



How India could have a world-class retail giant

With ₹7,599 crore in sales, retail contributes just 2.24% to parent Reliance's revenue — less than 1% of Walmart's and less than 9% of China's Suning Appliance. Could retail possibly grow to contribute ₹1.6 lakh crore or 12.6% to the parent's topline in five years? **Amit Bagaria** examines the possibilities



With revenues of ₹7,599 crore in fiscal 2012, Reliance's retail business contributes just 2.24% of the megacorp's turnover, and ranks as the fifth largest

Indian retailer, after Future Group, Malabar Gold, Kalyan Jewellers and Titan. It is senseless comparing Reliance with Indian retailers, as it is likely to become No.1 in 2-3 years. But this will not satisfy Mukesh Ambani, for whom the real competition is Walmart. So how does Reliance Retail compare with Walmart and other global retail giants? The table alongside compares Reliance Retail with the Top 4 global and Top 4 Asian retailers — with additional comparisons based on purchasing power parity (PPP) and the Big Mac Index.

Reliance Retail is nowhere on the radar. Even on a PPP basis, its revenues are less than 1% of Walmart's and less than 9% of the revenues of China's Suning Appliance. However, if it grows at 25% per annum for several years, Reliance can cross Asian No.1 Seven & I Holdings (the owner of 7-Eleven stores) on a PPP basis in 16 years and on real revenue in 22 years, assuming that Seven & I will grow at only 4% per annum. What will make Reliance a global retail giant and make Indians proud? For this, we need to analyse the company's different retail formats.

Reliance Fresh, Reliance Super and Reliance Mart

Food and grocery (F&G) business contributed more than 51% to Reliance Retail's revenues in fiscal 2012. It is now No.2 in this segment, behind Future Group. It recently brought in two top executives from the \$7.5 billion Walmart China to head this business. They



Retailer	Home country	Actual revenue (\$m)	PPP-corrected revenue (\$m)	Revenue per big mac index
Walmart	USA	446,950	446,950	446,950
Tesco	UK	115,778	104,998	127,295
Carrefour	France	104,995	82,785	99,544
Metro	Germany	86,172	73,255	81,698
Seven & I Holdings	Japan	63,767	47,825	64,380
Aeon	Japan	59,885	44,914	60,461
Yamada Denki	Japan	26,940	20,205	27,199
Suning Appliance	China	24,749	39,979	42,601
Reliance Retail	India	1,461	3,538	3,788

Asipac Research. Data based on published information available

must follow Sam Walton's strategy of servicing small towns and semi-urban areas instead of concentrating on the Top 30 cities, as Reliance had done in the past.

China's Bailian Group had revenues of \$22.4 billion in 2011, giving it 2.3% share of the \$975 billion F&G market. If Reliance can replicate this in India in five years, its F&G business can have revenues of ₹33,000 crore. Reliance should also look at the possibility of creating an Indian equivalent of 7-Eleven, the small convenience store popular across Asia. There are 42,000+ 7-Eleven stores in 16 countries, with 13,300+ in Japan alone. There is a market for 20,000+ such stores in India, which can achieve sales of ₹50,000 crore.

Reliance Digital

Perhaps, the most successful format is Reliance Digital, which achieved a turnover of ₹1,249 crore. The segment almost doubled total store count to 94 at the end of fiscal

2012. While Reliance Digital is now the No.1 large format consumer durables and information technology-related consumer durables (CDIT) retailer in terms of stores (compared with 72 stores of Croma), in revenue terms, it still lags behind Croma, which had revenues of ₹1,970 crore in fiscal 2012.

The CDIT retail market is estimated at ₹1.89 lakh crore and expected to reach ₹3.9 lakh crore in five years, as per Asipac research. The organised sector has 19% share. In a category where consumers would like to buy from a "reliable" source, the organised sector can easily capture 60% of the market in five years, with revenues of ₹2.34 lakh crore and the market leader can achieve revenues of ₹35,000 crore.

Japan's Yamada Denki has revenues of ₹1.4 lakh crore from 2700+ stores. China's Suning Appliance has revenues of ₹1.28 lakh crore from 1300+ stores. Will Reliance Digital reach the ₹35,000 crore

milestone first or Croma?

Reliance Trends

In terms of store count, Reliance Trends (with 91 stores) is now larger than Max (68 stores), Pantaloon (65), Westside (62), Shoppers Stop (51), Globus (35) and Lifestyle (33). This is commendable, considering that the others have been in business much longer.

If value fashion giant Uniqlo can have 1,213 stores serving 85 million Japanese consumers (one for every 70,000 persons), why can't Reliance Trends have 857 stores (one for every 1.4 lakh persons in urban India)? If it reaches that number in five years, Reliance Trends can achieve revenues of more than ₹11,000 crore.

The apparel and fashion (A&F) retail market is estimated by Asipac at ₹5.95 lakh crore. No retailer can address such a large market with just one format. There are opportunities galore. All A&F retailers named here cater to the 22 million "urban upper middle class", who consume A&F goods of about ₹40,000 crore per annum. In comparison, the 10.5 million "urban rich" consume A&F goods of about ₹65,500 crore per annum. Even though this market is 64% larger, no retailer caters to it.

To address this untapped market, Reliance should consider opening department stores like the ones in developed countries, which sell apparel, furniture, home appliances, electronics, hardware, toiletries, cosmetics, jewellery, toys and sporting goods. This "upscale" department store chain can achieve revenues of about ₹12,000 crore. Together with Reliance Trends, it amounts to sales of ₹23,000 crore in the A&F segment.

Reliance Jewels

What could have been a jewel in its crown is perhaps its biggest failure. With sales of just ₹475 crore in a market of almost ₹2 lakh crore, Reliance Jewels does not even figure amongst the top 30 organised jewellers in India. Compared to Malabar Gold & Diamonds (estimated sales: ₹8,800 crore from India only), its turnover is just 5.4%.

China's Chow Tai Fook, with sales of about ₹23,000 crore, is the world's largest jewellery retailer.

Tiffany & Co, with sales of about ₹19,000 crore, is the second largest. But we don't need international comparisons in a segment where as many as 18 Indian retailers have turnovers of more than ₹1,000 crore each, and the top 5 more than ₹3,000 crore each. Malabar Gold & Diamonds will most likely cross ₹10,000 crore this fiscal. There is no reason why Reliance Jewels should be aiming at less than this in five years.

Other formats

With sales of ₹155 crore and 3.2% share of the organised footwear market, Reliance Footprint has done reasonably well. It ranks ninth in terms of turnover. Bata, with sales of ₹1,659 crore, is almost 11 times larger. In terms of stores, Reliance Footprint, with 88 stores, has a long way to go, as Bata has 1,300+, Khaddims 630+, Liberty and Woodland about 350 each, and Metro-Mochi 215 stores.

The world leader in value footwear retailing is Payless Shoe-Source, with sales of about ₹12,700 crore from 4,300+ stores in 34 countries. There is no reason why Reliance Footprint cannot aim for ₹5,000 crore in five years, by when the Indian footwear market would have crossed ₹1 lakh crore.

With a turnover of less than ₹100 crore in a ₹89,000 crore market, Reliance Timeout has a long way to go. Worldwide, retailers in this segment are facing challenges brought about by the internet. Only time will tell whether Timeout will survive.

Reliance Living, Reliance Home Kitchen and Reliance Wellness have all been disappointing and it is not clear if Reliance will continue these businesses.

Reliance Brands has done reasonably well by bringing to India iconic brands such as Diesel, Timberland, Steve Madden, Brooks Brothers, London Fog, Quiksilver, Paul & Shark, Roxy, etc. This business could easily give Reliance revenues of ₹3000+ crore in five years.

What has been presented here is not just an analysis of Reliance Retail's performance, but also a potential roadmap to achieve a turnover of ₹1.6 lakh crore in five years — 21 times its present turnover. If the parent continues to grow at 30.2% per annum, it will have a total turnover of ₹12.71 lakh crore in fiscal 2017. At ₹1.6 lakh crore, the retail business will contribute 12.6% to the parent's topline. I hope Manoj Modi, head of Reliance's retail businesses, is reading this.

The writer is chairman of Asipac, India's leading mall development managers and retail research consultants, and retail industry commentator.