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Retailing

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Introduction

The Indian retail segment accounts for 22 per cent of the country's gross domestic product (GDP) and contributes about 8 per cent to the total employment. India continues to be among the most attractive investment propositions for global retailers.

India has emerged as the fifth most favourable destination for international retailers, outpacing the UAE, Russia, Indonesia and Saudi Arabia, according to A T Kearney's Global Retail Development Index (GRDI) 2012. "India remains a high potential market with accelerated retail growth of 15-20 per cent expected over the next five years," highlighted the report.

Market Size

India's retail sector is worth US\$ 350 billion and is growing at a compound annual growth rate (CAGR) of 15 per cent to 20 per cent at present, as per a PricewaterhouseCoopers (PwC) research report titled, "Winning in India's retail sector: Factors for Success".

Mass grocery and apparel are the two most favoured segments for foreign direct investment (FDI) in multi-brand retail in India, according to a study titled 'Indian Retail Market Opening More Doors' by Deloitte Touche Tohmatsu India.

The FDI inflows in single-brand retail trading during April 2000 to December 2012 stood at US\$ 42.70 million, as per the data released by Department of Industrial Policy and Promotion (DIPP).

E-tailing

The Indian retailers are using a mix of formats, of which a relatively new but rapidly growing retail format is the online channel, which offers consumers convenience, price benefits and the ability to shop around the clock. Though in a nascent stage, India's online retail market is growing at double-digit rates and is likely to be the next format that retailers will incorporate into their array of channels.

The Indian digital consumer industry, e-tailing is set to become a Rs 53,000 crore (US\$ 9.71 billion) market by 2015 from the current Rs 3,600 crore (US\$ 659.34 million), as per a November report by Aventus Capital Pvt Ltd.

Edukart.com, an online education company is planning to extend its franchise network across India. The company aims to open more than 50 centers in the coming year.

The focus of such expansion will be metro cities, tier I and tier II cities.

Retail in Rural India

Rural chains in India are focussing on hinterlands in a big way. For many companies, a large portion of their revenues comes from rural sales. The companies thus are aligning their marketing strategies in accordance to the requirements of their customers in rural areas.

Turtle, one of India's leading men's lifestyle brands unveiled their limited edition collection of Khadi menswear with the theme "Ecological Weave". This is an initiative which not only hopes to revive the khadi industry and the livelihood of its weavers and their families in rural India, but is also poised to revolutionise menswear fashion.

Investments

- ▶ **Interem, relocation and warehousing company, plans to invest Rs 200 crore (US\$ 36.63 million) over the next three years, as part of its plan to increase its business in the consumer retail segment in India**
- ▶ Tesco Plc has set up an Indian subsidiary to buy fresh and processed foods from the country for its global stores, a move that could help the world's third largest retailer to develop local expertise before opening shops in India
- ▶ Italian luxury clothing and accessories brand Versace 19.69 has announced its entry in India in partnership with fashion apparels and leather exporter, Majgenta Fashions.
- ▶ Versace plans to open about 70 stores in the country with an investment of US\$ 25 million over the next three years. "India is a very important luxury market for us that is growing at a rapid pace... We are here to bridge the luxury and affordability gap," said Mr Theofanis Papadas, CEO, Versace 19.69
- ▶ L'Oréal SA plans to invest Rs 970 crore (US\$ 177.65 million) in India, a market that the French cosmetics giant considers amongst the top five in the world
- ▶ Swedish fast-fashion giant Hennes & Mauritz (H&M) has asked leading mall developers to block space for its initial stores in India, as the world's second largest fashion retailer hopes to open a local office in the next three months
- ▶ British billionaire Philip Green owned Topshop is finalising plans to enter the Indian retail space through a local joint venture, as global biggies revive interest in India on the back of recovering consumer sentiments and the recent reform push
- ▶ Promart Retail, a value format concept in lifestyle, is looking for pan-India expansion that will cover cities. For extending its retail presences the brand has planned to open 100 stores by the end of 2013
- ▶ The World of Titan, India's largest watch retail chain, plans to expand its presence via franchising in high traffic areas, including high streets and malls with small format stores

Government Initiative

- ▶ The Government of India has approved nine foreign direct investment (FDI) proposals amounting to Rs 1,140.14 crore (US\$ 208.82 million), based on the recommendations of Foreign Investment Promotion Board (FIPB)
- ▶ Foreign retailers can enter India by forming a joint venture (JV) company that could have multi-brand retail stores. "Alternatively, the foreign investor may also consider acquiring 51 per cent stake in the existing business set-up of the potential Indian joint venture partner," added Mr Gaurav Gupta, Senior Director, Deloitte Touche Tohmatsu India
- ▶ The Government has passed a cabinet note and permitted FDI up to 51 per cent in multi-brand retailing with prior Government approval and 100 per cent in single brand retailing, further liberalising the sector. This policy initiative is expected to provide further fillip to the growth of the sector
- ▶ Opening up of FDI in retail and insurance sector will generate lakhs of additional jobs in India, as per global human resource consultancy, Mercer
- ▶ In a major step aimed to boost the Indian civil aviation sector, the Cabinet Committee of Economic Affairs (CCEA) has relaxed the FDI norms in aviation, which will allow foreign aviation companies to invest in Indian aviation companies. The foreign carriers can now pick up to 49 per cent stake in domestic Indian aviation firms

Road Ahead

The Indian retail sector is evolving rapidly and those who enter the market now can learn about local dynamics, develop market insights and establish leadership positions.

Domestic and global retailers who have entered the Indian market are learning about consumer wants, preferences and needs.

Powered by strong internal demand, the country has displayed robust growth which is likely to be sustained in the coming years. Research and development (R&D), innovation and new product development are emerging as key drivers of success. As part of this effort, product localisation has emerged as a driver of sales, customer excitement, customer interest, etc.

Exchange rate used: 1 INR = US\$ 0.01831, as on March 5, 2013

References: Media Reports, Department of Industrial Policy and Promotion (DIPP), Market Research, PricewaterhouseCoopers (PwC)

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