



Geography – Beyond Top 50 Cities



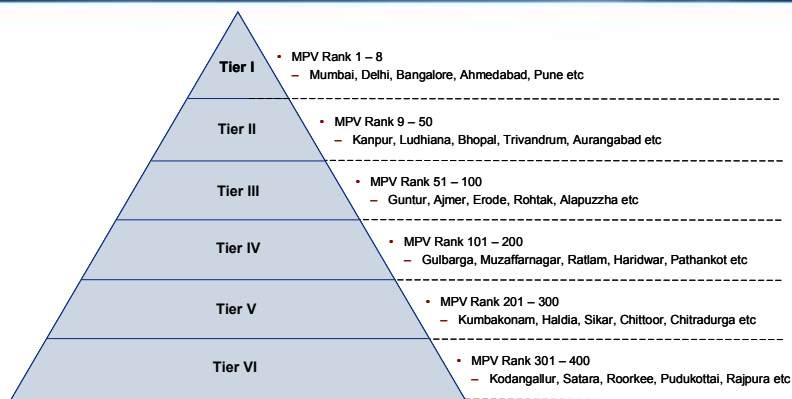
Merchandise – Private Labels



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

3

Universe of Organized Retail in India is possibly in its top 400 cities



- Top 400 cities (of 784 cities) with a population of 1 lakh or above
- Accounts for 80% of urban population & disposable income
- Classified into 6 tiers based on Market Potential Value (MPV)*

* metric developed by RK Swamy BBDO (year 2004) that ranks 784 urban cities in India based on parameters such as population, per capita income, consumer good & media consumption etc



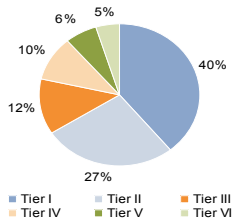
© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

4

Today's target has been the top 50-60 cities – is there fortune beyond that?

- Organized retailers have established presence in the major metros and have percolated top 50 – 60 urban cities / towns.
 - top 50 cities account for a significant share consumer population as well as disposable income.
- Going forward, the relative attractiveness of these cities is expected to reduce
 - increased competitive intensity from existing domestic retailers
 - global giants such as Wal-Mart, Tesco, Carrefour etc commence operations will initially concentrate on the larger cities.
 - benefits of India's economic boom are not likely to be limited to the larger cities alone
- Consumers in smaller town have started to mirror the aspirations of their counterparts in the larger cities. .

Consumption split according to town class by MPV rank



Source: RK Swamy BBDO Guide to Urban Markets, NCAER Great Indian Market, KPMG analysis

Urban towns beyond the top 50 appear to provide a considerable untapped opportunity for organized retail players

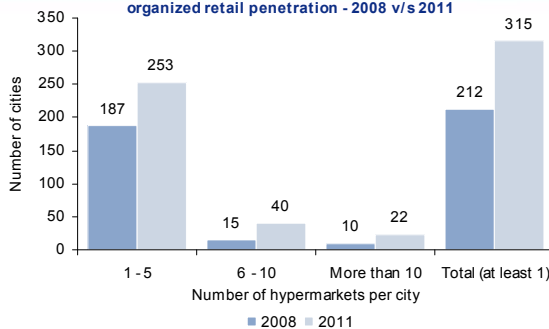


© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

5

Should we plan for expansion now?

Number of cities with potential for organized retail penetration - 2008 v/s 2011



Source: RK Swamy BBDO Guide to Urban Markets, NCAER Great Indian Market, KPMG analysis

- In 2008, 212 towns have a market potential for a hypermarket to break-even; In 2011, this number of towns is expected to rise to 315
- In 2008, 25 towns (Tier I & II) have the potential of having more than 5 stores; In 2011, this is expected to be 52 towns (Tier I, II & III)
- Tier III, IV and V towns should be on the radar of retail majors today
 - even if they decide to set up stores in these towns 3 years from now, planning for the same should begin at this stage
- Beyond tier I & II, one hypermarket maybe sufficient to cater to consumption of that town due to which a first mover advantage will be crucial.



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

6

Challenges in penetrating to smaller cities / towns

- Lower disposable Income
 - household expenditure levels are much higher in the larger cities
- Varying consumption pattern
 - e.g. Microwave ovens, ready-to-eat foods, white formal shirts etc regularly feature on hypermarket shelves in tier I & II towns, these sub-categories may not find an addressable market in smaller towns
- Availability of real estate / infrastructure
 - Availability of 25,000 – 30,000 sq ft for a single store in high street locations is anticipated to be a deterrent for retailers planning to establish presence in smaller towns
 - Mall development is not expected to move beyond tier I & II cities in the next 3 – 5 years
- Availability of right manpower - difficulties in recruiting sales staff, store managers etc with an understanding of retail operations.
- Developing and managing an efficient supply chain and logistics network catering to stores in smaller towns
 - Might require significant investments



1

Geography – Beyond Top 50 Cities



2

Merchandise – Private Labels



What sells as Private Labels?

AC Nielsen survey conducted in 38 countries across 80 categories



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

9

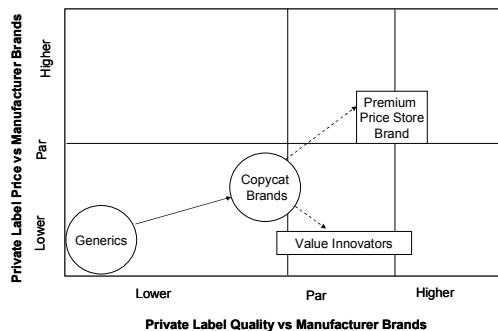
Private Labels have evolved over a period of time

Private Label development:

- Supply Base
- Access to Technology & Manufacturing
- Innovation Rates
- Branding Investments
- Pricing and Margins
- Consumer Purchase Habituation

Some recent trends:

- Private label compete on quality
- Private Labels are brands
- Growing consumer acceptance for private labels
- Emergence of premium private labels
 - Tesco "Finest" is one of the pioneers in this space with its chocolates enjoying a price premium of 65% over that of Cadbury. Other leading examples include Sainsbury's "Taste the Difference" and Marks & Spencer's "St Michael" clothing brand.



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

10

Why are private labels attractive?

Retailer Name	Total Sales (\$ billion)	Private Label %	Private Label Sales (\$ billion)
Wal-Mart	316	40	126
Carrefour	94	25	24
Metro Group	73	35	26
Tesco	71	50	36
Kroger	61	24	15
Royal Ahold	56	48	27
Aldi	43	95	41
Schwarz Group	43	65	28

Source: Derived from M+M Planet Retail, 2005

- Better profit margin
 - Typically, retailer gross margins on private labels are 25 – 30% higher than those on manufacturer brands.
- Greater leverage
 - presence of private label in a category allows the retailer to negotiate a better margin on manufacturer brand
- Loyalty to stores
 - Private label helps in differentiating the retailer from other retailers and manufacturer resulting in consumer loyalty towards the specific retail chain
- Higher consumer profitability

All above advantages notwithstanding, there are many occasions, where private labels have been less profitable over manufacturers' brands



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

11

Imperatives to Retailers

- Invest in brand equity
 - Branding will help in developing the trust and acceptance among the consumers.
- Generate steady stream of innovation:
 - sustain excitement of consumers and mitigate challenges for manufacturer's brand.
- Support merchandizing for private label:
 - Specially in categories which are consumption elastic - where private labels traditionally have lower penetration
- Developing efficient distribution network
 - Critical in deliver of goods to stores with minimal 'middle-man' interventions
- Better price gap management
 - Especially in high price-elastic categories to sustain the consumer's acceptability



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

12

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Presenter's contact details

Narayanan Ramaswamy

Executive Director – Retail Advisory Service

KPMG Advisory Services Pvt. Ltd.

+91 98400 78242

narayananr@kpmg.com

www.kpmg.com



© 2008 KPMG Advisory Services Private Limited, an Indian private limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

13