG appointed 125 existing distributors as online distributors, routing all sales through them.

- A major proportion of users of this channel are non resident Indians who want to gift durables. In 2004, they accounted for 70-80 percent sales on LGezbuy.
- LG maintains an online database of the users of these channels and uses it for promotions, etc.
- The portal accounts for approximately 0.5 percent of the total sales of the company.



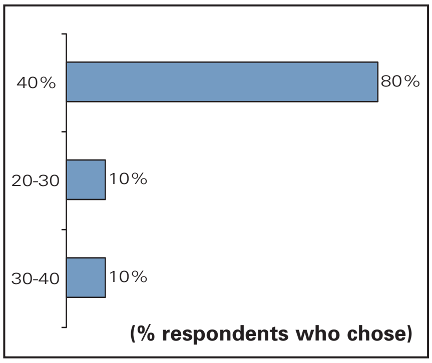
The future is bright but obstacles can sour the picture

Organised retailing industry is clocking impressive growth in India. More than 70 percent of the retailers KPMG surveyed expect to grow at rates in excess of 40 percent per annum in the next three years.

Most of the modern retailers in India have a regional footprint today. A key trend that can be expected in the next three years is the emergence of national chains. All the players we met have rapid ramp up plans. If the plans of our survey respondents fructify, India should see a doubling of the retail outlets and retail space in the next three years.

[3] Source : Various news reports , KPMG Analysis

Forecasted annual sales growth for the next three years



Source: KPMG Retail Survey

However, the survey respondents cited potential roadblocks that can sour the high-growth retail picture.

Real estate costs: Most retailers interviewed expressed concerns about the high cost of real estate today. On the other hand, the average purchase ticket size in India is still low. This could lead to a situation of high fixed cost, with low contribution per sale for retailers. High footfalls would be a necessary condition for success. Unless real estate costs become conducive to retail growth, most retail business will take a longer time for break-even.

Distribution costs: A key bottleneck mentioned by respondents is the absence of distribution networks connecting Tier-II towns with regional logistics hubs. There is scope for organised logistics players like regional transport companies/ third party logistics (3PL) players to develop these distribution networks including warehouses, cold chains and truck/ multi-modal services connecting these locations. Investments are being made in warehouses and hubs by Indian corporates. Outsourced logistics service providers are also emerging – McDonald’s working with Radhakrishna Foodland is a case in point.

Regulatory aspects: A point that kept emerging in various discussions with the retailers was the dated regulations in the country. For example Weights and Measures Act expects all goods to be available in the factory packed form in the stores. Similarly Agricultural Produce Marketing Committee (APMC) Acts consider even small volume purchases to qualify as wholesale deals. There are also variations among states with respect to aspects like store timings. All these are hindrances that can restrict rapid growth of retailing in India.

Skilled retail personnel: A key concern raised by most respondents has been the expected shortfall of trained manpower to meet expansion plans. With increasing competition from the ITeS industry, retail manpower shortage could become a critical bottleneck that limits player's expansion plans. Individual players are taking proactive measures like providing on-the-job training, setting up retail academies etc to ensure availability of people with the right skillsets. However, the industry as a whole would need to step forward and put in place measures to deal with the critical gap.

Opportunity is there for the taking – Are retailers prepared?

While there are obstacles, there is a clear opportunity in modern retailing in India. In such a scenario, preparedness of Indian retailers in terms of having appropriate formats, scalable processes, appropriate technology and relevant organisation capability would be crucial to success. As part of the this retail survey, KPMG explored these aspects and the results are documented in the subsequent sections.

Retail formats: experimentation

"Out of town retail models will not work in India."
CEO, Global retail chain

Format choice – Can we adopt internationally successful formats?

In modern retailing, a key strategic choice is the format. Innovations in formats can provide an edge to retailers. A study of evolution of the largest retail market in the world, the USA highlights how formats evolved there.

Till the 1940s, American retail was primarily centered around the city 'high street' or downtown areas, with an array of independent stores such as department stores, drugstores and coffee shops[1]. Post-World War II, the key demographic trend was migration away from the city-centre towards the suburbs. This led to the emergence of the 'shopping centre', a cluster of outlets in a location offering a range of merchandise catering to most needs of the immediate suburb, offering a range of services from saloons to cafes, newsstands and grocery stores. The 50s saw the emergence of the 'enclosed' shopping mall, providing an end-to-end shopping and entertainment experience from food courts, theatres to shopping outlets.

The last major development in the American retail landscape was the discount stores along the lines of Wal-Mart and Costco. Discount stores are large stores with more than 100,000 sq ft of space situated at a distance from the city-centre or the suburb. Typically these discount chains gain significant market share in a relatively short span of time, and cater to the entire spectrum of household requirements such as grocery, apparel, household goods, do-it-yourself stores, books and even banking services.

Can Indian retailers learn from such experiences and leapfrog to the most successful formats abroad is a key question on everyone's mind. KPMG explored this question through the survey.

Indian retail – Expanding the number of formats

Organised retailers in India are trying out a variety of formats, ranging from discount stores to supermarkets to hypermarkets to specialty chains.

[1] Kurt Salmon Associates 'Consumer Outlook 2004' USA study

Formats adopted by key players

Retailer	Original Formats	Later Formats
RPG Retail	Supermarket (Foodworld)	Hypermarket (Spencer's) Specialty Store (Health & Glow)
Piramal's	Department Store (Piramyd Megastore)	Discount Store (TruMart)l
Pantaloon Retail	Small format outlets (Shoppe) Department Store (Pantaloon)	Supermarket (Food Bazaar) Hypermarket (Big Bazaar) Mall (Central)
K Raheja Group	Department Store (Shopper's Stop) Specialty Store(Crossword)	Supermarket (TBA) Hypermarket (TBA)
Tata/ Trent	Department Store (Westside)	Hypermarket (Star India Bazaar)
Landmark Group	Department Store (Lifestyle)	Hypermarket (TBA)
Others	Discount store (Subhiksha, Margin Free, Apna Bazaar), Supermarket (Nilgiri's), Specialty Electronics (Vivek's, Vijay Sales)	

Source: Industry

A common element of the expansion plans of different players appears to be the hypermarket. All leading Indian retail players are either already present or have plans for hypermarkets.

Which format has the most potential? – The Chinese experience

In the Chinese market, modern format stores such as hypermarkets and convenience stores have proved to be extremely successful. One of the key enablers for this popularity has been the high level of urbanisation in the country. Another unique factor in these hypermarkets is that they predominantly stock food. They also stock 'fresh produce' alongside groceries to cater to local consumer tastes. An AC Nielsen survey across seven leading Chinese cities in July 2005 pointed to the popularity of modern formats in China. Up to 46 percent of respondents stated that hypermarkets/ convenience stores made up a significant part of their overall grocery expenditure, and 66 percent stated that they 'often' visited hypermarkets and convenience stores[2] (refer annexure: The China Retail Market).

Format choices by Indian retailers

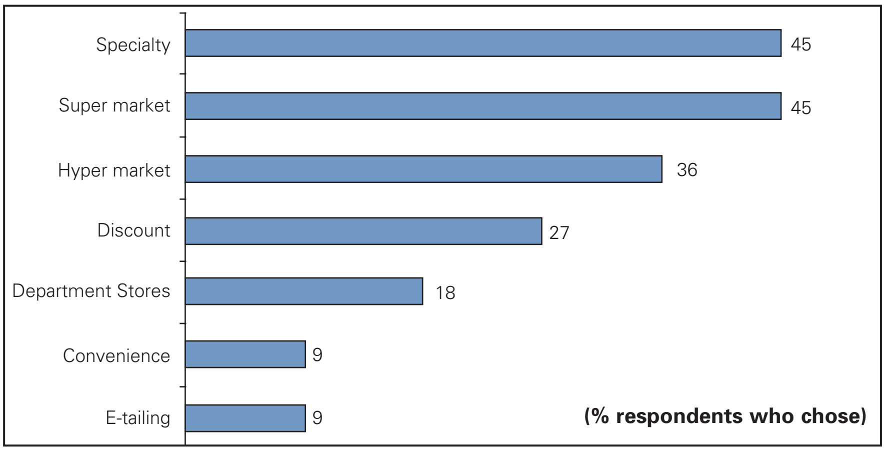
The respondents of the KPMG retail survey in India felt that specialty and supermarket format have the most potential for growth in India followed by hypermarkets.

Understandably, with poor internet infrastructure (in terms of PC penetration and internet connectivity), e-tailing was identified as a channel with the least potential by most respondents. Similarly, with traditional 'kirana' stores offering an

[2] KPMG 'Retail Outlook for China', 2005

undisputed 'convenience' proposition, our respondents felt that convenience stores may not grow as fast in the Indian context.

Fastest growing formats in India



Source: KPMG Retail Survey

While many respondents agreed that hypermarkets had potential, their estimate for the number of successful hypermarkets in India was conservative. The buying behaviour of Indian consumers and the infrastructure issues were identified as key impediments to the rapid growth of hypermarkets in India. India remains largely a small stock keeping unit (SKU) purchase market today. Many homes still lack refrigerators and in homes that have one, it is typically available in small sizes (penetration of refrigerators in India is 15 percent, 75 percent of these are in urban areas). Availability of transportation to drive a long distance for purchases too is an issue. All these are expected to make the adoption of hypermarkets a little slow after the initial burst that captures the latent urban demand for this format.

Are multiple formats necessary?

The respondents to the KPMG Retail Survey on an average have more than three formats. On the other hand, in the North American market, 34 of the fastest growing 50 retailers have just one format[3].

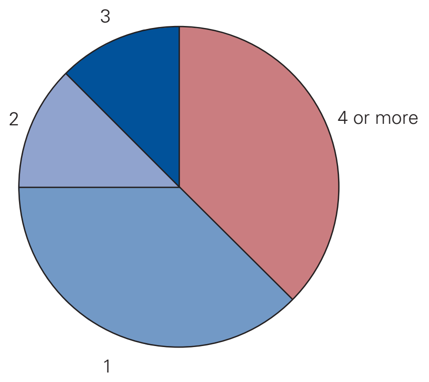
So are multiple formats necessary for success in India? And if so why? KPMG explored these issues.

The opinion amongst the respondents was tilted towards multiple formats. Almost 40 percent opined that a single format is sufficient for success while 60 percent opined that multiple formats would be needed in India. A key reason why multiple formats may be needed in India is the diversity of the country.

One such factor could be the rural - urban difference. Hence, ITC is experimenting with a rural hypermarket through its Choupal Sagar format, which combines the grain procurement and storage centre with the mall. A key aspect

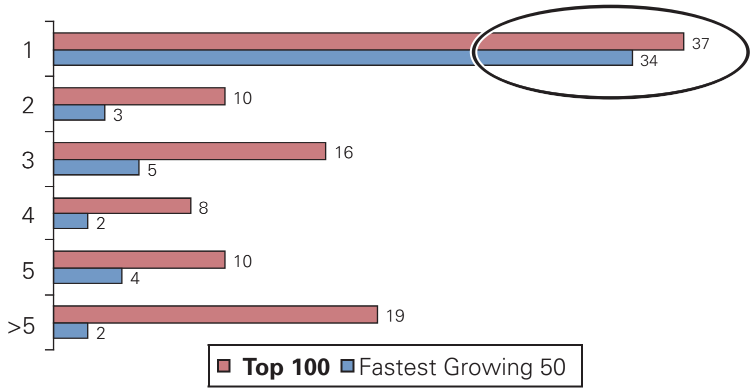
[3] National Retail Federation, USA

Distribution of formats - Indian retailers



Source : KPMG Retail Survey

Distribution of formats - U.S retailers



Source : National Retail Federation , USA

of the model is to capture the farmer's visit to a mandi to sell his produce and offer a range of products and services to leverage the availability of cash with him/ her post the sale. Going by their initial experience, farmers actually do not mind travelling a distance to buy monthly provisions and consumer durables (since they are used to travelling to sell their produce). This may be in contrast to urban consumers, who may not want to travel.

Experiences of international retailers highlight the need for local customisation

Experiences of MNC retailers when they entered new markets would provide some insights on whether standard international format choices work everywhere. A case in point is Wal-Mart's experience in Brazil.

Wal-Mart in Brazil: A tale of two formats[4]

The Brazilian retail market is considered a mature market since organised retail (top 500 players) constitutes almost 75 percent of Brazil's retail sales. Carrefour was one of the first foreign players to enter the market in 1974, and has 12.7 percent market share.

In 1994, Wal-Mart entered Brazil with plans to roll out 80 stores in the first two years. It started operations with five stores in the Supercentre format (hypermarket) stocking 60,000 items in each store, with the store located at a distance from the city centre. However, this did not factor the buying habits of Brazilians who traditionally shopped at medium sized neighbourhood stores for their regular grocery. Hence, they largely visited the supercentre once a month to purchase in bulk to avail the discounted pricing.

However, with an energy crisis hitting Brazil in 2002, Brazilians were forced to switch off their freezers for long periods. This made the 'monthly' trip to the supercentre unviable as the quantity of food that could be stored at home was limited. This among other factors resulted in Wal-Mart being unable to meet its projected targets. There was a significant rethink in strategy with a slower rollout of stores with just three stores opened till 1997.

Probably, this had a role in Wal-Mart experimenting with a smaller format called 'Todo Dia', which stocked just 12,000 items. It was an attempt to cater to a completely different income segment. This is a strategy similar to the strategy it followed in Mexico, where it is the market leader and operates in six retail formats.

"No single format will be suitable pan India - finding the relevant format would be key to success."
CEO, a large Indian retailer

[4] "Wal-mart Operations in Brazil: An emerging giant", Kotabe and others

This experience of Wal-Mart clearly shows that the choice of format needs to be driven by local customer buying behaviour and needs.

Retail outlook for India – Multiple formats and experimentation

In India too, it may be difficult to transplant a successful international format directly and expect a similar performance. Local conditions and insights into the local buying behaviour have to shape the format choice.

A good point to note in the retailing industry today is the level of experimentation happening locally in terms of formats. Players like Subhiksha and Margin Free Markets are providing convenience with discount on goods, while internationally convenience formats typically charge a premium over the market prices. Similarly, ITC is experimenting with a model which brings together a two way flow of goods in the retail outlet - farmers sell their produce and purchase goods to fulfill their consumptions needs.

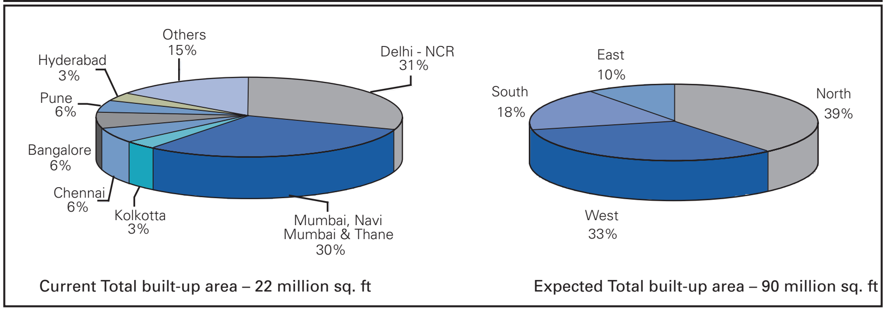
While the experience of these retailers as they scale up beyond their current geographies may provide new insights and lead to modification or fundamental re-engineering of their formats in future, such experimentation and identification of an appropriate format for the local conditions would differentiate winners from losers in Indian retail market of the future.

Malls: over-capacity?

"There are too many general malls with similar value propositions in India."
CEO, Furniture retail chain

With all the major retailers planning to double the number of stores and the retail space that they would need in the next three years, availability of real estate space would be a key enabler for growth. The respondents of KPMG Retail Survey highlighted their concern on the high cost of retail space. This is understandable given that most Indian cities are choking under rapid urbanisation. Central Business Districts (CBDs) in most cities today are not capable of supporting the massive growth plans of retailers.

Current and projected mall space by end-2007



Source: www.retailyatra.com

The emergence of a mall culture and development of malls should come across as a positive development. Approximately 68 million square feet[5] of mall space is expected to come up by end of 2007. However, around 70 percent of our survey respondents opine that there will be an over-capacity once all the new malls open. While some respondents felt that the over-capacity was in pockets like Gurgaon, others felt that there would be over-capacity in malls across all major cities. The reason stated for the anticipated mall over-capacity is that many malls may not be able to get the necessary anchor tenants.

Focussed malls – An emerging opportunity

Another aspect that was highlighted by the respondents is the lack of differentiation amongst the malls that are coming up. Given this we quizzed the respondents if there was a scope for focussed malls. One area where India is witnessing destination malls is in the form of specialty gold malls, which have largely jewellery retailers. Almost 70 percent of the respondents felt that there was a scope for focussed malls in India. Some highlighted that India may take some more time before focussed malls become successful. The survey respondents felt that since customers often visit shops with an intention to purchase a specific product, they would prefer focussed malls. These malls essentially replicate traditional high streets and provide benefits of cluster advantage.

"Do we have as many anchor tenants as the planned number of malls in India?"
Vice President, a large department store chain

Mall developers need to differentiate and specialise

Clearly, generic me-too malls may soon run out of flavour, given the large capacity in malls that are being planned. Malls need to differentiate themselves clearly, one option may be to look at specialisation. This is reinforced by the fact that real estate developers in China were moving towards such formats (refer annexure: The China retail market).

[5] Source : Retailyatra.com

Operations: at a nascent stage

"We have good Point-of-Sales data, but we are not fully leveraging this customer information."
MD, Indian grocery retail chain

Successful retailers have a strong hold on operations – be it merchandising, supply chain management or procurement. Tesco leverages its customer data to fine tune its stocks to meet customer requirements. Wal-Mart leverages information technology (with VSAT links etc.) to enable supply chain management practices like cross-docking and generates superior margins. 7-Eleven successfully adopted cluster strategy and continuous replenishment concepts to outperform its peers. Clearly, managing operations innovatively can provide a significant competitive advantage to retailers.

Retailers in India are on the verge of significantly scaling up their operations. To assess the retailers preparedness for the planned rapid growth, we surveyed the retailers in India along three dimensions:

- Internal processes
  - Supply chain management practices: critical for ensuring scalability and managing costs
  - Private label management: critical from managing margins
  - Loss prevention: critical for managing margins
- Real estate space availability and costs: a key enabler for growth
- Availability and cost of financing: another key enabler for growth

The following sections capture our survey findings in each of these areas.

The retail supply chain in India – The weak link

The key imperative facing retailers in India is to have a robust and scalable supply chain that would facilitate rapid growth. One measure of efficient operations is the inventory turns ratio. The US retail sector has an average inventory turns ratio of about 18. The best global retailer like a 7-Eleven has over 50 turns of inventory. Most Indian retailers KPMG surveyed have inventory turns levels between 4 to10.

Another metric of efficient supply chain management is the stock availability on the retail shelves. Global best practice retailers achieve more than 95 percent availability of all SKUs on the retail shelves (translating into a stock out level of less than 5 percent). The stock out levels among Indian retailers surveyed ranged between 5 to 15 percent.

Looking at the inventory turns and stock availability metrics, retailers in India clearly need to augment their operations.

Tesco: Fresher, Simpler, Closer[1]

In the last two decades, Tesco made rapid strides in modernising its supply chain, introducing Point-of-Sales (POS) scanning, centralised distribution, and EDI with its suppliers. While SKUs handled increased from 5,000 to 40,000 in this period, service levels improved from 92 percent to 98.5 percent.

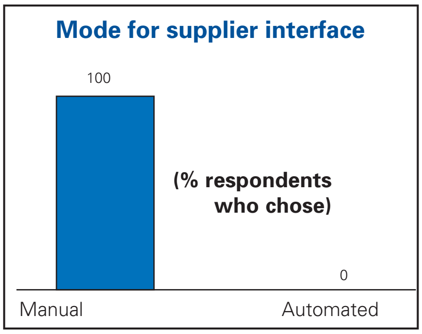
On analysing the end-to-end supply chain for each of its product families, Tesco realised that there was superfluous handling while the stock moved downstream from the supplier to the distribution centre to the store. For e.g. one of its products had 170 touch-points on its way downstream and spent most of the 20-40 days in transit at seven stock points. By implementing lean principles, it was able to reduce touch-points to 20, reduce transit time to 1-3 days and reduce stock points to one. Two of the supplier practices discussed here are lean manufacturing and 'milk runs' for inbound logistics.

Lean manufacturing: Tesco sends orders continuously to suppliers instead of once a day. This way, orders are created online and production scheduled instead of waiting for batches to be formed. Suppliers analyse sales data to streamline production volumes and decide on stock levels. Many of its suppliers were initially unwilling to shift from batch production, and required education programmes to convince them on the significant benefit to consumers from the application of lean principles.

Milk runs: Instead of suppliers delivering the product to Tesco's DCs, Tesco picks up products from its suppliers using milk-runs, ensuring better transportation utilisation and backhauling. It also places a greater discipline on suppliers to have the right products on time for pick-up.

Supplier integration – Predominantly manual

Operations of retailers and suppliers are not integrated in India. All the retailers we surveyed have manual information exchange with their suppliers. In developed countries, retailers practice Vendor Managed Inventory (VMI) systems, where the supplier has access to the point of sales data of the retailer and plans automatic replenishments responding to the stocks available at the retailer. Some best practice retailers like Tesco have implemented lean techniques like 'milk-runs' - taking continuous orders from suppliers as the inventory depletes and doing multiple small lot shipments from the supplier to the stores (see box 'Tesco: Fresher, simpler, closer). Such efficient replenishment practices are today practised in the Indian auto and auto component industry. So retailers in India can leverage such expertise available to implement efficient supply chain management techniques.

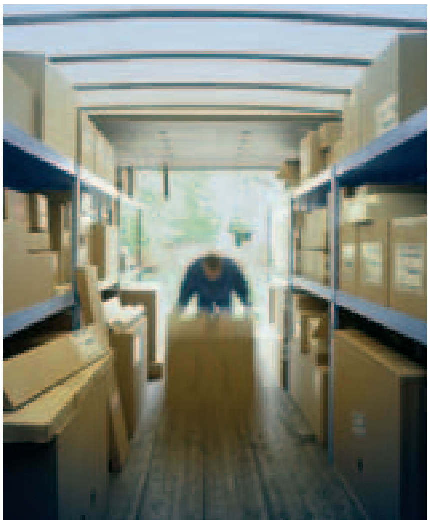


KPMG Retail Survey

Supplier maturity – Low in India

Supplier maturity, in terms of adherence to delivery schedules and delivering the quantity ordered, is an issue in India. About 55 percent of the retailer's surveyed felt that there was a need for suppliers to enhance their service levels. While a few large manufacturers have key account management teams to cater to modern retail channels, most of the suppliers deal with the retailers through their distributors or wholesalers.

[1] 'Creating a Customer-driven supply chain', ECR Journal, Winter 2002



Some multinational retailers operating in India have achieved superior service level from their Indian suppliers by working with them. Organisations like McDonald's spent significant time and efforts when they came in to augment the capability of local suppliers by bringing in their international suppliers to either partner with or transfer key capability to Indian suppliers.

Sourcing – Largely tactical today

Ordering by retailers is more tactical than strategic in India. Not many retailers have long term purchase agreements with suppliers. From time to time, orders are placed to leverage the various trade schemes that manufacturers come up with. This leads to retailers taking larger inventories when there is a good trade promotion scheme by the manufacturers. In contrast retailers like Wal-Mart have partnered with manufacturers like P&G to develop 'Every Day Low Price' strategies where prices and discounts are kept uniform throughout the year.

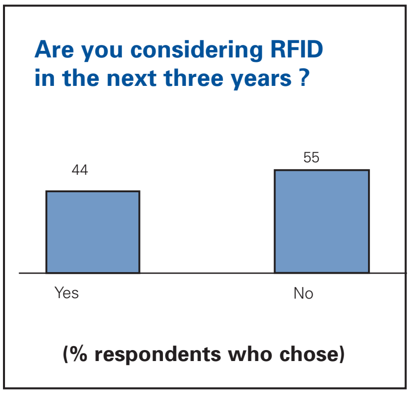
Retailers in India also face constraints due to some regulations (like the APMC Act) which prevent large volume, direct purchases of fresh produce.

Fragmentation of supply chain due to tax laws

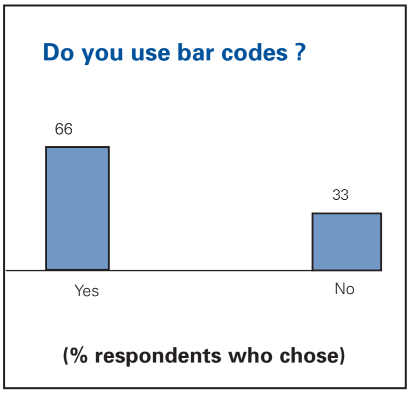
Sales tax laws in India lead to retailers having state level procurement and storage rather than a regional/ national warehousing strategy. This decentralised procurement and storage leads to Indian retailers having higher inventories. However, in the next two/ three years, post full implementation of VAT and removal of the central sales tax (CST), supply chain streamlining is expected.

Technology adoption and usage – Quite low by international standards

Technology usage is low in India today, compared to levels achieved in advanced economies. Retailers like Wal-Mart and Metro have started experimenting with Radio Frequency Identification (RFID) technology which is expected to provide much better inventory visibility and hence facilitate efficient management of inventory. Retailers in India are still to adopt bar coding completely. The level of bar



Source: KPMG Retail Survey



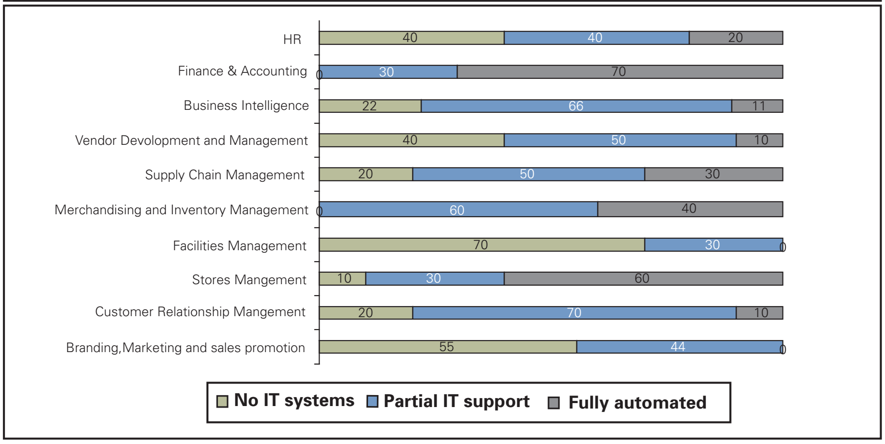
Source: KPMG Retail Survey

code usage is also largely due to retailers' initiatives of printing these codes at their warehouses, unlike in developed countries where all the suppliers print bar codes.

Most retailers do not have integrated IT systems today. Many retailers that we surveyed have few IT systems in the areas of supply chain management, vendor development, merchandising and inventory management. The annual spends on IT is quite negligible.

However, most of the retailers surveyed do have plans for implementing integrated IT systems in the coming years.

Level of IT usage among Indian retailors



Source: KPMG Retail Survey

Clearly retailers in India have a significant catch-up act to do both in supply chain management and adoption of IT. The good point is that retailers can leverage the experiences of international retailers like Tesco, 7-Eleven and Wal-Mart to leapfrog to the latest practices in managing their supply chain and leveraging information technology.

7-Eleven Japan (SEJ): Knowledge is Power (=Sales)[2]

In 1994, SEJ installed a real-time system to track changes in customer preferences and sales data in each of its 8,500 stores. The proprietary system has a multimedia interface with pictures and sound, since its workers are typically part-timers with limited computer skills. The system also brought all the companies in its supply chain to one common platform – hooking its stores to its distribution centres and suppliers through VSAT terminals. Based on this input, SEJ reallocates inventory between different stores and reallocates store shelves three times a day to cater to different consumer segments at different hours. (This is especially important as retail space is limited in a 7-Eleven store and food items make up a significant part of sales)

The system also transmits local weather forecasts on a continuous basis to its stores. Store managers in turn send forecasts of the amount of food they expect to sell to distribution centres, based on weather forecast.

It is a standard procedure for SEJ staff to note down age and gender of the customer, which enables the company to build consumer profiles for its key products. Therein lies the story of why the stockings shelf was relocated next to the beer shelf. It was determined that most buyers of stockings were husbands on their way back home from work!

[2] '7-Eleven', The Economist, May 21st 2001 and press articles.

Private labels – Increasing significance

A key strategy adopted globally and increasingly in India by retailers is the use of private labels or store brands. Globally private labels contribute to 17 percent of retail sales and are growing at 5 percent an annum[3]. Private labels provide a higher margin to the retailers while simultaneously offering lower prices to consumers.

There is an increasing acceptance for private labels in India. A recent survey by AC Nielsen[4] has identified that 56 percent of their survey respondents in India consider private labels to be good alternatives to manufacturer brands. In India, private label penetration is on the rise. Some of the major food & grocery retailers average between 20 percent to 30 percent private label penetration with the highest penetration of about 50 percent today. In clothing and apparel, some retailers have as much as 65 percent of the sales coming from private labels.

While private label penetration is on the rise, it is largely in the areas of groceries, home care, clothing and apparels. Internationally, private labels are available in many more categories including healthcare, cosmetics, beverages, etc. This expansion would take place in India as well.

The rapid growth of Indian retailers in the coming years would provide the necessary scale for many to launch an active private label programme. In areas like consumer durables, the rapid development of Original Design Manufacturers (ODM) would facilitate easy introduction of private labels soon.

Going forward, in addition to managing the supply chain, Indian retailers would have to augment their private label management capability as well.

Loss prevention – Need to embed into all processes

Loss prevention and shrinkage management would be a critical area for the Indian retailers. The shrinkage levels witnessed by Indian retailers who took part in the survey are in the range of 0.3 percent to 1.5 percent of sales. This is comparable to the levels witnessed in developed countries. A key challenge for Indian retailers would be to manage shrinkages at this level and not allow it to deteriorate with the rapid growth of their retail networks.

Shrinkage typically takes place due to a combination of factors: internal theft, external theft and inter company frauds. While typically internal theft accounts for major portions (both globally and in India), retailers tend to concentrate on the other two factors. Indian retailers can adopt the best practices that are implemented by retailers in developed countries. According to a survey conducted by Efficient Customer Response (ECR), in Europe, top six measures used by retailers to reduce shrinkage are:

- Cash protection equipment: safes, caches
- Intruder alarm systems
- Live closed circuit television

"Most shrinkage is due to our store personnel. Employee integrity is an area of concern for us."
Founder, a department store

[3] 'The rise of private labels - Business Today, November 6, 2005.
[4] Ibid.

- Mystery shoppers
- Electronic Article Surveillance Equipment (EAS)
- Employee integrity checks

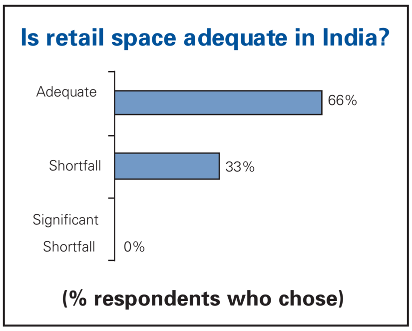
Retailers in India are increasingly adopting these measures. Globally best practice organisations embed loss prevention into every facet of retail operations and this is what Indian organisations should work towards as well.

Real estate – Availability and high costs are issues

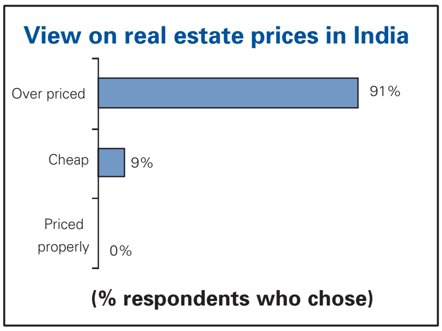
Availability of quality retail space is a critical enabler for the anticipated rapid growth of modern retailing in India. The preferred form of retail real estate acquisition is through long term leases in India. Few retailers prefer a mix of owned and leased real estate space and some own the real estate space.

A majority of the survey respondents felt that the availability of retail real estate space is adequate in India. However there were some instances where retailers had to wait a few years before they got a suitable location to set up their stores.

A pressing issue facing retailers today is the cost of real estate. An overwhelming majority of the respondents felt that the real estate in India is over priced today.



Source: KPMG Retail Survey



Source: KPMG Retail Survey

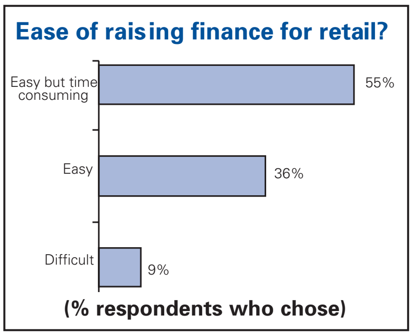
Finance should not be a constraint for players in India

Easy availability of finance at competitive rates is a critical enabler for the envisaged rapid growth of retailing in India.

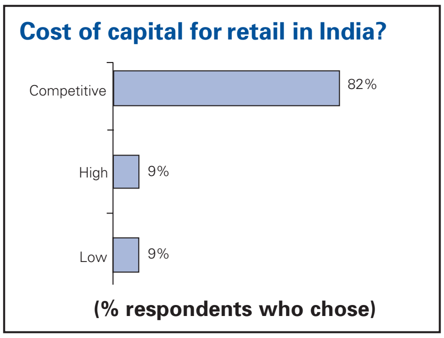
While an analysis of the retailers indicated that debt contributes to between 15 and 40 percent of the sources of funds for retailers in India, equity financing is the most preferred mode of financing growth by retailers. Within equity internal accruals followed by own funds seem to be the most liked options. IPOs seem to be the least likely option that may be chosen by retailers for funding growth.

"If you have a sound business model, getting financing is not an issue."
CEO, Leading durables retailer

On availability of finance, most respondents felt that it was relatively easy to raise finance in India. Almost everyone agreed that it is quite easy to raise finance in India if the business case is sound. It may however be a little time consuming. A large majority of the respondents also felt that the cost of capital in India is competitive. Some highlighted that from a global perspective, cost of financing is a little higher in India.



Source: KPMG Retail Survey



Source: KPMG Retail Survey

Internal challenges need to be overcome

Easy availability of finance at competitive rates is a key enabler for growth in India. Retail space availability and costs are issues.

In operations management and leveraging technology, retailers in India are at a nascent stage. This would be one area of opportunity for winners of the future to distinguish themselves clearly from the rest of the industry.

Human resources: significant gaps

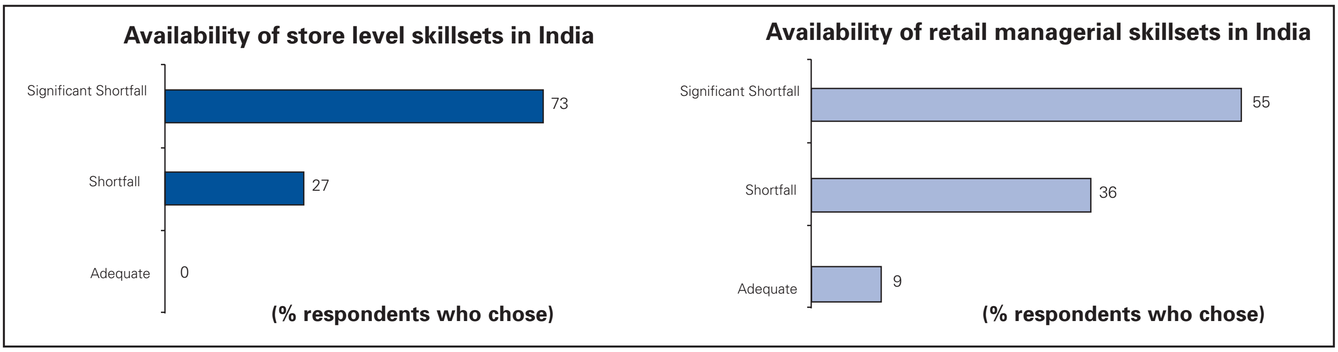
"We have to depend on in-house programmes and on-the-job training for new recruits."
CEO, Leading furniture retailer

The impending war for talent in India

Retailing is manpower-intensive. Developed economies like the US, which has a high penetration of modern retailing formats, employ between 10 - 11 percent of their workforce in retailing (against 7 percent employed in India today). It is estimated that in India up to 70 million square feet of retail space will be created by 2007. The plans of most retailers who were met with forecasted a strong growth (almost doubling of store space and number of outlets) in the next three years.

Assuming one front-end customer associate for every 300 square feet of retail space created, India would approximately need an additional 210,000 customer associates in the next three years. While the actual figure may be different, this gives a clear indication of the magnitude of resources required to support the growth of retailing in India.

A key question in everyone's mind is whether resource availability would become a bottleneck to growth in Indian retailing.



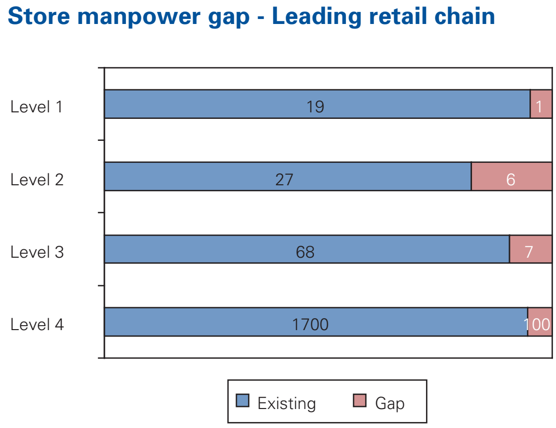
Source: KPMG Retail Survey

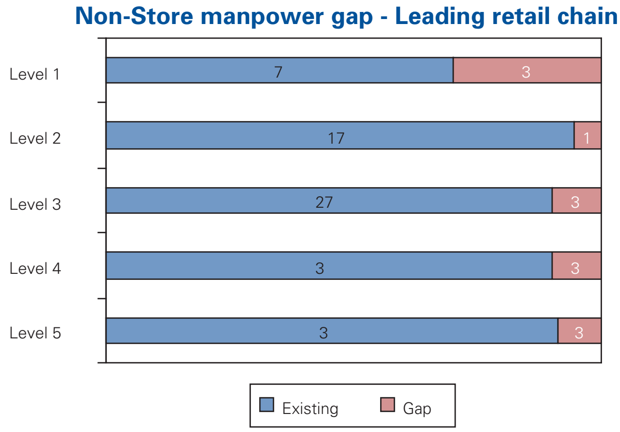
India faces a retail resource shortage

Respondents to the Retail Survey were unanimous in their opinion about the paucity of trained retail personnel both at the store as well as managerial level. All our respondents agreed that there was either a 'shortfall' or 'significant shortfall' of skilled resources in retailing in India.

While ostensibly, there should be no manpower shortfall in India, given its large working population, the gap lies in finding people with the right skill-sets; like customer orientation and selling which are critical.

A recent study done by IMAGES Retail, a magazine on Indian retail, identified gaps in both in-store and non-store resources available in India. The gap in the managerial cadre is a little better since general managers from industries like FMCG are able to quickly learn and adapt to the demands of retailing.



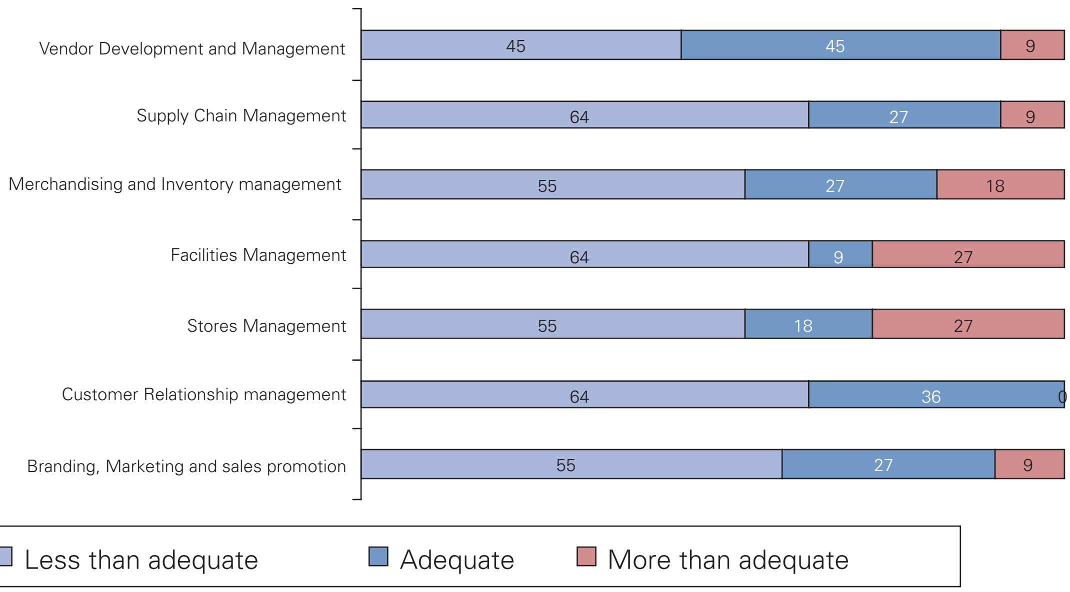


Source: IMAGES Retail

There are significant competency gaps

A majority of the respondents felt that there were significant competency gaps in India. Supply chain and customer relations followed by merchandising, facilities management and vendor development are areas which have significant gaps that need to be addressed. An area like branding and marketing is considered slightly better since expertise from other industries like consumer products and telecom can be leveraged easily in retail branding as well.

Availability of manpower by competency



(% respondents who chose)

Source: KPMG Retail Survey

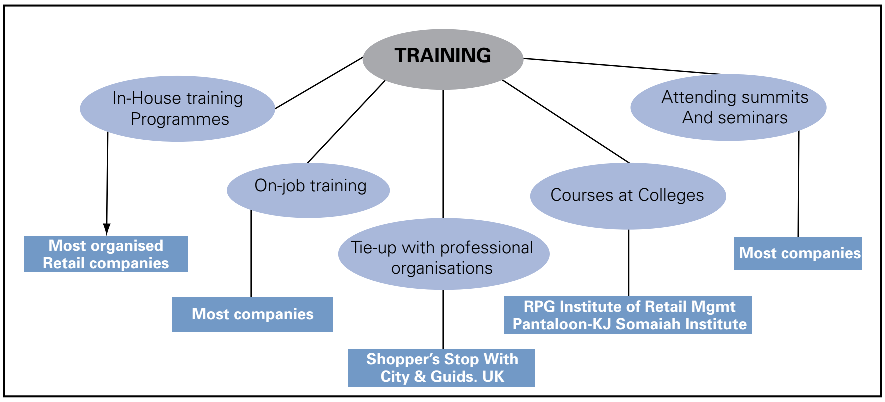
Clearly, this is a reflection of India being at a nascent stages of modern retail development. Also unlike in a mature sector like manufacturing, where there is a large base of vocational training schools, there is no equivalent grassroots training facility for the retail services sector.

Proactive training – An imperative

Given the shortage in numbers and available competency, proactive training is a key imperative for Indian retailers. With poor public training infrastructure in retail industry, most retailers in India depend on in-house training. All the survey respondents have a significant portion of on the job training in their existing stores for new recruits. In a few instances, retailers have ties with management/ training institutes and some leverage their international partner's infrastructure.

Some retailers have taken the step of setting up their own retail schools: a case in point is RPG Institute of Retail Management. ITC is planning a retail training academy in partnership with NIS Sparta. Some retailers are tying up with management institutes to develop specific training programmes for their employees - Pantaloon has tied up with K.J.Somaiah Institute of Management to offer specialised courses in retail management.

Best in class global retailers have proactive training strategies. Costco has its Costco University and McDonald’s has its Hamburger University. Proactive training strategies would become a competitive differentiator for retailers given the resource and competency shortages in India.



Source: Industry

People attrition – Low now but expected to worsen

Globally retailing is a high people turnover industry. Even large retailers face attrition of the order of 40 to 60 percent annually. Indian attrition levels are currently low compared to global standards. However, it is expected to worsen given the rapid expansion being witnessed and the existing shortage facing the industry.

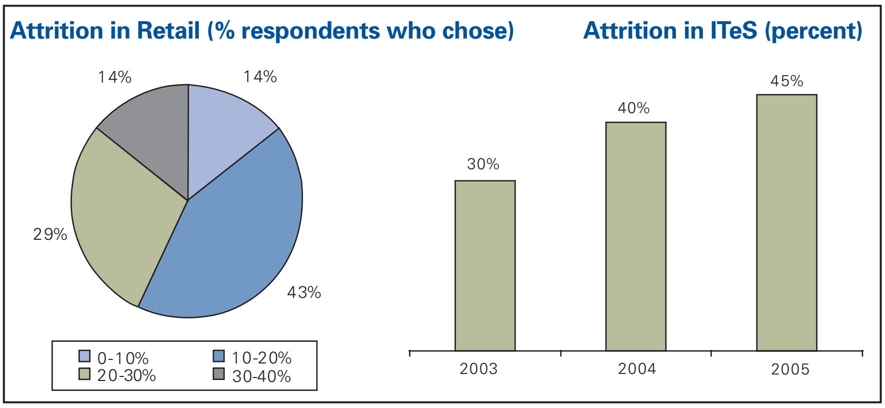
To make matters worse, retail has to compete with other high growth industries like Telecom, Insurance and more specifically ITeS/ BPO firms (see box) which look for similar skill-sets like customer orientation, selling skills, communication skills, etc. Respondents in our survey cited ITeS as the sector to which most in-store personnel migrate to from retailing.

All these are expected to aggravate attrition in retailing and industry expects the attrition levels to increase in the coming years.

The BPO bugbear

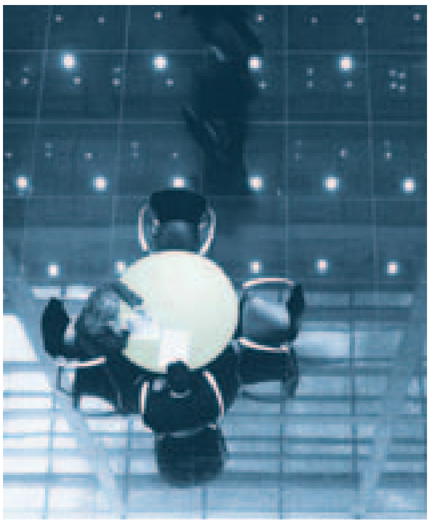
IT Enabled Services (ITeS) industry has been growing rapidly in India. The lack of trained manpower has led to high attrition rates, with firms recruiting skilled employees from each other. Both the ITeS industry and organised retailers recruit staff on core skills.

Understanding service expectations and managing customers are skills highly valued both by the ITeS industry and retailers, making retail front end personnel an attractive hunting ground for ITeS. In addition with retailers like Tesco moving their back office operations to India, there is an increasing demand for people with an understanding of retail interface. In addition salary levels offered in most ITeS companies is significantly higher compared to retailers, making it an attractive jump for front end employees in Retail.



Source: KPMG Retail Survey

Source: NASSCOM



At 10 to 15 percent, the attrition in middle and senior management is not as significant as the front end personnel. However since there is an absence of specialized retail professionals in the country, most of the non-store managers in retail today are from the FMCG, telecom and IT sectors. A key issue is lack of competency in modern retailing practices.

As retailing grows rapidly, the demand for managers with good retailing experience is set to increase and hence the attrition levels are expected to worsen.

Indian retailers need creative HR practices

Winning the coming war for talent is imperative for success in Indian retailing. Indian retailers need to develop a combination of good HR practices to enhance competency and retention while simultaneously develop processes and systems to ensure high people turnovers do not disrupt operations.

Indian retailers can take a leaf out of a best in class retailer like Costco in enhancing their employee retention rates.

The Costco way to training and retention[1]

Costco is the leader in the warehouse stores market with over 50 percent of the US market, compared to 40 percent for its rival Wal-Mart's Sam's Club. It pays its employees 43 percent more than its competitor. Eighty five percent of its employees have health insurance vis-à-vis less than fifty percent at Wal-Mart. Contract employees are eligible for health insurance after six months as compared to two years at Wal-Mart. Its revenue per store is USD 121 million vs. USD 70 million for Sam's Club. So, is there a correlation between its performance and its HR practices? If one were to ask the 44.6 million mostly affluent Costco members, one would think so. The better HR and compensation practices translates primarily into three benefits: lower attrition and therefore training costs, lower 'shrinkage' levels at the store from theft; and thirdly, Costco's affluent clientele stay loyal because the 'low prices' do not come at the cost of low wages.

Costco has aggressive plans to open about 135 stores every year for the next five years. To support this growth, it needs around 5,000 managers. With this objective in mind, it opened the Costco University initiative, which is entirely operations-led and uses customized cases. These cases address the vital issues of operating and leading in the company. It is no wonder that Costco's people practices are considered best in class.

The Costco case illustrates that proactive HR practices provide more than employee retention. Happy and more permanent employees ensure higher customer satisfaction and retention that more than offset the higher costs of good HR practices.

[1] New York Times ' How Costco became the Anti-WalMart'

Annexure: the China retail market

This case study on the Chinese retail market is an extract from KPMG's publication 'Retail Outlook for China 2005'. This section discusses the key features of the Chinese retail market, as well as highlights some lessons for Indian retail.

Modern retailing in China has largely been an urban phenomenon

China's coastal regions have been enjoying the greatest growth. Guangdong province, home to the Pearl River Delta (PRD), has 110 million people and contributes to over 12 percent of the Chinese GDP. It is the most urbanised province with an urbanisation rate of 55.7 percent. Further up the East coast, the Yangtze River Delta (YRD), with a population of 130 million saw its GDP increase to USD 346 billion, or 21 percent of the national GDP. Per capita income in the region, which includes cities like Shanghai and Suzhou, is USD 4,274 (compared to the national average of USD 1,300)

With around 20 percent of the mainland's population concentrated in these two river delta regions, the regions have become the economic powerhouses and consequently the consumption hubs in the country. The high levels or urbanisation witnessed in China in the coastal regions has been one of the key drivers for the success of modern retail formats in the country.

Not many multinational retailers have made a foray in inland provincial capitals due to doubts on the level of consumer spending in these regions and poor transport infrastructure. These obstacles have prompted some retailers to refocus on the wealthier coastal provinces.

Hypermarkets and convenience stores have emerged as the most popular formats

In China, both hypermarkets and supermarkets are perceived as food specialists and include fresh food produce to cater to local tastes. Convenience stores have been another format that have done exceedingly well in larger cities. These convenience stores have increased their services beyond snack foods, beverages and dairy products to include financial services and utility bill payment facilities. China's traditional urban retail format – the department store – has not been very successful in competing with modern trade.

An AC Nielsen survey across seven leading Chinese cities in July 2005 pointed to the popularity of modern formats in China. Up to 46 percent of respondents stated that hypermarkets/ convenience stores made up a significant part of their overall grocery expenditure, and 66 percent stated that they 'often' visited hypermarkets and convenience stores.

China is heading towards significant mall over-capacity

Mall development in China started in the early '90s. By 2002, there were over

100 malls in China, most of them concentrated in the large cities such as Shanghai, Chengdu, Guangzhou and Beijing. At present, there are more than 400 shopping centres and malls operating in China.

In Shanghai alone, there are 14 operational shopping malls, with another 33 under construction or being planned. This would result in accumulating over 30 million square feet of retail real estate in the next 2-3 years itself.

In a bid to control the over supply, the Chinese government banned construction of new malls in Beijing in 2004 and imposed tough application procedures for mall projects elsewhere. In Shanghai too, local authorities are planning to control land supply for developing retail malls and checking the creditworthiness of mall developers.

Emerging trends in retailing in China

China has gradually opened up retailing to 100 percent FDI in the last 10 years. We look at case studies of companies to identify trends, and highlight lessons for Indian retail.

Local company is the largest retailer in China – case of Bailian

Bailian is China's biggest retailer and its largest domestic retail player. Created in April 2003 by merging the parent companies of Hualian Supermarket, Lianhua Supermarket, Hualian Department Store, and Shanghai No 1 Department Store; Bailian is now a veritable giant in China's retailing landscape.

Acquisitions have been Bailian's strategy to gain a significant share of China's chronically fragmented retail market. Even after the consolidation activities, Bailian's 2004 sales of RMB 6.76 billion (USD 8.16 million) represented just over one percent of national retail sales.

Bailian has a major consolidation task on its hands – in store format, branding and management – in its plans to leverage its size effectively.

Some players have reached enough scale to provide deep discounts to customers: case of Gome

Hong-Kong listed Gome Electrical Appliances Holdings Ltd is China's largest retailer of consumer electronics, and was on the top ten listed private companies in China in 2005. Yet, even Gome, the market leader has just a five percent market share in this segment. Nevertheless, the company plans to raise its sales revenue from RMB 23.88 billion (USD 2.89 billion) in 2004 to RMB 120 billion (USD 14.5 billion) in 2008 through initiatives outlined below:

Aggressive expansion plans: In March 2005, the company announced plans to double its retail presence in China by the end of the year. Gome said that it would spend RMB 250 million (USD 30.2 million) to open 130 new stores in addition to its existing 144 outlets in major metropolises. Over half of these outlets would be in the Yangtze River Delta (YRD), where Gome will open 100 new outlets by 2007.

Increased procurement: Gome plans to increase procurement in the YRD alone from RMB 8 billion (USD 966 million) to RMB 15 billion (USD 1.81 billion) by the end of 2006. In April 2005, the retailer purchased flat-panel color TVs valued at nearly RMB 2 billion, planning to launch them in northern urban markets such as Beijing, Tianjin and Inner Mongolia. The net effect expected is a 30 percent drop in the price of flat-panel TVs across the region.

Acquisitions: In June 2005, the company acquired a controlling stake in IDALL Group, a manufacturer of DVD players. The investment in IDALL, Gome's first move into the production of home appliances, will more than triple the group's annual production capacity to over 3 million DVD players.

With these initiatives, Gome intends to boost its current domestic market share from 4-5 percent to 10-15 percent by 2005, increasing sales tend fold over the same period to RMB 120 billion (USD 14.5 billion).

Timing the entry of MNCs - Late-mover advantage? – case of Tesco

Tesco, UK's largest food retailer finally moved into China's grocery market in 2004. Having evaluated the market for over three years, it finally entered China through the acquisition of 50 percent stake in Hymall, owned by a Taiwanese food processor and retail, which owns 25 hypermarkets in the mainland in a USD 260 million transaction.

Tesco is entering the arena against global rivals such as Wal-Mart, Carrefour and Metro in addition to Bailian. Yet, for all the competition, Tesco's timing may be just about right. For a start, the company can take advantage of the growing popularity among Chinese consumers for modern trade – particularly hypermarkets.

More importantly, with China just having opened its retail market in December 2004 in line with its obligation as a member of the WTO, Tesco is now free to decide on its expansion unencumbered by restrictive regulations.

About KPMG in India

The member firms of KPMG International in India were established in September 1993. As members of the cohesive business unit that serves the Middle East and South Asia (KPMG's MESA business unit), they respond to a client service environment by leveraging the resources of a globally aligned organisation and providing detailed knowledge of local laws, regulations, markets and competition.

In India KPMG's range of services includes audit, tax and advisory services to over 2,000 international and national clients. Clients range across five sectors namely financial services; consumer markets; industrial markets; information, communication and entertainment; and infrastructure and government. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune. The firms in India have access to more than 1000 Indian and expatriate professionals, many of whom are internationally trained.

KPMG provides rapid, performance-based, industry focused and technology enabled services, which reflect a shared knowledge of global and local industries and experience of the Indian business environment.

For more information on retail industry please contact

Deepankar Sanwalka
Executive Director
4B DLF Corporate Park
DLF City, Phase III
Gurgaon 122 002
Email: dsanwalka@kpmg.com
Tel: +91 124 2549111
Fax: +91 124 2549195

Nandini Chopra
Director
KPMG House
Kamala Mills Compound
448, Senapati Bapat Marg
Lower Parel
Mumbai 400 013
Email: nandinichopra@kpmg.com
Tel: +91 22 24913030
Fax: +91 22 24913132

Kaushika Madhavan
Associate Director
Westminster Building, II Floor
108, Dr. Radhakrishnan Salai
Mylapore, Chennai 600 004
Email: skaushika@kpmg.com
Tel: +91 44 28473911
Fax: +91 44 28473912

About FICCI

The Federation of Indian Chambers of Commerce and Industry (FICCI) established in1927 to promote the Indian Industry. Today, with a membership of over 500 chambers of commerce, trade associations and industry bodies, FICCI is a spokesperson for over 2,50,000 business units – small, medium and large – employing around 20 million people. FICCI also has direct membership of about 2000 private, public and multinational sectors.

FICCI's expert committees and task force, headed by leading industrialists, regularly meet to discuss current issues like retailing, entertainment agriculture, banking and finance, consumer durables, ecology and environment, education, energy, foreign trade, industry, information technology, taxation and corporate laws. These interactions facilitate flow of investment to the country, help promote international trade and provide inputs for evolving and shaping government policies in different areas to make them conducive to rapid growth of the economy.

FICCI initiatives in retail

FICCI initiatives in retail are led by its Retail Committee, comprising business leaders from major retail chains in India. It addresses issues in retail Sector and targets policy interventions to create a growth environment for organized retailing.

FICCI has a regular interface with Government of India and also represents in various standing committee formed by the Government to promote this sector.

FICCI also creates a knowledge platform to bring global best practices to industry and promotes domestic and foreign partnerships

Past Events:

Conference on Developing India's Capability for Organised Retailing held in September 2001 in New Delhi.

Conference & Catalogue Show on Opportunities in Retailing and Franchising held in April 2002 in Bangalore.

Footfalls, Global Convention on Corporate Strategies for Retailing, Franchising, Direct Selling and Fashion Trends held in November 2002 in New Delhi.

Winning with Intelligent Supply Chains held in September 2004 in New Delhi.

Retailing in India: FDI and Policy Options for Growth held in February 2005 in New Delhi.

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Mumbai
KPMG House
Kamala Mills Compound
448, Senapati Bapat Marg
Lower Parel
Mumbai 400 013
Telephone: +91 22 2491 3131
Fax : +91 22 2491 3132

Delhi
4B, DLF Corporate Park
DLF City, Phase III
Gurgaon 122 002
Telephone: +91 124 254 9191
Fax : +91 124 254 9101

Bangalore
KPMG House
20/2, Vittal Mallya Road
Bangalore 560 001
Telephone: +91 80 2227 6000
Fax: +91 80 2227 3000

Chennai
II Floor, Westminster
108, Dr. Radhakrishnan Salai
Mylapore
Chennai 600 004
Telephone: +91 44 2847 3911
Fax: +91 44 2847 3912

Hyderabad
II Floor, Merchant Towers
Road No. 4, Banjara Hills
Hyderabad 500 034
Telephone: +91 40 2651 0060
Fax: +91 40 2335 0070

Kolkata
Park Plaza
Block F, Floor 6
71 Park Street
Kolkata 700 016
Telephone : +91 33 2217 2858
Fax: +91 33 2217 2868

Pune
703, Godrej Castlemaine
Bund Garden
Pune 411 001