UK INDIA
BUSINESS COUNCIL

partnership in action

SECTOR: RETAIL, LIFESTYLE & LOGISTICS

SECTOR OVERVIEW: January 2013

Earlier this year the Government of India introduced landmark reforms permitting 51% FDI in multi-brand retail and further liberalization of 100% FDI in single brand retail. These progressive policies have invigorated an already huge interest in Indian retail by the global business community.

With retail growth predicted to be 15-20% over the next five years, India has emerged as the fifth most attractive destination for international retailers, outpacing the UAE, Russia, Indonesia and Saudi Arabia, according to A T Kearney's Global Retail Development Index (GRDI) 2012. (IBEF)

These developments can be largely attributed to the rise of a new and powerful generation of Indian consumers who are finally getting their voice heard.

Higher disposable incomes, the development of modern urban lifestyles, expansion in the availability and choice of products and services, and an increase in awareness and access to information have significantly impacted buyer behaviour in cities, smaller towns and even rural areas.

CONTACTS: Retail, Lifestyle & Logistics

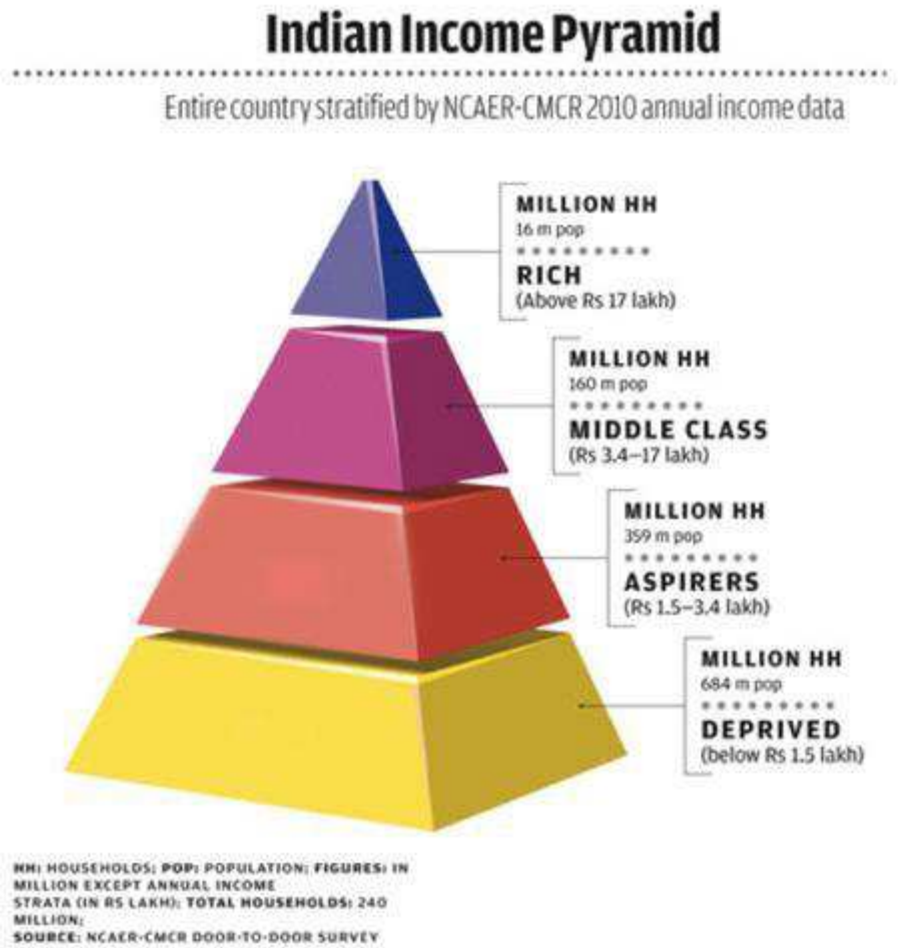
Tara Panjwani

Email: tara.panjwani@ukibc.com
Tel: +44 (0)20 7592 3841

According to Standard Chartered Bank’s 2011 Super-Cycle report, there will be:

- a five-fold increase in per-capita income by 2030; which will create a
- huge middle class and unleash widespread consumer spending;
- a $15 trillion opportunity as Indian consumers spend more; and
- domestic demand is expected to grow by a compound rate of 9.2% per year between now and 2030.

This growth is accompanied by key demographic shifts including consumer patterns which are changing from being largely necessity-based purchases of basic goods to greater spends on discretionary items.



Given the immense potential of this emerging market segment and the increasingly favourable regulatory environment, it is no wonder that the global spotlight is fixed firmly on India. However, much is yet to be learnt about the business environment to truly crack the market.

THE INDIAN CONSUMER AND STRATEGIES FOR SUCCESS

To succeed in the Indian market, one needs to gain a deep understanding of the Indian consumer, the motivations that drive these individuals and the changing dynamics of domestic demand.

With this in mind, the UK India Business Council hosted a seminar and roundtable for high level business leaders in November to discuss not only the positive effects of a more liberalized retail market, but also the right strategy required to approach and succeed in India.

These events featured Indian retail expert Pritti Ravindra, Vice President of Marketing for Palladium and High Street

Phoenix in Mumbai as keynote speaker. Other panelists included David Mallon, Founder of Ringspun, the cutting edge British fashion brand that has entered the Indian market, Jasper Reid who spearheaded Pizza Express's re-entry into the Indian market, as well as Parmjit Singh, Head of Eversheds' India Business Group. Amongst the audience were leading British brands such as Cox & Kings, Daks, Burberry, T.M. Lewin and John Lewis to name a few.

UKIBC Seminar: The Indian consumer – retail opportunities in India, November 2012

With her finger on the pulse of India's luxury retail market, Ms Ravindra gave the audience a fantastic insight into the trends in retail, and shared her knowledge about the multi-faceted profile of the Indian consumer.

The Indian consumer is used to:

- High service standards;
- Value for money; and
- Bespoke good and services

These characteristics are particularly relevant when applied to the luxury sector.

Although India's love affair with luxury dates back hundreds of years to the time of the Maharajas, it has witnessed somewhat of a cultural renaissance over the past decade on the back of a robust economy and a booming luxury market which grew by 20% last year and is expected to expand to touch £9.5 billion by 2015 (CII - AT Kearney India Luxury Report, 2011). Today India ranks 15th amongst the countries in terms of high net worth individuals (HNIs). This wealthy group grew by 35% between 2008 and 2012, and is expected to double by 2015. However, different customer segments exhibit different luxury preferences such as:

- Old money – this group is extremely well travelled, luxury is part of an inherent lifestyle, not price conscious but expect a high level of "bespoke" services. E.g. Louis Vuitton clients.

- The discerning astute corporate honcho – this group is well travelled, look for a "flaunt" quotient so limited editions are of special interest and price parity is important. For example a person who shops at Burberry is well travelled, does price comparisons, and can make a choice between shopping in Mumbai, Geneva or London.

- New money –this group wants a sense of "belonging" - purchases are aspiration based, needs special education about the brand/product and so the 'bridge to luxury' strategy works well in their case.

It is also worth noting that even within India itself, what drives a luxury customer in Mumbai is different to what drives a luxury customer in New Delhi, Bangalore or Chennai. Some seek the exclusivity, while others prefer to follow trends. For example, Pritti argued that your average Mumbai consumer is looking for 'comfortable chic' whereas your average shopper in Delhi is looking for 'flamboyant and edgy' styles. She said retailers that ignore these variations will struggle to gain any footholds in the country.

Thus India should be seen as different markets and not as one single country. Pritti advised UK businesses to focus on a particular region and develop the right regional strategy before going too big and looking beyond to other states.

Her advice was not to try and sell Indian-style products to India - with 1.2 billion people there will always be someone who can do it better and cheaper. Instead, she suggested that what UK firms need to do is provide their Western products, which are highly desired in India, but through Indianised mediums.
For example, in India, customers expect attentive sales assistants welcoming them from the moment they enter the store. Whereas, in the UK, sales staff usually hang back until asked for assistance. Equally, she noted that in India if a clothing item was not in stock in the right size, then staff would be expected to alter it there and then. These are basic service standards that Indian customers would expect from any shop. An Indian retailer would know this. This, Pritti said, was exactly the kind of service UK companies needed to offer in India.

In addition, retailers must create the right shopping environment and find the right product and service mix to entice the kind of customer they are looking to target.

Therefore, **knowing your customer** is crucial to achieving success in the Indian retail market.

British companies already have the great advantage that British attire and brands are very highly regarded in India. Far from resting on these laurels, UK brands should work even harder to captialise on Indians' inherent affinity for 'Brand Britain'. Take the example of Pavers England, the Indian subsidiary of Yorkshire-based shoe company, Pavers has leveraged its

English heritage to prosper in India. Today, Pavers England is set to open 40 new stores across the country by March 2013 and the first foreign retailer to receive approval to operate their wholly-owned retail stores in India.

Indian partners were the second most prominent aspect discussed at the retail roundtable and seminar. One of the mistakes foreign brands often make is to seek a well established Indian partner solely based on their financial calibre and nationwide presence. However, if the company has different values than your own, then this is definitely not the right choice. Differences will quickly emerge especially as the aspiring international brand could be relegated to the bottom of the priority list of the large Indian partner.

Entering India with the wrong partner is risky and can have a negative impact on your brand. You could go from not getting enough traction in the market, to virtually damaging your brand's reputation. It is therefore essential to find a like-minded partner, to build trust, and allow them to make decisions. The right local partner can be an invaluable asset who will contribute significantly to your India operations while at the same time, enable you to build your own knowledge and expertise of India by giving you an insider's view.

A fitting example is that of Pizza Express as described by Jasper Reid. Jasper explained that Pizza Express's initial foray into the Indian market had been on a franchise basis and with the wrong partner and consequently failed to take off. This time around, after careful partner selection, Pizza Express entered into 50-50 joint venture with the Bharti Group and recently opened its first restaurant in Mumbai with the second one scheduled to open in New Delhi in early 2013. They have hired an Indian team to oversee future operations and expansion. Right from sourcing ingredients to building the team, everything in the new restaurant is designed to make its Indian customers feel at home. For example, the brand has removed beef offerings from their menu and have instead introduced more vegetarian and spicy ingredients to appeal to the Indian palette.

Finding the right location

In regards to location, it was generally agreed that a good starting point for British retailers is Mumbai, because it is the closest in similarity to London. However quality space can be very challenging to find. Jasper spoke about how much time it took his company to finally identify the right locations in Mumbai and New Delhi for the re-launch of Pizza Express.

Parmjit Singh recommended looking carefully at Tier 2 cities instead of major metros like Mumbai, New Delhi and Bangalore to set up Indian operations as these emerging cities not only offer great commercial prospects, but real estate is also comparatively easier to access.

David Mallon added that both partner and location should only be finalised after visiting the market and spending considerable time 'in country' as this will enable one to get to know the right people and understand the nuances of the local business environment.

He went on to share his India experience. Having bought and sourced materials from India for over 20 years, he finally decided to participate in a trade show in India last year. He was initially wary but after spending enough time on the ground and building relationships with key contacts, he managed to find the right partner and now has thriving business operations in India.

His advice to UK retailers was to visit India. He said this was imperative as both the market and the opportunities have to be seen first-hand to be believed. This year alone he has been six times, and attributed this method of developing market knowledge to his success.

The speakers summarised their expert tips on how to capture the opportunities in India:

- Relationships are vital. Get to know the decision makers.
- Finding the right partner is critical. Make sure it is someone who brings local expertise and added value to the table, and shares your corporate values.
- Don't lose sight of your finances and be patient - it may take a number of years for your business to achieve profits in India.
- Find the right talent. Picking the right staff is vital.
- Know your customer; educate them about your brand; set up an educational ecosystem.
- Targeted marketing is very important.
- Pricing parity with international markets should not be overlooked.
- Ensure that you offer a superior range of products to the Indian market.
- Indianisation is required – not necessarily in products but in services.

- Easy payment options should be made available.
- Be willing to invest in both hard and soft infrastructure.
- Bridge to luxury strategies should be pursued where necessary.

The Regulatory Environment

From a policy point of view, recent FDI reforms have been a very positive first step – relaxation of these rules has opened up many more options for UK companies keen to tap into the Indian consumer market. But perhaps more importantly, one of the effects of this policy change is that it generates greater confidence among investors. Pritti spoke about the need for more and better retail space designed exclusively for luxury brands, which, thanks to this greater investor confidence, can now be pursued.

On the policy requiring foreign investors to source locally, we believe further understanding is needed to avoid interpreting it as a barrier to entry. India can be a brilliant source of inputs and products, from which some foreign brands are already benefiting, such as John Lewis. However, it is understood that this does not work for everyone. The aim of this policy is to stimulate local business, which can be done effectively by sourcing other business inputs, for example, stationery, furnishings and store display materials.

Concerns remain on the issue of import duties, which at the moment hold back the competitiveness of foreign players and, in particular, newcomers whose first venture into India is via imports. Follow up work on the EU-India Free Trade Agreement talks would be much welcomed.

INVESTMENT UPDATE

Lipsy enters India: British fashion brand Lipsy (acquired by Next Plc in 2008) has recently entered into an exclusive franchise agreement with Brand Marketing India (BMI) to market and distribute India's large youth population make it a very attractive destination for the Lipsy brand which is focused on young women and positions itself as being both glamourous and affordable. BMI who have been previously associated with the launch and development of other fashion brands such as Calvin Klein and French Connection in India intend to open over 50 Lipsy stores across the country over the next 5 years.

Stuart Weitzman launches in India: Responding to the strong demand for their products by affluent Indian consumers, high-end footwear brand Stuart Weitzman has signed an exclusive long-term franchise agreement with Reliance Brands, a part of the Reliance Industries Group to enter the Indian market. Reliance Brands already operates single-brand stores for the likes of Ermenegildo Zegna, Paul & Shark, Diesel, Quiksilver, Steve Madden, Kenneth Cole and Brooks Brothers and others either through joint ventures or long-term licensing deals.

Clarks plans to increase its India presence over the next 5 years: UK based shoe retailer C&J Clarks International plans to deepen its India footprint by expanding the number of standalone stores in India four fold in five years to reach 100. "We consider India to be a very important future market for us. While our UK and North America businesses are expected to grow at single digit, we expect India to grow in double digits," its CEO Melissa Potter told ET. She expects between 20 per cent-25 per cent of Clarks' global sales to come out of India and China over the next ten years. A recent study conducted by Clarks threw up some interesting facts about the Indian market such as the value of the men's footwear market (approximately 70% of the total market) is bigger than the women's footwear market which is unusual as the opposite is true in most other international markets.In India, Clarks operates through Clarks Future Footwear Ltd, an equal joint venture the Future Group.

Marks & Spencer to increase investment in its India stores: In a bid to compete with rival fashion retailers Zara and Mango, Marks and Spencer have announced that it will revamp and redesign its India outlets to prominently display its various sub-brands and increase its product range. M&S also intend to open a further 10 stores in the country over the next six to eight months, taking the total number of outlets to 34. Jan Heere, who heads the international operations of the UK's largest retailer, stated that India was a focus market for the company and was as important for their future growth strategy as China, Russia and the Middle East.Marks & Spencer, which operates in India through a joint venture with Reliance Retail, plans to roll out the first revamped version of its store in Chennai this year and eventually will give all its existing stores a facelift. Heere said the British firm, which holds 51% stake in the Indian venture, has no plans to buy out its partner following India's decision to allow 100% foreign investment in single brand retail.

CONCLUSION

India's retail sector continues to evolve at a rapid pace. Indians have gone from traditional bazaars to malls in one generation paving the way for the launch of innovative retail formats such as controlled high streets, or unique concepts such as an all-British area within a shopping mall.

Furthermore, the Indian consumer is constantly changing. For example, western-style women's business attire was not really a market until very recently, but it is now quickly emerging as a sector with great potential.

The growing opportunity in e-commerce cannot be ignored. As bandwidth and infrastructure continue to improve in India, e-commerce is becoming a very effective way to get your product to the consumer. The widespread use of smart phones is a fantastic advantage. Some of the portals already popular in India for fashion retail are www.elitify.com, and www.rock.in.

Demand exists across the entire spectrum of brands - be it luxury, premium, bridge to luxury as well as midmarket and high street. The market is indeed challenging and still very much a learning curve, but the aspirations of the emerging middle and upper classes and the recent changes to FDI rules have
opened up a new wave of exciting opportunities across the retail sector for UK companies.

The key to succeeding in the Indian retail market is to gain an in-depth understanding of the Indian consumer, identify the right partner and the right location and then adopt a bespoke business model tailored specifically for this vibrant and complex market.

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