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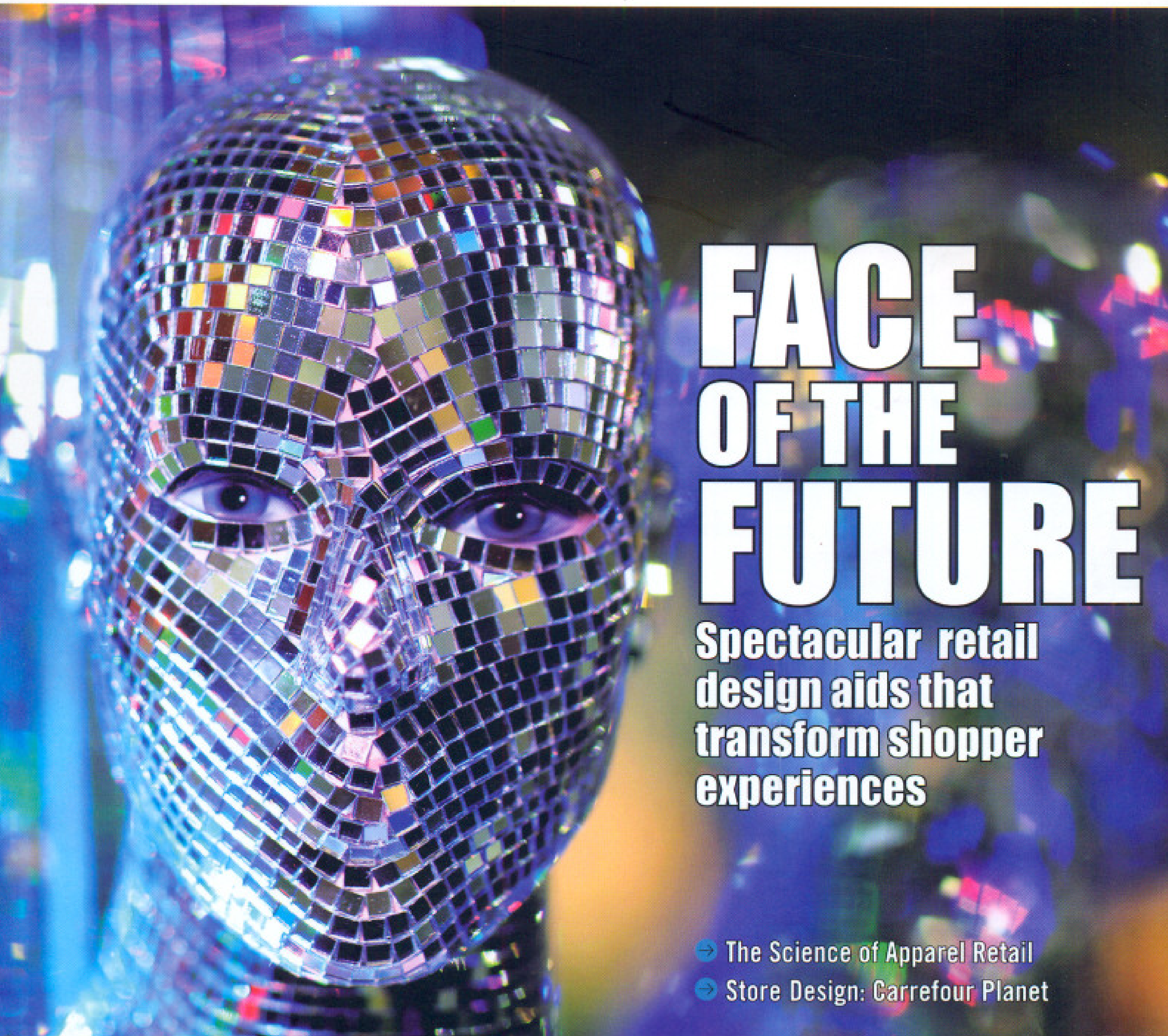

FACE OF THE FUTURE

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- The Science of Apparel Retail
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What's stopping modern retail?

ORGANISED RETAIL HAS NOT EVEN TAPPED ONE-FOURTH OF INDIA'S MARKET POTENTIAL. IN THIS PART OF "YESTERDAY ONCE MORE", LET US LOOK AT THE CURRENT NATIONAL REACH OF MODERN RETAILERS IN VARIOUS CATEGORIES INCLUDING JEWELLERY, CDIT, FILM EXHIBITION AND FOOD & GROCERY, AND WHAT THE FUTURE HOLDS FOR THEM.

By Amit Bagaria

→ In the first six stories of this series, I wrote interesting, in-depth stories (hopefully readers, too, found them interesting) about local/regional retailers located across India. Instead of covering individual retailers, categories or regions, this time I am writing a general story on how national retailers have not been able to penetrate certain retail categories, which continue to be dominated by strong local or regional players.

CATEGORIES AND MORE

Let us first look at the category that understandably enjoys the highest wallet share of the consumer's shopping basket – food & grocery (F&G). As per the latest census, 132 Indian cities and towns have a population of 350,000+ each. With an annual per capita F&G consumption of ₹14,000, the smallest of these towns has the potential F&G business worth ₹500 crore. Yet, Food Bazaar, India's largest F&G retailer by turnover, has only managed to open stores in 81 cities and towns in a decade. The second largest chain – Reliance Fresh – has at least managed to cover 85 cities and towns in half the time. Aditya Birla's 'More' has a much wider penetration covering 120+cities, but 93 of these are in the four southern states, and most of these stores were inherited as part of the Trinethra acquisition. Of the largest 132 cities and towns, 'More' is present only in 48 of these. Spencer's is in 45 cities across the region. All the others – such as Tata's Star Bazaar, Easyday and Spar – are present in less than 10 cities each. Thus, almost 50 Indian towns, with a potential of more than ₹500 crore each in food & grocery sales, are still served only by local (in some cases – regional) retailers.

In the CDIT category, the situation is much worse. Reliance Digital has its presence in 19 cities, Future Group's eZone in 18 and Tata's Croma

in just 14 cities. So, Patna and Kochi, with estimated CDIT sales of ₹550 crore each, do not have any of the three national CDIT chains. Compared to these large-format stores, Essar's The MobileStore is present in an impressive 203 cities and towns.

Let us now look at the food & beverage (F&B) retailers. Among the café chains, India's very own pioneer Café Coffee Day (CCD) has 1,030 outlets. CCD covers 123 cities and 7 towns in 23 states. Wow! Here is the only national retailer who seems to have covered the country's geography. CCD has done this on its own – all 1,030 outlets are company owned and operated. But this also means something more – that Barista, the current No.2, can grow from its current 33 cities to as many as 123, or even more, because by then CCD would have definitely expanded to 150+ towns.

Among other F&B formats, Domino's Pizza is present in 92 cities. Subway has outlets in 41 cities. In the case of McDonald's, some may not be aware that its Indian operations are divided into two – North & East under one franchise partner and West & South under another. While the N&E partner seems to understand the potential better and is operating in 32 cities, the W&S partner has opened its outlets in only 12 cities. Of the 132 cities with a population greater than 350,000, as many as 64 are in the western and southern parts of India.

Let's look at multiplex chains. Big Cinemas is in 62 cities, Inox in 24, and PVR in 15 cities only. Mumbai has 38 modern multiplexes, while Patna, where almost 14 mn cinema tickets are sold annually, does not have even one. The same is the case with Varanasi, which buys almost 10 mn cinema tickets per year. Big Cinemas incurred a ₹17 crore loss last year, while PVR earned a meagre profit of ₹26 lakh. But Patna and Varanasi – a market of 24 mn cinema tickets a year – is obviously not good enough for them. So, the cinema exhibition sector is another area where local players dominate the market in over half of the top 132 cities.

In the health and beauty sector, The Body Shop (TBS) is present in

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25 cities, three-year-old New U (by Dabur) is already in 21 cities, whereas 14-year-old 'Health & Glow' is present in only four cities. Obviously, the potential is far from tapped. When it comes to health and beauty, there is tremendous potential for national players in salon services. If 360 mn people in urban India spend an average of ₹150 per month at a salon, the market is worth ₹5,400 crore.

As per the RNCOS Indian Cosmetic Sector Analysis report, the market is estimated to be worth ₹6,130 crore. Shahnaz Husain and Naturals are the only two national chains – the former has 200+ salons in 30+cities, and the latter 90+ salons in 28 cities. CavinKare's two brands – Green Trends and Limelite – are only in nine cities. With less than 500 salons in the modern sector, thousands of local players have over 90 per cent share of this huge market, which is expected to grow to ₹12,000 crore in the next two years.

Look at the jewellery segment. In a market worth ₹80,000-crore market, there are just three national players – Tanishq, Reliance Jewels and Gitanjali Group – who have a combined turnover of less than ₹5,000 crore. So, local retailers are doing business of more than ₹75,000 crore in jewellery retail.

Coming to ladies' handbags and accessories, Hidesign is present in 17 countries, but in India, it covers only 26 cities. Its joint venture with Future Group – Holii – is only present in 10 cities so far.

In footwear retail, Bata is present in 410+ Indian towns. This makes it obvious that there is market for modern retail in 410+ Indian towns. Woodland is present in 85 cities, while Metro in 47 cities. Just look at the opportunity for chains other than Bata to expand.

In the apparel/fashion retail sector, let us look at large-format stores first. Pantaloons is only present in 29 cities, compared to 79 for Big Bazaar. Obviously, Future Group believes people in the other 50 towns don't wear clothes! Reliance Trends, which started many years after Pantaloons, is already present in 32 cities. So is Westside. Even Max (from Landmark Group) is in 28 cities. But are 32 cities enough? The 33rd largest city in India has a population of more than 1.4 mn. That translates into potential apparel sales of almost ₹650 crore in this city alone. Among the EBOs, Madura Garment's Peter England has stores in 210 towns, Wrangler in 86 and Levi's in 75. If Levi's and Wrangler jeans can sell in 75+ Indian towns, most certainly small department store formats such as Pantaloons, Westside and Reliance Trends also have the potential to establish in these towns.

IF LEVI'S AND WRANGLER JEANS CAN BE SOLD FROM EXCLUSIVE COMPANY STORES IN 75+ INDIAN TOWNS, MOST CERTAINLY SMALL DEPARTMENT STORE FORMATS SUCH AS PANTALOONS, WESTSIDE AND RELIANCE TRENDS ALSO HAVE THE POTENTIAL TO ESTABLISH IN THESE TOWNS.

In the ladies' ethnic fashion market of ₹82,000 crore, the largest player – Fabindia – is present in only 59 cities and does a business of about ₹700 crores per annum. Biba is present in 30 cities and 'W' in 20 cities. Among the 7-8 national players in this segment, the turnover is less than ₹2,500 crore. Therefore, local players are doing almost ₹80,000 crore of business.

In the watch segment, Titan has stores in 126 cities and towns. Compared to this, their associate brand in the eyewear retail space, Titan Eye, is present in 44 cities. Reliance Retail's JV with Pearl Europe – Vision Express – is present in 23 cities, and so is Himalaya Optical. GKB, which claims to be the largest optical company in India, is present in only 22 cities. The potential for eyewear is as high as footwear. Obviously, outside the 44 cities where Titan Eye+ is present, local players dominate the market.

Maruti Suzuki has dealer showrooms in 555 Indian towns, Tata Motors in 450+ towns and Hyundai in 290 towns. I believe every town that has the potential to buy cars also has the potential for modern retail, especially in basic necessities such as food & grocery, eyewear, watches, footwear, cafes and in the Indian context – cinema.

The modern retail sector has not yet come close to tapping this potential – in fact, they are way behind. It can be safely concluded that modern retail, on an average across various sectors, has touched only 85-odd cities and towns in India. These cities have a combined population of 180 mn. This is just half of India's urban population. Some sectors have not even tapped a third or even a fourth of the urban potential. And going by the consumer electronics, jewellery and FMCG sales in rural India, that is half of the total Indian market. So, in reality, modern retail has not even tapped one-fourth of India's market potential, while some retail categories have not even tapped 15 per cent of the potential. There is a long way to go – in fact, a very long way.

It is, thus, not surprising that modern retail comprises less than 10 per cent of the total retail market in India. By just spreading geographically, most retailers can double, triple or even quadruple their revenues. As real estate costs outside the top 100 cities are still relatively low, profitability will be higher. What will the easing of FDI restrictions do? Most of the new foreign entrants will also concentrate on the top 20 markets for the first 5-10 years. In fact, some will only concentrate on the top 6-7 metro cities. This will only lead to more intense competition in these already well-served markets. The need of the hour is to get to the 132 towns in the next 3-4 years and the 555 towns that Maruti Suzuki serves in the next 7-8 years.

Imagine, Vision Express covering the entire urban population of 360 mn (it will probably reach 425 mn by that time) within five years. Of the 425 mn people, at least 120 mn probably wear spectacles or contact lenses. Assuming that each person spends an average of ₹1,000 every two years on a new pair, this translates to a market size of ₹6,000 crore. There is no one to stop Vision Express from capturing a 10 per cent market share and achieve a turnover of ₹600 crore. And opening 600-700 stores of about 800-1,000 sq.ft each with merchandise which is not locally sourced and not perishable is far easier than opening 60-70 supermarkets. USA's Lenscrafters has 850 stores – so it has been done before!

The potential in jewellery retail is even higher. In five years, the market size in urban India alone will be ₹80,000 crore. Warren Buffet-owned Helzberg Diamonds has about 200 stores across USA. With 200 stores in India, Reliance Jewels can achieve a turnover of ₹3,000 crore.

The cinema exhibition market in urban India will be worth almost ₹32,000 crore in five years. Companies like Inox and PVR are at turnover levels of below ₹400 crore, so just imagine the potential for them.

BY JUST SPREADING GEOGRAPHICALLY, MOST RETAILERS CAN DOUBLE, TRIPLE, OR EVEN QUADRUPLE THEIR REVENUES. AS REAL ESTATE COSTS OUTSIDE THE TOP 100 CITIES ARE STILL RELATIVELY LOW, PROFITABILITY WILL BE HIGHER.

India's total CDIT market will be over ₹250,000 crore in five years, with over ₹150,000 crore coming from urban India. A five per cent market share will give the leading retailer in this segment a turnover of ₹7,500 crore.

Last, but not the least, I come back to what I started with. The food & grocery, FMCG and personal care market in urban India will be worth about ₹10.5 lakh crore by 2016. Any market leader has to have at least three per cent market share. Thus, there is an opportunity for at least one player (if not two) to achieve a turnover of ₹31,000 crore. Spar does a turnover of exactly this amount (€4.91 bn) in Austria – a country with a population equal to Bangalore. So, Spar does per capita sales of ₹36,905 in Austria. Corrected by the PPP factor, this translates to ₹11,844 in the Indian context. Just imagine if Spar could cover a population of 200 million people in urban India. Even with 25 per cent of the market share percentage that they have in Austria, Spar would have sales of ₹59,220 crore (€9.4 bn) in India.

I hope Micky Jagtiani, Dr Gordon Campbell and Viney Singh burn some midnight oil after reading this – just as I have done researching and writing this.

ABOUT THE AUTHOR

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