

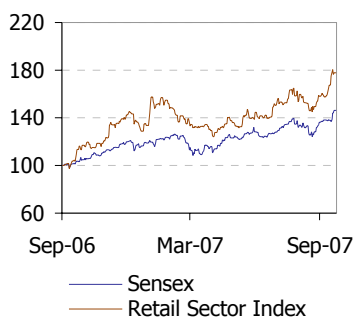
Retail Leadership Summit

Hemant Patel

Email: hemantp@enam.com
Tel: 9122 6754 7617

Associate: **Akhil Kejriwal**
Email: akhil@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

The Indian retail sector has played an increasingly important role in the Indian economy. It has contributed to 1/3rd of the Indian GDP in 2006 and employed ~7% of the total workforce (only agriculture employs more). The retail sector has the potential to transform the face of the Indian economy from being a predominant savings to a consumption-led economy. To take this opportunity forward in a manner which would be beneficial for the entire retail fraternity, similar to NASSCOM which was formed to give the IT industry a unified voice, the Indian retailers have formed Retail Association of India (RAI).

We at ENAM firmly believe in the potential of Retail Industry in India and have been ever supportive of an upcoming industry with promise. The 1st India International Retail Convention (IIRC 2007) of RAI, supported by ENAM Securities, was held in an effort to critically evaluate and showcase the immense potential of the Indian Retail sector.

Some interesting anecdotes from the summit:

- "Localizing the retail format for Indian consumers unique needs and preferences holds the key for sustainable and scalable growth".
- "Most traditional retailers have a cost structure that is superior to that of modern retailers."
- "Indian markets are among the most complex and challenging amongst other emerging markets."
- "Indian retailers should not be wary of international retailers as they are giants. This is precisely the reason that will lull international retailers into complacency"
- "Indian consumers have a shopping dwell time of at least 2.5 hours, which any international retailer would love to have"
- 'A department store will always be a part of the customer's life and retailers will have to live up to the high standards set by the industry players'.
- The only way modern retailers can maximize profits is by improving the revenue per square foot. Now this is the biggest challenge!!"

We thought it beneficial to share with you with the key takeaways and an assortment of comments from these luminaries. These insights span and address the key issues, opportunities and challenges for organized retailers in India.

EXPERIENCING MODERN RETAIL IN INDIA

Kishore Biyani, Group CEO, Future Group

- "Retailing in India is extremely complex due to the diversity of languages, cultures, religions, needs etc. An example being : Food bazaar has identified ~400 varieties of rice across India. A retailer will need to study the Indian market extensively if it has to tackle this diverse market".
- "I had decided not see a Wal-Mart, until I launched the 1st Big Bazaar store. I did not want to get influenced by the store formats in developed markets. Localization the retail format for Indian consumers unique needs and preferences, holds the key for sustainable and scalable growth".
- "By the time international retailers enter India's retaining arena and try to understand the Indian consumer, it might be too late. Today even the modern retailers in India are rapidly changing their format to match the consumer needs".
- "Most traditional retailers have cost a structure that is superior to that of modern retailers. Their gross margins are comparable to modern retailers for FMCG products and staples. They also have lower operating overheads in terms of rentals, electricity and labour, alongside lower capital cost for store fit outs. Today even they have learnt the art of negotiating better margins and utilizing store space to earn advertising revenue. The only issue with them is that they just psychologically weaker, they just need to be confident of themselves. It is going to be very difficult to beat them because of their cost advantages. They could even come together and form associations, which can help them to negotiate and procure products at better rates from large consumer majors"

Mr. RC Agarwal, Chairman, Vishal Retail Ltd

- "I used to believe a few months back that I can achieve Rs.70bn revenue from the current Rs 7bn revenue, with my existing management team. But I have now realized the need for a professional team that will form the backbone of the company during its hyper growth phase"
- "The modern retail cost structure is a fixed cost model. Rentals, personnel cost and even advertising is considered by us as fixed cost. Thus the only way modern retailers can maximize profits is by improving the revenue per square foot. Now this is the biggest challenge!!"

THE RETAIL JOURNEY TO SUCCESS

Thibaut Castarede, Director, Galeries Lafayette

- "As a high-end departmental store we have largely concentrated on EU markets. But since 2005, we have aimed to extend our reach to other emerging markets (stores opened in Dubai, Shanghai) and position ourselves as the French shopping destination".
- "We will enter the Indian markets once the investment legislations are eased up. But the Indian market is one of the most complex and challenging amongst emerging markets. Supply chain issues, infrastructure and consumer preferences will remain some of the key challenges".
- "In our experience it is difficult to replicate a French retail model into any other market as the cost structures are very different. Thus we have tried to work backwards in terms of the determining the system wide cost and then choosing what will offer value to customers"

Kal Patel, Exec VP, Strategy & International, Best Buy

- "Indian retailers should not be wary of international retailers as they are very big and this is precisely the reason that will lead them to become complacent. Because they already have an established store model running in numerous cities, countries, they will want to copy that model and open stores in India. But it is not going to work that way. There is a difference between copying and learning. You may copy your already established model but it's not necessary that it might work. You have to learn the intricacies of the market and have to change your model accordingly"
- "Indian modern retailers are innovating. They need to identify needs which are unmet and attack that need".

Big Box Retailing – Challenges for hypermarkets & department stores.

Andrew Levermore, CEO, Hypercity

- "Indian hypermarkets today do not have as much variety as the international hypermarkets. International consumer companies in India have just launched a fraction of their products sold globally. But this is slowly changing with the advent of big box retailing. The industry is realizing that the customer is not going to just sit in his car and drive about an hour to reach his destination only to realize that he has to return back to his car within 5-10 minutes".
- "We might stock up high margin products to improve our profitability, but if the consumer doesn't want it, then it will hit you! As an industry we need to understand the needs of the consumer and what they would need in the future."
- "Indian consumers have a shopping dwell time of at least 2.5 hours, which any international retailer would love to have. The "Shopping experience"

has turned out to be the primary source of source of entertainment for a family on the weekends”.

K Radhakrishnan, CEO – Hypermarkets, Reliance Retail

- “What is value to the customer? How do you know what is of great value to the customer? Value is abstract and it lies in the consumers mind. Saying that I’m a value retailer does not make sense. The consumer must be able to tangibly, palpably see value and experience it. You might make the packaging stronger, taller, shorter, thicker, brighter etc. but if that does not mean any value to the consumer, its does mean anything and he will not pay you 2% extra for that”
- “Today ~40% vendors don’t have email-ids. It becomes increasingly difficult if you need to communicate with them. Vendors cannot take large orders because they don’t have the required working capital. There is always some discrepancy between the purchase order and what is actually delivered. Only ~40% adhere to the time for delivery”
- “Bar-coding is not done by suppliers, which eventually creates a problem for all retailers as they need to either manually check every item or barcode at the time of taking delivery. There have been times when we (hypermarket) have sent the bar codes to the suppliers hoping that they stick the right barcode to the right product. There are times when the product on the shelf does not match the description on the shelf”.

Ramesh Menon, Senior Vice President - Operations, RPG Retail

- “An average hypermarket internationally as compared to India has far greater variety in terms of SKU’s, products and services. How can an Indian retailer fill ~150000 sq.ft. of retail space with such SKU’s? Indian companies need to build categories by innovating and taking risks. They cannot just wait for the Indian consumer to demand first and then provide. The number of SKUs that an international hyper market has is generally 2-3x of an Indian hyper market.”
- “Another issue is that retailers today are already running on wafer thin margins. Consumer companies have a lot of scope to increase prices further and make higher margins both for themselves and the retailer. It is very important that these companies raise their prices and not play the game of offering the cheapest and bleed to death in the bargain.”

Journey of Department Store Retailing in India

Govind Shrikhande, CEO, Shoppers' Stop Ltd & Rakesh Biyani, CEO- Retail, Pantaloon Retail (India) Ltd

- "Department stores have come a long way and can compete with any department store in the world today. The best practices have been deployed in the store, in terms of customer satisfaction, IT processes, profitability measurements etc."
- "The way to reach a customers heart is through two levels: Transaction level (through price, quality, convenience, service and consistency) and emotional level (Create trust, experience, bonding, relationships, values and be ethical)" .
- "National branded players and modern retailers have to work together in order to give the customer what he deserves. While the retailer's job is to bring the footfalls in the store with the right mix and ambience, a brand's job is to pull the customer towards it by offering a value proposition. What the retailers will do is that they will offer the best value to the brand and the brand should come up with the best product strategy. This would be a win-win situation for all, the retailer, the brand and the customer".

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.