

India's Retail Sector: Time to Take Stock

By Karen Fifer and Gauri Padmanabhan

News of Indian retailers putting off expansion plans, pruning their headcount, revising strategy, or delaying plans of a tie-up with a foreign partner has become almost a daily item. Just a year ago this sunrise sector was bustling with activity – everything indicated an oncoming boom! With so many players, competition was intense and predictions of consolidation or a fall out, if at all, were five to eight years away!

But – thanks to the global economic crisis – we may already be there. Take a look at players like RPG's Spencer's Retail, Videocon's Next and Indiabulls Retail – all began with much promise but are today struggling to keep afloat.

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All of them have had to close down some of their stores and put off ambitious expansion plans. Even the large players with strong financial muscle are facing the heat – Reliance Retail is reducing headcount and Aditya Birla Retail has pruned its growth plans. One of the largest chains, Subhiksha, has exited the fruits and vegetables

business and deferred plans to enter consumer durables. Competitors are even looking to collaborate with rivals to enhance bargaining power with suppliers.

While the financial meltdown has surely come as a dampener, the future for the sector still looks bright. According to a joint study by ASSOCHAM and KPMG, the retail market size in India is expected to grow at 8 percent per annum to touch \$416 billion by 2010. In 2008, the study put the overall retail market at \$353 billion. According to the Confederation of Indian Industry, CII, consumer spending in India increased by an impressive 75 percent in the last four years and is expected to quadruple in the next 20 years and, the traditional market is paving way to new format stores like hypermarket and specialty stores.

According to AT Kearney's annual Global Retail Development Index (GRDI), in 2008, India is the fifth largest retail destination globally. As the most attractive emerging market destination for investment, India slipped from the top position it held in the last three years to finish second this year, after Vietnam.

While some of these numbers and forecasts may have to be revised downwards depending on the length and depth of the global recession, almost everyone agrees that the Indian market will bounce back much faster than the western markets. The good news for India's retail industry is that despite setbacks in the U.S. and Europe, India and

China are still predicted to grow at around 5% and 7% in the coming year. This makes the retail opportunities in both these countries a very compelling story, especially for retailers facing shrinking operations in the U.S. and Europe.

Eyeing the opportunity, the world's top four retailers – Walmart (USA), Carrefour (France), Tesco (UK), and Metro (Germany) – have all either entered or made arrangements to enter the Indian market. Restrictions on FDI in retail have these players using the 'Cash & Carry (B2B)' and strategic alliances as entry mechanisms.

The next wave in India retail belongs to the 'fashion and luxury' segment. A large number of players have recently setup single brand outlets in the country and have, surprisingly given the present conditions, reported roaring business.

Strategic Shifts

Some of the big names in India are now taking time out to study the market closely and relook their strategies. Reliance which believed in self-dependence, is now partnering with niche brands and have tied up for supply chain and infrastructure development. Spencer's Retail and Big Bazaar have shifted focus from food and grocery business to high yielding fashion apparel. Small regional and niche players – Trinetra and Fabmall have been acquired by the Aditya Birla Group and eOfficePlanet by Reliance.

Cutting down on operating costs is high on the agenda as well. Rent leases are being renegotiated, there is an attempt to rationalize salaries and checks are being placed on energy bills. The other potential hazards identified are poorly connected distribution networks, a lack of modern supply chain logistics and skilled personnel, as well as an elementary regulatory system.

India's local retail players have yet to close the gap in efficiency when measured against global operational metrics. KPMG reports inventory turns ratios range between 4 and 10 for most Indian retailers, compared to

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an average of 18 in the U.S. Similarly, stock availability is about 5 to 15 percent in India, compared to 95 percent availability of all stock-keeping units on the retail shelves of global retailers.

While the outlook for India's retail business is bright, challenges abound and the road ahead will be bumpy. One of the lessons for India retail over the last two years has been the importance of getting the backend operations like sourcing, warehousing and the supply chain right, more so in the case of fresh foods. Reliance Retail after its initial high profile entry into this category decided to slow pedal as they hit some turbulence, some political and some on account of sourcing and logistics. Late entrants such as Bharti-Walmart are making a more cautious entry with a lot more focus on backend operations and logistics. The high cost of retail space has been the other drag on the growth of India retail. For India retail however, there is a silver lining in the finance crash of 2008 as realty rates are dropping.

Talent Pool

Finally, not unexpectedly, the talent and knowledge gap has been a big bump on the road. India's retail leadership are being warned to fortify their talent strategies to face the imminent shake-out. Not only does this call for the urgent placement of experienced business leadership across every line of business and function, it also requires the shortening of learning curves across all lines of the organization.

Asian retail markets are still relatively immature. For many locally based retail executives, training and development has, more often than not, been done on the job. These executives, therefore, lack the ‘best practice’ exposure of their peers in the more sophisticated markets of Europe and North America.

While it takes time to learn about and understand local retail markets, it takes even longer to hone the skills of astute business leaders who have lived through different

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business cycles and comprehend the retail value chain on a major scale – across multiple demographics, psychographics and economic and geographic regions.

With the exceptions of industry institutions such as Kishore Biyani (Futures Group), B.S. Nagesh (Shoppers Stop) and Noel Tata (Trent) – industry pioneers who have helped define Indian retail as we know it today – most leadership teams comprise professionals who crossed over from mass consumer, advertising, and strong distribution-oriented businesses. For them it was an almost instantaneous initiation into both front and back-end retail processes. These range from managing the customer’s brand experience and merchandising, to inventory control and cold-chain logistics.

Reliance, the Future Group and now Bharati WalMart

have resorted to setting up customized training programs in house or sponsoring training schools. This is particularly helpful for local senior executives who are enlisted from other sectors to get up to speed while still working full time.

Gaps are also evident in the local retail talent pool. Loic Bygodt, a business consultant with 16 years of international retailing experience who is now working in India, says, “There is a wide divide between the very few senior executives with strong retail knowledge and middle management. There almost seems to be a lack of strong rigorous professional discipline at that level. As competition gets even more intense in the future, it will be critical to instill a culture of excellence and performance across all levels of management.”

Foreign Expertise

One common stop-gap measure has been to import knowledge and processes by seeding the ‘human value chain’ from overseas or through strategic alliances and joint ventures. Reliance for instance, made a splash when they hired expatriates in senior management at its retail division. Bharti Enterprises benefits greatly from its joint venture with Wal-Mart Stores Inc. Sunil Bharti Mittal, Chairman and Group CEO, Bharti Enterprises has even said that “Wal-Mart’s global expertise in supply chain and logistics will bring enhanced efficiencies across the (entire local) retail ecosystem.”

However relying on foreign talent alone may not a viable long-term option. Expat salaries itself could cost companies between US\$500,000 and US\$600,000, including perks and stock options. Retention of the expat leadership can also prove to be a major challenge. Recent times have seen the exit of big names like Andrew Levermore (HyperCity Retail), Andrew Denby (Aditya Birla) among others – a leadership gap that may not be easy to replace.

So looking ahead, India’s retailers will need to build local bench strength complemented by conscientious onboarding, retention and succession planning strategies.

Retaining Talent

By surrounding expatriate CEOs such as Russell Berman (Aditya Birla hypermarkets) with a pool of talented senior managers, local companies are building succession pipelines for their future executive teams.

Tailored compensation packages and retention bonuses are becoming more common to boost motivation, productivity and talent retention. The Birla Group, which runs the retail chain More, offers employees retention bonuses from day one, while Spencers Retail offers its management employees stock ownership plans for when the company eventually goes public.

Innovative strategic human resource schemes aimed to improving retention need to be firmly in place. Pantaloon Retail for instance, has a unique insurance plan which dispenses employee pay packages as the insured sum for the remaining of the contracted service period to their relatives, should something happen to Pantaloon's employees. Reliance Retail has reportedly reworked its

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