

**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**

**SECTOR OVERVIEW:
September 2013**

Industry discussions in retail over the last quarter once again featured prominently India's FDI policies and economic uncertainty. The sense is that, although FDI in retail has been liberalised, the policy isn't quite clear enough. Also the economic slowdown seems to be making some cautious. But as we feature in this quarterly UKIBC sector report, India offers a wide array of advantages, and for that reason we explore the option of opening sourcing offices in India, thanks to a contribution by Ernst & Young which sets out a clear roadmap. Experienced retailers John Lewis and Sainsbury's have already done so successfully.

Further, the UKIBC attended the British Business Group Conference in Mumbai in September, where leading retailers spoke about emerging opportunities and some challenges that need to be overcome. The general sense was that improvements are possible, but it will require a policy overhaul.

And finally, we share with you notes following the successful UKIBC Retail Delegation which took place in Mumbai in late September. I hope that you will find this report interesting and we look forward to your comments at Adriana.Vega@ukibc.com.

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In Focus: How-to... Open a Sourcing office in India

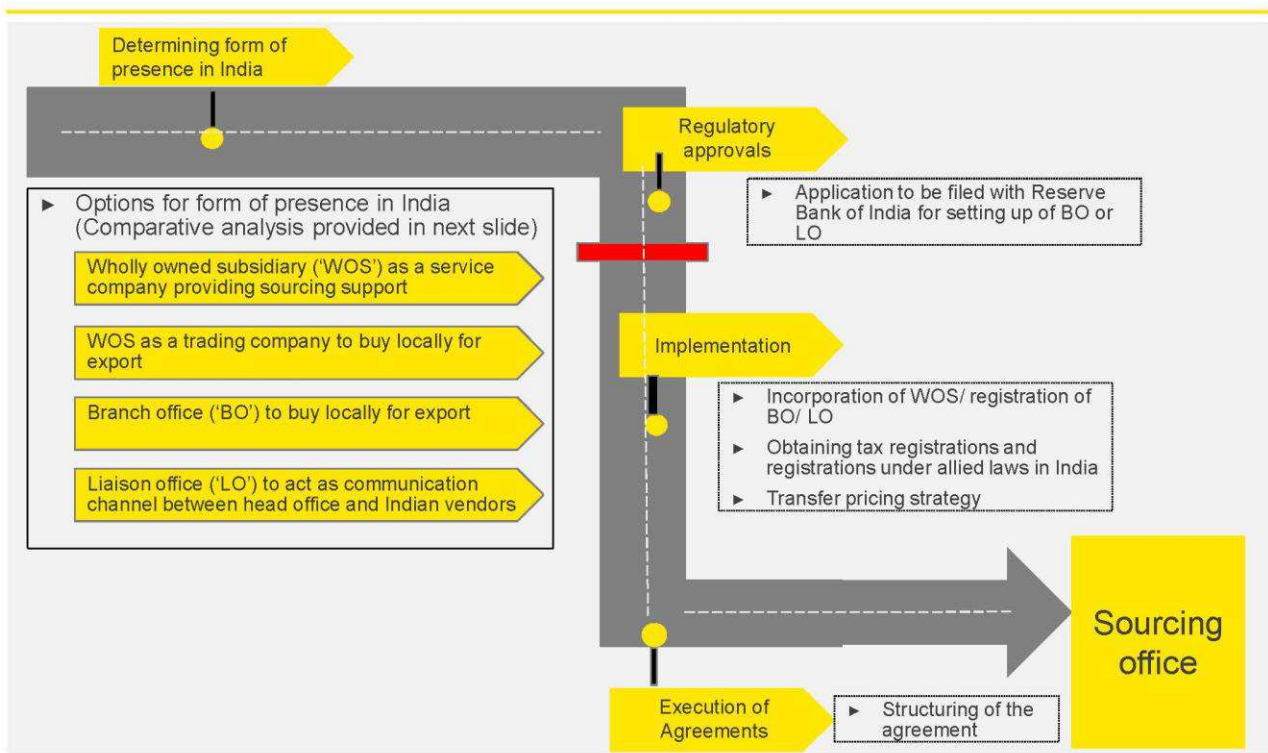
Months after the Union Cabinet cleared FDI in India's multi-brand retail, investors' appetite has been weak, suggesting that uncertainty remains present among foreign retailers. Worries over the slowing economy and inflation are making some retailers re-evaluate whether India is the right move at this time. Meanwhile, others are unclear on the policy's complexities and requirements for minimum investments in supply chain infrastructure and local sourcing. Caution is understandable.

But India's advantages go well beyond local consumption, and they should not be overlooked. Low costs of operation and an evolving supply chain and manufacturing have already benefitted many businesses across sectors. Indeed, an area that seems to be sparking optimism amongst officials in the Department of Industrial Policy and Promotion, is the growing interest among foreign retailers not only to sell to India, but to buy from it. And as it turns out, quite a few international [retailers have made a move to take full advantage of this by setting up sourcing offices in India](#). Some analysts point to the cases of Walmart and Carrefour, as both had set up sourcing offices in India long before opening cash and carry stores in the country. Although sourcing and retailing are very different and fall under different regulations, some argue that one could lead to the other, as it provides an innovative approach to getting to know the market, with comparatively low risks. British retailers Sainsbury's, John Lewis and Tesco are among those with sourcing offices or back-office operations in India, as well as Switzerland's Migros.

**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**

For this quarter's UKIBC Retail sector report, we have asked Ernst & Young to share with us a roadmap on How to... Open a sourcing office in India. However, as you will see from John Lewis' case study which we feature further on, challenges are still there: a foreign retailer setting up an operation in the country can generate confusion among regulators in this highly controversial sector. But it seems that for most, benefits are far outweighing the challenges. See the graphs below to read more about some of the technicalities of opening a sourcing office in India. Should you have any more questions, do feel free to contact Tara.Paniwani@ukibc.com.

Roadmap to set up sourcing office in India



**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**



Comparative analysis of options*

Options	Trading company (WOS)	Service provider company (WOS)	Branch office	Liaison office
Regulatory approvals for set up	Not required		Prior approval	Prior approval
Activities	Can buy locally for export	Can provide sourcing support services to Foreign company for local purchase for export	Can assist head office in buying locally for export	Can act as communication channel between the head office and Indian vendors
Flexibility of operations	Flexible		Substantially lower than WOS	Minimal
Financing Indian operations	Can use combinations of equity, accruals and debt		BO can be financed by inward remittances or internal accruals	LO is to be financed by inward remittances from Head Office
Compliances	Maximum local compliances		Relatively less	Relatively less
Permanent Establishment ('PE') Exposure	Low (if structured appropriately)		High	Low/ Medium
Income tax applicability in India	Taxed @ 30% (plus applicable surcharge and cess)		Taxed @ 40% (plus applicable surcharge and cess)	No tax (unless constituted PE)
Dividend Distribution Tax	On dividend @ 15% (plus applicable surcharge and cess)		No branch profit distribution tax	Not applicable
Applicability of Indian Transfer pricing regulations	Applicable		Applicable	Not applicable

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Source: E&Y

Market Update

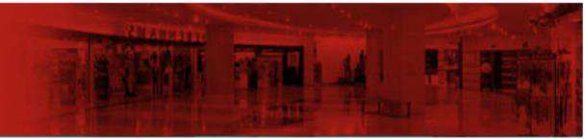
UKIBC Retail Delegation: 22nd – 26th September 2013, Mumbai

Our recent retail delegation to Mumbai was centred on the theme of modern retail in India and the exciting new opportunities that are opening up for UK companies in this rapidly developing sector.

In addition to interactions with top CEOs from major retail companies such as HyperCity, the Wadia Group, InOrbit Mall and Images Group, the delegation participated in the India Retail Forum – an event at the forefront of strategic retail issues related to modern India. Positioned as the knowledge platform for the retail industry, it is attended by industry leaders, policy-makers, infrastructure developers, business facilitators and academia, making it the flagship industry in India.

Some of the main highlights were as follows:

**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**



- An exclusive roundtable discussion and site visit at Hyper City in Malad featuring Mark Ashman (CEO, Hypercity) who spoke at length on the various opportunities for UK companies in the food and drink and FMCG sectors in India. He also shared valuable insights on buying habits of Indian consumers and emerging trends in the hypermarket space.
- Meeting with Pritti Ravindra, of the Wadia Group who provided one-on-one bespoke advice for each of the delegates and their business plans in India and also gave an overview of the Indian mall sector with a special focus on luxury clients and their aspirations.
- A roundtable with Nigel Lang, Managing Director of UK retail consultancy Flitabout who provided tips on winning in India, drawing from his own experience as a UK SME that has achieved tremendous success in the Indian market. He shared details about innovative concepts he pioneered and challenges he overcame to reach where he is today. He also touched upon the practical aspects of doing business in India for UK SMEs all of which delegates found most useful.
- Site visit to Colaba Causeway – for delegates to experience hybrid retail formats that co-exist in one location.
- A dedicated stand and networking area for UK delegates at the India Retail Forum followed by a high profile cocktail reception hosted by James Bryce, Deputy Manager, UK Trade and Investment at the India Retail Forum
- Attending thought leadership sessions featuring senior industry leaders at the IRF to gain expert insight into the new trends and developments transforming the Indian retail landscape.
- Overview of the Indian retail market by the Retailers' Association of India (RAI)

A chance to meet with renowned companies such as Shoppers Stop, Future Group, Lifestyle, Technopak advisors, Virtuous Retail, The Bombay Store and ITC Infotech to name a few.

British Business Group's National Convention, Mumbai – Notes on Retail

The UKIBC attended the [BBG](#)'s recent gathering in Mumbai. As part of this vibrant day-long event, sector breakout sessions took place, with Consumer and Retailing attracting a great deal of attention.

The panel included leading retail figures in the UK-India corridor, with the likes of Hypercity, Marks & Spencer Reliance, TRENT, Diageo, and a few others. Discussions touched on a wide array of retail-related themes including opportunities and challenges, but noticeably, two key issues emerged for their great impact on India's retail: FDI and e-commerce.

FDI, International players and the presumed threat to Indian micro retail

One of the main arguments against further relaxation of FDI regulations in Indian retail is the steep competition that is presumed will hit local retailers, with *Kirana*, or corner shops, against the likes of Walmart or Tesco. However, panellists made an interesting case that India has many more layers to consumerism than in western countries and that indeed, there is an opportunity across income levels and regions. In fact, it was mentioned that micro retail in India has a thorough knowledge of the local supply chain and lessons could be learnt, even by large foreign retailers.

E-commerce: potential, but changes are needed to facilitate online payments

**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**



India has in great measure welcomed the online shopping trend. Changing demographics and better technologies are making this possible. However, a lot of the merchandise that is purchased online is still bought as cash on delivery; and actually, the proportion of online shoppers is minuscule compared to traditional retail. In a country where mobile technology is so widely utilised, opportunities do exist. So in order to shed some light into why e-commerce seems to be facing speed bumps in India, speakers at this retail discussion explained it as a two-fold problem: firstly, the lack of penetration of credit and debit card usage; and secondly, the steep regulations on data protection currently in place by the Reserve Bank of India, which are needed, but are so complex that they have discouraged usage both among buyers and merchants. Better systems for data protection are needed.

Over the coming months the UKIBC will explore these issues in more detail. Your views and concerns on the two issues above would be gratefully received at: Adriana.vega@ukibc.com.

Investment Update

IHC ties up with India's real estate developer Omaxe to bring Holiday Inn to Chandigarh

Last month, hospitality major InterContinental Hotels Group signed an agreement with a leading Indian company in real estate development to build a 150-room Holiday Inn hotel in Chandigarh. [Read more here](#).

Economic uncertainty dividing opinion: retailers make a move while others delay expansion plans

Once again, demonstrating the split opinion on India's retail potential, reports emerged of plans by [H&M and Uniqlo](#) to defer plans to open India stores, while [Lacoste announces a doubling of retail outlets](#) over the next four years.

Case Study: John Lewis (Sourcing Office)

Venu Sharma, Head of International Sourcing

Sector: Retail, Food and Supply Chain Logistics

John Lewis is one of the UK's leading retailers, with 39 John Lewis shops and a strong online business. The company started in 1864, with the opening of its first shop in London's Oxford Street and today John Lewis offers a wide range of products including fashions, furnishings, household goods and electricals.

John Lewis is part of the John Lewis Partnership, an ownership model whereby Partners (staff) are co-owners in the business and share in the benefits and profits of the Partnership. All permanent staff at the Indian sourcing office are Partners, and were awarded their first bonus in April 2013.

WHY INDIA

John Lewis strives to offer its customers the best quality products sourced from the best suppliers. It has a long record of working collaboratively with its suppliers and it looks to build long-term relationships and work with people who share its values. In 2012, John Lewis set up its sourcing office in Gurgaon, near New Delhi, India to facilitate this activity. Its 16

**SECTOR:
RETAIL, LIFESTYLE & LOGISTICS**

Partners are responsible for enhancing and building supplier relationships in India and making the manufacturing base more accessible.

Having a team on the ground means better speed to market and the ability to oversee and assure product innovation and quality excellence.

India is a key market in which John Lewis trades and was chosen as the location for its first overseas sourcing office due to a number of factors. It presented the advantage of a shared language and a workable time zone, which is very helpful for the team to be able to work closely with the buying office in London on a daily basis. The Gurgaon office is responsible for liaising between the UK head office and Indian suppliers across a range of products, to:

- i) Facilitate meetings between potential suppliers and the John Lewis head office
- ii) Enhance the way in which John Lewis trades in India by coordinating with existing and potential Indian suppliers
- iii) Promote collaborations between the John Lewis head office and entities in India
- iv) Oversee community projects in India, including the John Lewis Foundation Cotton project in the Rajkot area of Gujarat, western India, which is teaching 1,500 cotton farmers and their families about more sustainable methods of farming cotton

HOW INDIA

John Lewis in India was initially set up as a liaison office, with local staff including those responsible for sourcing robust suppliers, HR, finance and logistics. Senior managers were recruited early on and subsequently a talented team of Partners who understood and embraced the John Lewis ownership model and the company's values were put in place.

In the early stages, John Lewis worked closely with the British High Commission in New Delhi, and also appointed a law firm to obtain its operating licence. Having a John Lewis Partner on the ground to facilitate this process was crucial as it meant they were able to attend relevant meetings and better represent and explain the business and its ambitions in India. This helped John Lewis to give officials the information they needed to help ensure necessary approvals and obtain FDI regulatory documentation more quickly.

It was necessary to undertake thorough and in-depth research into the regulatory framework in India to fully understand which was applicable to John Lewis's particular requirements. The level of detail involved and the rules, filing and processes that needed to be navigated, meant this took some time.

Since the John Lewis office in Gurgaon manages exports from India to be sold in the UK, it is responsible for overseeing correct application of import duties, which can be complicated in nature given they are levied both ways. Progress on the EU-India FTA would be very welcome.

DOING BUSINESS IN INDIA

India is a high-growth market, which feels optimistic and has evolved considerably over the last few years. India is a great country to work in, with a rich culture and enormous diversity. Business is conducted in a unique way to other markets, and having a John Lewis sourcing office is proving a great asset to John Lewis's sourcing strategy.