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Retelling Retail

by Dr. Amit Kapoor



>> The billion-plus population of India is a retailer's idea of a heaven. With close to 35 per cent of the population falling in the working middle class, one would assume that the success of any brand is child's play – where there is space for every brand in the market. The past few years have seen an upsurge based on similar assumptions with malls and shopping centres opening at every corner of cities, big and small.

International and national brands are investing heavily in single brand stores to encash the opportunity that seemed a safe bet given the income and demographics of the cities. Corporates delighted in the large income and distribution patterns and expected sales to surge as high as their expectations. However, the retailing truth lies somewhere in between figures and patterns. The spending pattern of the people is much differentiated from their incomes levels and the companies needed to understand of the same.

A city cannot be judged by merely its people. To assess the potential for a retailing wonder, the potential of the cities needs to be segmented and understood. The diamond model fragments the competitiveness of the cities into four aspects that summate to provide a productive base for the city to grow on.

Urban areas would mostly reflect a more educated crowd with a basic minimum level of literacy to support the sales and customer staff requirements of the retailers. However, the human resource is the only easily found factor for cities. Most Indian cities are reeling under the pressure of space and resources to run their outlets. The issue magnifies for the malls and large retailers, which require large tracts of land and consume larger quantities of power and other resources to run. Most retailers attract the consumer with the pomp and show of their malls and the varieties they can offer. However, cities are constrained in their natural endowments. The cost of running the retail outlets hence increases manifold as the resources are either expensive or the retailers need to make arrangements for the same. The phenomenon was visible clearly when the mall culture took shape in the satellite cities of Delhi and not within the city itself. Gurgaon and Noida became the hubs for malls with some of the most magnificent structures taking shape there. However, the time to travel and distance formed a gap between what the retailers wanted and created.

The second condition is the need for related and supporting industries. The infrastructure of most cities is well developed enough to create the right foundation for the retail sector to grow. However, the industry is still new in India. The construction companies and the distribution channels for most of the retailers are existent. The logistics and the supply chain are well established in the urban areas and the industries, if grounded on a firm base, can prosper in the light of the



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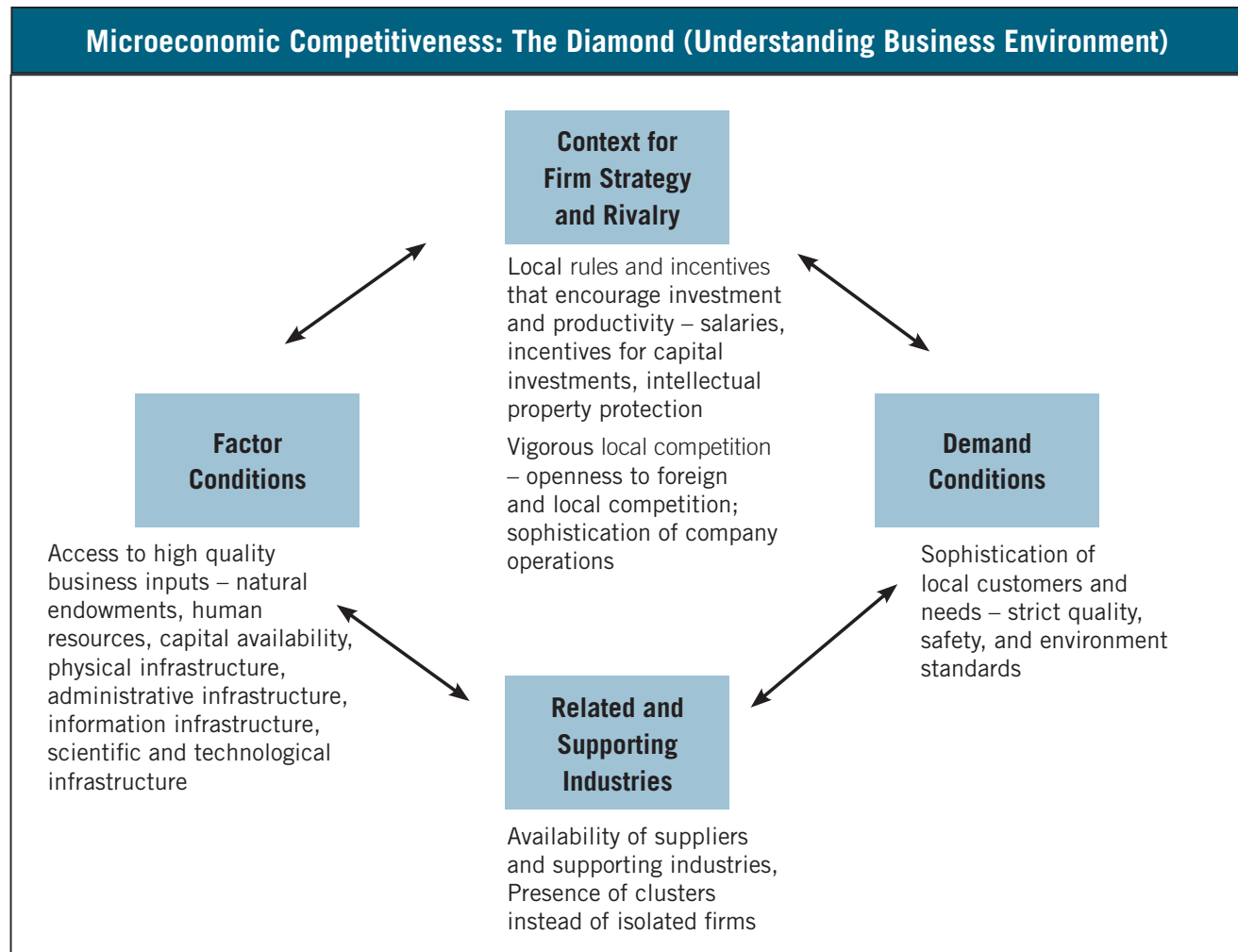
new found liberation and purchasing power of the Indian economy. What needs to be reigned in is the greed that is getting reflected in the high rentals being charged by people around. It is certainly a delight to see rentals mellow down over the last few months as this is certainly good news for retailers and help them in rationalising their rental costs.

The conditions in India seemed ripe for retailers to launch their products in India; post-liberalisation, the restrictions on consumptions and incomes were lifted and the national and international retailers found huge market potential for sales. However, the insight was shared by many brands and retailers and the sudden influx of stores and choices for the consumer have left the Indian market overwhelmed. There were options available for every segment of the market. The modern retailers were competing with mom-and-pop stores;

having said that; the battle need not see one collapse as has been the case in some western economies. The markets in India are large enough to support both the kinds of markets. In addition, there are large modern retail formats such as Big Bazaar that compete against the *kirana* store segment as well, and have thrived despite the speculations. There is currently robust competition in the Indian markets, as modern retailers compete with one another – as well as with traditional formats – to grab a slice of the Indian pie.

The third condition for success are the rules and incentives that determine a firm strategy and rivalry. Competition among the firms and the business incentives in terms of tax, bureaucratic barriers, etc. govern the ease with which a firm can establish itself. It has an important bearing on how the companies can draw on their factor conditions.

Microeconomic Competitiveness: The Diamond (Understanding Business Environment)





The fourth factor, rather pillar, are the demand conditions, which form the most crucial factor in determining the growth opportunity for the retail sector in a city. A look at ranking of cities based on demand conditions becomes quite appealing. Demand conditions are a function of basic demographics and spending pattern of population within the city. Every indicator like age profile, sex ratio, households with electricity etc is pivotal in determining the final index for demand conditions. However, every indicator does not play an equitable role in the productive potential of the city. Calibrated Weights are assigned to each indicator to generate a value for each category as well as the final score. Demand conditions hence become an amalgamation of various factors.

The ranking uses hard data collected from reliable sources to eliminate the possibility of personal bias or a sampling error. To uphold reliability and validity, the data is typically collected from public organisations and institutes engaged in collection of statistics, information, and summations. Gaps in data are natural,

the breaks in data are, however, filled with similar size or character entity's data to prevent undue bias, due to either unfavourable or negatively correlated data being introduced in the conclusion. A myriad of parameters are developed into comprehensive indices and care is taken to prevent multicollinearity with the use of Principle Component Analysis to define the weights placed on each indicator and sub index.

The demand condition analyses uses granular indicators to assess the potential of the cities on each of these factors. Each city is ranked separately on each of these four pillars but on the following page we have presented the demand condition rankings for top ten cities, which would certainly be appealing for the retail industry. However, to fully understand the market in each of these cities, the figures need to be interpreted keeping in mind the psyche of the Indian consumer. The urban markets in India are also very dynamic. A decade ago, people scoffed at technology. However, with time, the demand in India has also become more sophisticated. The increasing use of credit cards and internet for online

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shopping are creating a different market opportunity for the Indian retailer. Online business could once be the reason for failure for the product. These days, however, the internet facility to buy online could well make the case for the product.

One must remember that understanding the demand conditions involves not just the income distribution and spending patterns. The basic demographics of the population govern the kind of demand and the type of market that would exist for the retailers. India is a young country with more than half of the population under the age of 25, who follow the global pattern of needs. However, the India market mentality is different from the western world. To fully gauge the market size, the retailers need to understand the spending and saving patterns of the Indian consumers. The propensity to save of the Indian consumer

DEMAND CONDITION RANKINGS				
	Basic Demographics	Spending Pattern	Overall Score	Ranking
Delhi	78.51	81.08	80.56	1
Mumbai	87.35	74.12	76.77	2
Kolkata	78.49	64.73	67.48	3
Bangalore	65.66	61.51	62.34	4
Pune	61.80	62.05	62.00	5
Chennai	65.31	9.88	60.97	6
Surat	65.87	59.48	60.76	7
Hyderabad	63.36	58.95	59.83	8
Ahmedabad	58.68	58.78	58.76	9
Jaipur	59.41	54.94	55.84	10

Source: India City Competitiveness Report 2009

is much higher than in the western world. The purchasing power of the Indian consumers is not solely determined by the disposable income, but is greatly reduced by the high savings rate. Therefore, the value of the market size is a lot smaller than the apparent figures.

The most apparent of these contrasts are the cities of Mumbai and Delhi. While the demographics of the Mumbai would prove it to be a better retailing market than Delhi, the spending patterns turn the tables. Delhi ranks the highest in terms of demand conditions despite a smaller population base.

The retailing markets depend on the idea of markets and hence, the demand conditions would be the cardinal factor to determine the decision of the retailer. The demand condition ranking studies each of the indicators in detail shedding light on the potential and the real worth of each city to turn into a retailing heaven. ●

About the author:

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