

Myth and Reality of the Retail Revolution

Though the mall mania of the last few years indicates a change in shopping patterns, the wild exuberance in retail expectations may be misplaced and the real revolution is still waiting to happen. Devangshu Dutta narrows the lens.



Organised retailing is a child of evolution...

In the last few years, much has been written about the retail revolution in India. Industry analysts, consultants and others in India and abroad focused on the "massive middle-class opportunity", and "the explosion of organised retail". Real estate developers seemed to decide, en masse, to transform old cinema halls, dilapidated factories and empty dust-lots into glittering shopping centres. Real estate consultants talked property prices up. And professionals made the most of the unending stream of job offers from the new retailers.

Most people would have you believe that India is now a consuming goods paradise with "a 300 million middle-class

population". Even U.S. President George W Bush was prompted to utter that magic mantra during his visit. People will tell you that if you haven't already launched your brand, your store or your mall, you have missed the boat. Or that if weren't an investor at an early stage, you must pay a penalty in the form of a huge multiple on earnings, just to catch the boat. How much of this is fact and how much is hype?

Revolution or evolution?

For many people, organised retail only appeared in India with the launch of the "first malls" in 1999. The launch of Ansal's Plaza in Delhi and Crossroads in Mumbai are hailed as the spark that led

to the explosion of organised retail in the country and transformed the retail landscape in India. Even highly respected news journals have reported that "only three shopping malls" existed in India at the end of 2002.

However, if one were to define shopping centres or malls as enclosed shopping spaces, then Mumbai's Crawford Market (opened in 1869) and Kolkata's New Market (1874) surely have the pride of place as the pioneering malls in India. Delhi's Connaught Place (opened in 1931) should also definitely be considered, with its covered arcades.

More recently, New Delhi's partially underground Palika Bazar, the mini-malls of the late-1980s on Bangalore's Brigade

Road, and shopping centres built by private developers in Ahmedabad and other cities have all had a role to play in the evolution of organised retail spaces in the country. So, it would be accurate to view the newer malls are only the most recent offspring of a long lineage of organised shopping centres.

Similarly, the authorised dealer networks of DCM, Bombay Dyeing, Raymond and other textile companies, and Bata among shoe companies, had begun organising retail distribution in India many decades before foreign brands like Benetton, Nike and Reebok were even born in their home countries.

What's more, even Kishore Biyani's Pantaloon – which was "discovered" by the press, academia and investors in the early-2000s – goes back over a decade as a branded distribution company that evolved into a network of small exclusive-branded stores, before attempting larger

formats and gradually emerging as the leader among Indian retailers.

Organised retailing in India, then, is a child of evolution rather than sudden, revolutionary change, and we seem to be yet early in the curve. So is all the media attention just hype or is based on some genuine development in the marketplace? A more detailed examination reveals is more complex picture.

What has changed?

Two major changes have taken place though it is sometimes difficult to pick them in the right sequence of cause and effect.

First, the consumer market has



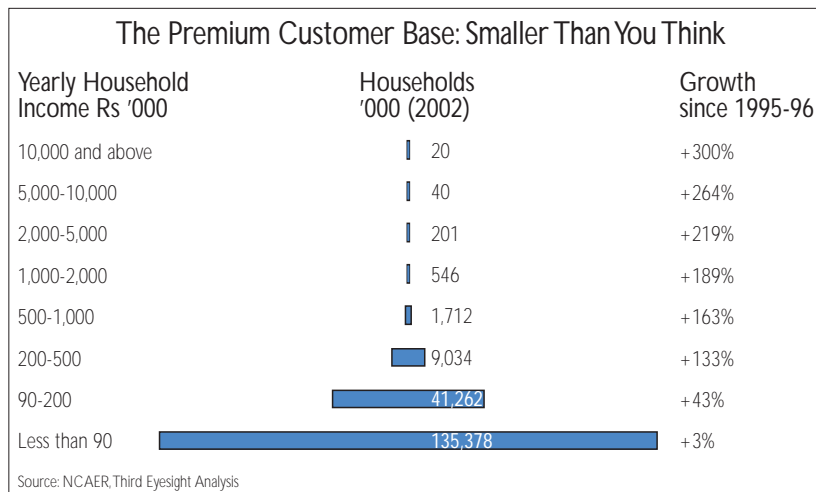
Money poured into retail infrastructure

evolved at a steady pace since the 1980s. With the advent of colour television, and then cable and satellite channels, the mass reach of brands multiplied manifold. A "choice generation" was born, that had more choice than its predecessors

that it is earning on its own, this choice generation is exercising its discretion to spend even more. A big bang – possibly akin to the baby boomers of America – has just happened in the work-force, in the actively consuming population

whose reverberations and aftershocks will continue for years.

Second, the rush of real estate investors in to develop shopping centres has poured more money into retail infrastructure in the last four years than ever before. From a paucity of A-grade space for brands and retailers in cities (such as



The big change is that the generation that has entered the work-force in the past few years has grown up with choice, and can't get enough of it. It is now infinitely more "cool" to be earning and spending money than it was 25 years ago.

Delhi and its surroundings) there are several spaces to choose from. From opaque, short-term and sometimes less-than-legal arrangements of the past, retailers are now able to create well-structured long-term leases. Unrealistic rental levels and demands for security deposits are gradually being replaced by more flexible arrangements that even link the landlord's earnings to the retail sales realised by the tenant. This is a quantum change for corporate entities looking at retail businesses in the Indian market – companies can now create their infrastructure within a much shorter time than feasible in the past.

The confluence of these two factors

is creating a tipping point of sorts at breakthrough velocity, developments building rapidly in a feedback loom. The choice generation coming of age and the shopping centre boom allows companies to launch new chains that offer consumers more choice and create more A-grade real estate demand.

What is yet to change?

But there are some major counterpoints. In the midst of the announcement of opening of the world's largest Arrow store in Bangalore and ITC's planned expansion of its Wills and John Players retail stores to 300 in the next couple of years, it is worth asking just whom has the so-called retail boom touched.

While most Indian readers will dispel as imaginary any images of Gucci-clad hordes on India's streets, even some experienced observers misjudge the impact and spread of the brands available as readily as they do income groups and price segments. There is an inclination believe the brand-managers' statements like: "Our key customer is the middle-class India".

This is not really the case. A brand-marketing executive in Mumbai earning Rs85,000 a month would have no hesitation in labelling himself middle-class. As the beguiling graphic based on NCAER's 2002 study on 'The Great Indian Middle Class' shows on the chart (see pg 7), he would be right in the middle!

Consider the numbers carefully – he would be actually part of an elite group of 807,000 households by the 2002 survey, a mere 0.4% of the total population. Not middle-class by any stretch of imagination!



Choice generation exercising its discretion

And yet, he would be building marketing plans for his brand to reach out to more "middle-class" consumers, projecting unbelievable growth rates, creating high expectations among others in the market. He would be headed for a rude shock once he got over the initial

consumer market. India is way behind the developed economies in per capita availability of retail space – estimates of per capita retail space vary but invariably suggest under 3 sq. ft. per capita, including informal retail. Compare that to 19 sq. ft. per capita

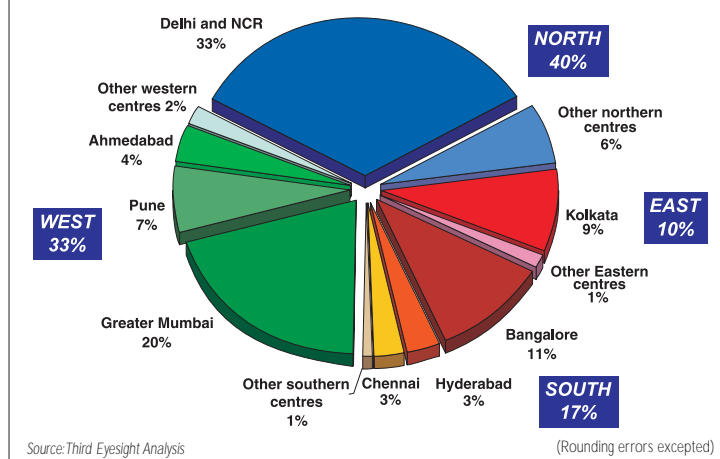
in the U.S., a country which many analysts have decried as "over-shopped" but where retail evolution continues apace.

That is what leads us to assert that the real explosion in modern retail in India is yet to come.

It will come when brands and product offerings become available that meet the needs and budgets of the real Indian middle class, numbering over

Projected Shopping Centre Space in India by 2007

(based on 2005 data)



wave of store openings and incremental sales available from the availability of additional retail points.

Most new modern retail offerings and brands in India today are being structured to attract the same premium customer base.

Consumer cathedrals

In the midst of this, the operators of the glittering consumer cathedrals – the shopping malls – are a bemused lot. Other than their food-court tenants, not too many of their retail tenants are really happy with the sales. Sure,

220 million, with household incomes of between Rs90,000 and Rs200,000 a year. That customer is not the brand manager in a large city, or a newly-minted MBA, or even a young call-centre recruit earning a packet while still at college. That customer will more likely be living in a smaller town, have a family and related expenses, and be more than a little conscious about dropping fifty rupees on a cup of coffee.

It will come when the rural population at large – commonly dismissed by the urban (and urbanised) analysts as simple village-folk – get their network of modern

retail stores, serving their daily needs. Some early experiments, such as ITC's Choupal Sagar, Godrej, Mahindra and others, are visible examples of companies marching to a different drumbeat. Reliance may even be the most visible entrant solidly targeting the real Indian middle-class. But these are the big names, easily identified and studied.

There are several others that most of us would not even know about, or even if we did, would not be able to hazard a guess about their growth trajectory. They may have a single outlet right now or even a few, located within one city or a cluster of towns close to each other. They would show no overt signs of being India's Wal-Mart.

The fact is that when we speculate about who will be India's Wal-Mart, we frequently forget that Wal-Mart itself

The real explosion in modern retail will come when brands and product offerings become available that meet the needs and budgets of the real Indian middle class, numbering over 220 million, with household incomes of between Rs90,000 and Rs200,000 a year.

emerged from small-town U.S. and, for a very long time, was absent from the listings of major American retailers.

I believe India's future version of a Sam Walton, the growth of middle-India, and emergence of the real retail boom are all linked intricately to each other.

And it is quite likely that in our preoccupation with the big cities, most of us will miss the growth story until it is actually well past the explosion stage.

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Malls Yet to Convert Footfalls

Mall Mania, Mall Madness – alliterate as you will – it's a phenomenon that is certainly taking over newsprint, airtime and, quite possibly, your neighbourhood.

A study published in 2005 estimated that by 2007 over 360 shopping centres would be operational around the country across approximately 90 million sq. ft. A meagre increase of 0.08 sq. ft. in per capita shopping space doesn't seem like much in a country of a billion-plus people.

But most of it is concentrated around the big cities – Delhi and Mumbai account for more than half of the total space projected, with the other metros and mini-metros such as Bangalore, Pune, Hyderabad, etc taking the total up to 90% of the space.

One may argue that real estate development is only following the consumer – after all, there are more consumers and higher incomes in these major urban centres.

But why would mall developers expect Delhi's consumers to suddenly switch en masse to shopping in Gurgaon, where six malls are already active in a short distance of about a kilometre, three or four more are under hectic construction in the same area and several more scattered around that suburb? Or why do Mumbai's developers expect people to drive several kilometres from the suburbs on a regular basis to the centre of town to grace only their shopping centre? It is only such expectations that can explain the gold rush mentality that is overpopulating certain areas with shopping centres and malls.

While per capita availability of A-grade shopping real estate looks really low, in certain areas we foresee oversupply, with developers thinking in terms of "property" rather than retail space management.

Most shopping centre developers have carried out only cursory studies on the customer catchments that their tenants will be expected to live off. As a

result, conversion of footfall into sales is low for the tenants, except for food-courts, which are benefiting from the window-shoppers rounding off a day or an evening of roaming the malls with a meal. There is a lack of differentiation in product and service offer between the shopping centres and, with nothing distinctive on offer, repeat visits and – more important – repeat purchases are a challenge.

Developers in smaller towns seem to be following the same model, scaling up space or scaling it down based on the capital cost versus expected capital gain and tenancy income.

There is competition for customer traffic between the shopping centres and large stores (such as Mumbai's newly opened Hypercity, across the street from InOrbit Mall, both developed by the Rahejas), between the shopping centres and the traditional high street, and between large format stores and speciality malls.

For the most part, shopping centre development in India in recent years has been seen as an aspiration to be fulfilled – hence, the most important factors have been the size of the shopping centre, quality of fixtures and marquee tenants who can provide the glamour or the legitimacy. The focus has been more on the "positioning".

The business will begin maturing and will begin taking developmental leaps forward when centres are seen as commercial infrastructure to be planned with the end-consumer in mind, and to be serviced over a certain lifetime.

Until then, we can look forward to announcements of many hundreds of shopping centres, the launch of a few hundred, and the conversion of many of those into uses other than as shopping centres within a few months or years of their launch. And for investors also it might be a game of roulette rather than patience.