

The Indian Retail Medley

Coexistence and Growth of Unorganized,
Organized and Online Retail



Confederation of Indian Industry



Knowledge Partner

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Executive Summary

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New age Indians are driving consumption to greater highs.

India’s young population, increasing affluence, changing lifestyle and attitude towards spending and increasing availability in the smallest of the towns, is spiraling consumption and driving the retail market. The Indian retail market is thus expected to grow from about USD 550 Bn in 2015 to an estimated USD 2100 Bn by 2025, an almost four fold growth over a decade. Within the same period, organized retail is expected to grow seven fold and online retail, a mind boggling 26 folds. However, given their small bases, the market will still be dominated by the traditional unorganized retail which is expected to grow at a healthy 13% per annum, and continue leading the market with 79-80% share, even by 2025.

The anxiety that traditional unorganized retailer had about modern organized retailers wiping them out has settled to a large extent and the current fretfulness that organized retailers have about online players will subside soon as the online sector matures and grows past its initial discounting strategies.

Though currently the level of collaboration between unorganized, organized and online retail channels is limited as the market reshuffles and all participants are trying to find their

own ground, the scenario is going to dramatically change going forward. Each channel will define its own unique strengths and value proposition and will learn to coexist and grow profitably with the other, driven by the consumer’s inclusive retail approach. The consumer will seamlessly switch between channels depending on his needs and will not shun one for the other. His approach to channel selection will thus be “inclusive” and not “exclusive”.

Wazir believes that the growth of organized and online retailers has expanded the market and has resulted in direct and indirect opportunities and benefits for the small traditional retailers. Wazir is certain that going forward this collaboration between retail channels will dramatically increase and coupled with the leveraging of their individual strengths will provide a transformational push for the sector. Like in most cases, the model of inclusive growth will be unique to India and will demand new levels of integration and co-operation with the brands acting as referees.

Risks can be divided and rewards multiplied if unorganized and organized, online and offline players collaborate to conquer the retail market in India. The market is large enough to fulfill the ambitions of each channel and participant.

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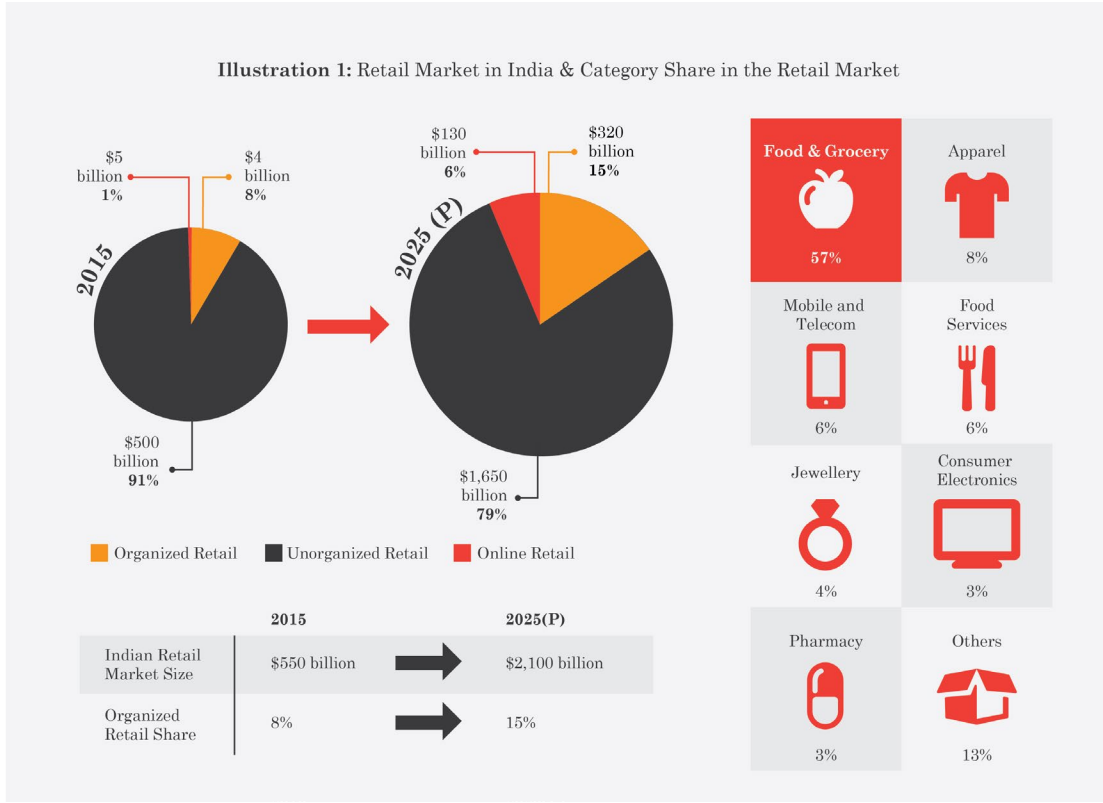


Landscaping the Retail Play

India is one of the fastest-growing retail markets in the world. The country boasts a population of 1.25Bn with a large and growing middle class (households earning between INR 150,000/USD 2,500 and INR 850,000/USD 14,200 per year¹) of 640Mn projected to reach 900Mn by 2021. Add to that the age profile of Indians, 50% below 25 years of age, and we have a winning recipe.

India's retail market is expected to cross USD 2 Trillion by 2025 from the current market size of USD

500-550 Bn. The Indian retail sector currently accounts for over 20% of the country's gross domestic product (GDP USD 2.308 Trillion - Nominal, April 2015²) and contributes 8% to total employment, employing an estimated 40-45Mn people. There are an estimated 12-14 Mn retailers, making India a country with one of the highest retail densities. The sector is expected to grow at a CAGR of 14% over the next 10 years and will remain one of the top growth markets globally, thus evincing keen interest from global players as well as Indian



Source: Wazir Advisors

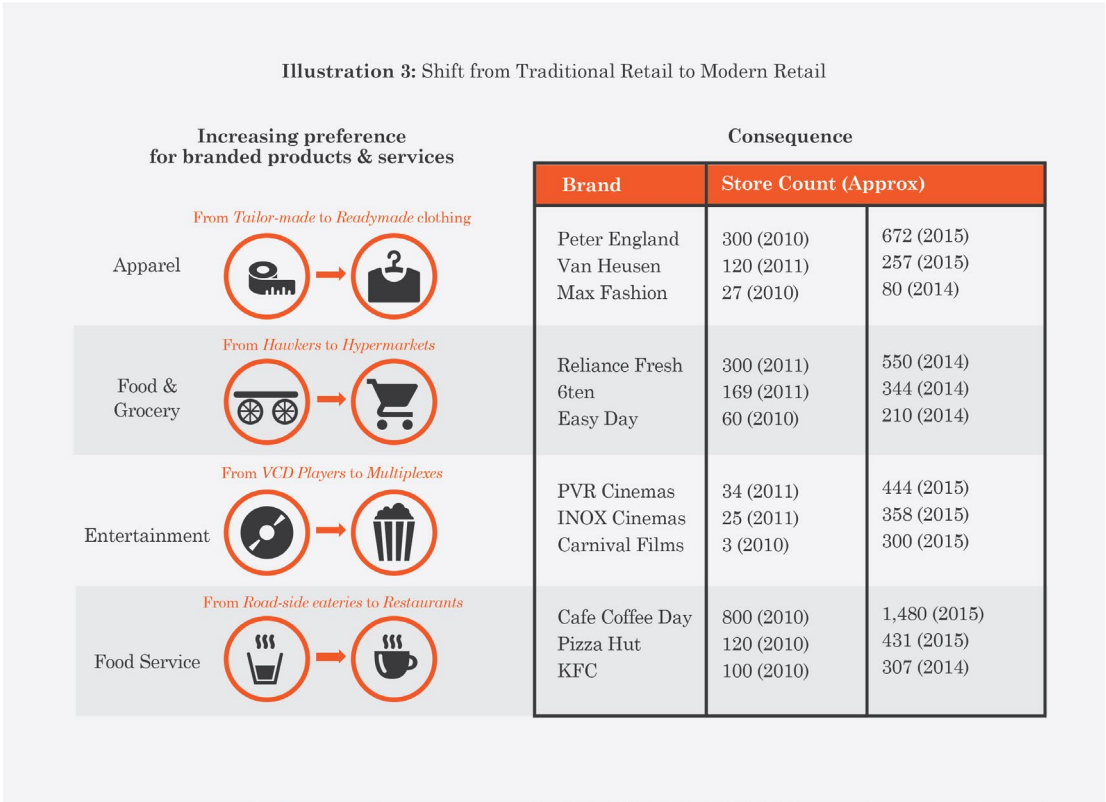
¹ Source: Profitable Growth Strategies for Global Emerging Middle, PwC 2012;
² Source: Report on Selected Countries – IMF 2015

Table 1: CAGR of Indian Retail Market

Market Type	Organized	Unorganized	Online	Total
CAGR (2015 - 2025)	22%	13%	39%	14%



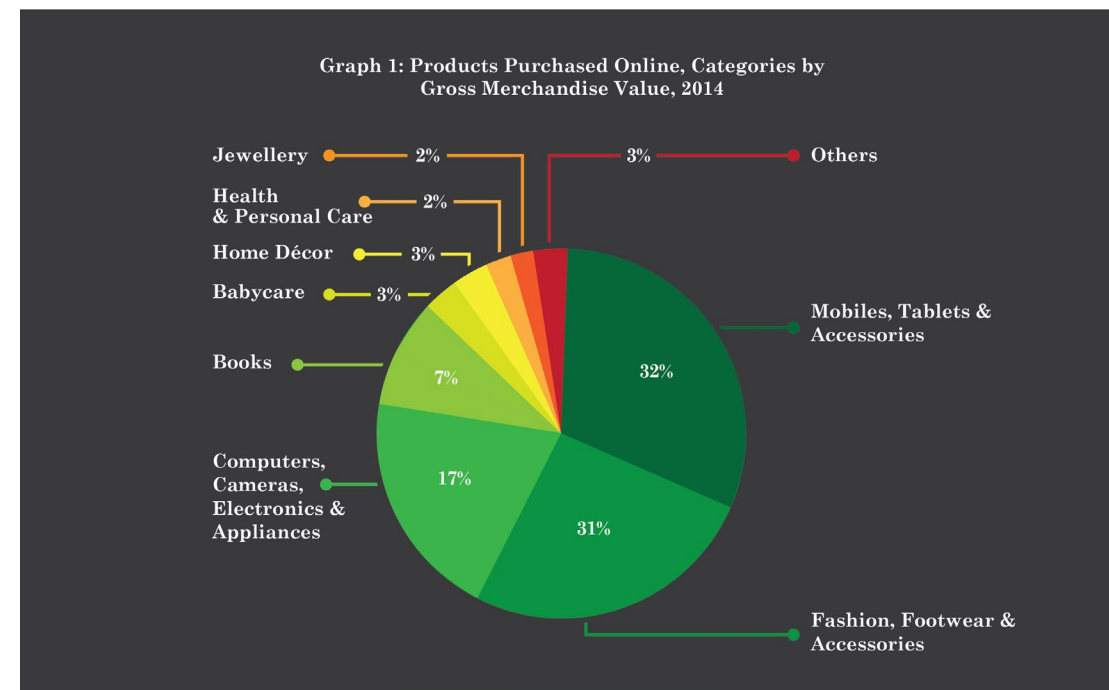
Source: Wazir Analysis based on published data



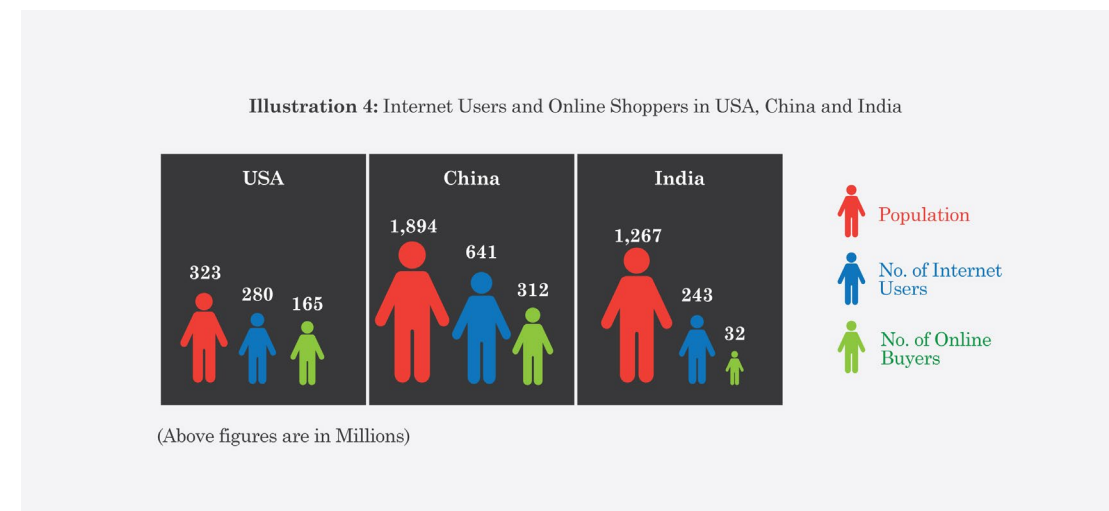
Source: Published Data

conglomerates, looking at niche retail sectors. The projected growth in the sector will further create 10-12Mn direct as well as indirect jobs by 2025, as various associated sectors like warehousing and logistics, infrastructure etc. also get a boost from this retail growth.

Within retail, the organized segment is expected to grow at a CAGR of 22%, much faster than traditional retail, which will grow at 13% CAGR. However even with high growth, the organized sector will capture just about 15% share of retail market by 2025, up from 8% today.



Source: Wazir Analysis based on published data



Source: Internet and Mobile Association of India (IAMAI)

With a high growth retail market, the retail infrastructure in India is also going to improve. More than 600 malls have come up in the last 10 years with 100 plus malls having opened up in the last 24-30 months. Average leasable area of the malls has increased by over 35% in the last 3 years. This is expected to further increase by about 20% over the next three years.

Online retailing in India has emerged strongly over the past few years on account of the digital revolution taking place in the country. India is expected to become the world's fastest growing e-commerce market on the back of robust investment activity in the sector and the rapid increase in internet users.

The Indian ecommerce industry has grown rapidly in the last 5 years to reach USD 17 Bn in 2014. The segment is expected to grow to over USD 60 Bn by 2017, making India the fastest growing ecommerce market in the APAC region. While online travel dominates the ecommerce industry with ~70% market share, etailing has the second largest share of ~20%. The online e-retail market is expected to rise from USD 3.5 Bn in 2014 to USD 5 Bn in 2015 to over USD 130 Bn by 2025. The e-retail market is thus the fastest growing segment online, and will continue to be the biggest e-commerce growth driver, with an expected CAGR of over 60% over the next few years.

The major reasons for this growth is increasing penetration of technology in tier-II, tier-III and tier IV cities, increased use of mobile internet, need for ease of shopping, heavy discounts offered by online portals, and better payment and return policies. Internet is changing the way people think, interact and consume. It touches every step of purchase cycle viz. 'pre-purchase', 'purchase' & 'post-purchase'. In India, internet penetration currently at 19% is at the cusp of an exponential growth. 250 Mn people are currently connected to the internet in India and this number is expected to reach 700 Mn by 2025.

Retail Market Drivers

1. Demographic dividend

India has the largest Gen Y population in the world. The median age in India is 27 years (compared to 37.6 years in the United States) and almost half the population is under 25 years old. As this population joins the workforce and gets more money in their hands, the retail spends increase.

2. Increasing incomes fueling aspirations

Average Household Income of Indians is expected to grow three fold from USD 6,393 in 2010 to USD 18,448 in 2020³. With increase in disposable incomes the aspiration levels are also spiraling

³ Source: NCAER

upwards and private consumption is expected to increase from about 60% to 63% of GDP in the same period. This double impact of increasing incomes as well as expenditure / consumption is very favorable to the retail market economics.

Today consumers in even tier-II, tier-III and tier-IV cities are spending much more on products and services, than they did a decade ago. These cities are emerging as “Hot-spot” of consumption both for brick and mortar and online retailers. Taking cue, organized retailers are targeting these cities with opening of new stores, and offline retailers are improving their last mile delivery capability to be able to serve smaller and far-flung markets cost effectively. Mall development activity is also picking up at rapid speed in these small towns & cities, creating quality space for retailers.

A key factor for growing consumption is the attitude shift amongst the Indian consumer. Their buying habits are shifting from need-based purchase to aspiration-based purchase and the “guilt” related to spending which was inherent in consumers of yesteryears has suddenly vanished. Further, the consumer’s product choice is becoming increasingly biased towards

brands, across all categories from food and grocery to fashion and lifestyle and even services. Indians are now shifting from traditional to modern “branded” experiences.

3. *Rurbanization and urbanization*

While on one hand masses are moving from rural to urban areas looking for jobs, on the other hand rural areas are being infused with urban patterns and services (Rurbanization) and cities are engulfing villages as they expand. In 2011, 31% of India’s population was urban, up from ~28% in 2001⁴. By 2030, 40% of the population is expected to be urban⁵. Between 2001 and 2011, 32% urban growth was due to reclassification of towns and expansion of urban areas, leading to explosive growth in farmland prices and rise of the “correlate” villagers.

Rurbanization and Urbanization are putting more money in the hands of people and are creating new aspirations and new demand which when supported by better availability will increase consumptions and hence the retail market.

4. *Increasing retail reach through the online channel*

While there was always latent demand even in underserved areas, online retail with its added penetration has made all products

available even in the remotest and smallest towns. This exponential availability has created its own demand. Today 50% or more sales for most online players comes from tier II cities and below and this percentage is expected to go up as the connectivity in small towns increases. Further, growth of mobile-commerce and use of native languages for communication will lead to new levels of technology led commerce.

Summarizing, the retail market is on sound footing and though the market will have its own cycles of good and not so good times, from a medium to long term perspective the market outlook is very positive for all participants.



⁴ Source: Census India 2011;

⁵ Source: Indian Institute for Human Settlement 2011

Co-existence of Unorganized, Organized and Online Retailers

The Indian market is unique in its own way and is a medley of extremes. On one side there are lakhs of street hawkers and small family run traditional stores with the most archaic retail practices and on the other side are the most technologically advanced players with complex algorithms to predict what consumers will want to buy in the future. Being the land of paradoxes that it is, it however has place for both. Wazir believes that the unorganized, organized and online players will co-exist in the Indian retail ecosystem and will expand the market for each other, as all have unique strengths and the sector is large enough to accommodate all participants. Wazir believes that unique partnership models will emerge as the retail market matures and this partnership will further push the sector growth.

To a large extent this co-existence will be driven by the consumer who will not shun one channel for the other and will seamlessly switch between channels. The consumer's approach to channel selection will thus be "inclusive" and not "exclusive".

The point of view that as India becomes richer, its consumers would shirk roadside vendors, kiranas and other mom and pop stores to move to glitzy, air-conditioned stores with

wide aisles and massive ranges has already been proven wrong. Small and medium retailers, continue to grow and dominate the market, while modern formats increase their footprint. The consumer shops at unorganized as well as organized stores based on his needs, convenience and perceived value proposition. The anxiety that traditional unorganized retailer thus had about modern organized retailers wiping them out has settled to a large extent.

Similarly, the whole anxiety that organized retailers have about online players eating into their markets will subside in the long run as the "discrepancies" across channels disappear and the play becomes fairer. Currently the tussle is not between channels but between the price propositions and various customer acquisition tactics adopted by the online channel. This is already seeing a phase out, as the sector matures. Online retailers too will have to establish a value proposition beyond price and compete on fair terms with other channels, with brand owners playing the referee.

This co-existence of unorganized, organized and online retail can be seen in many other markets too. In the two decades since China first opened its doors to Foreign Direct Investment (FDI) in the retail sector,

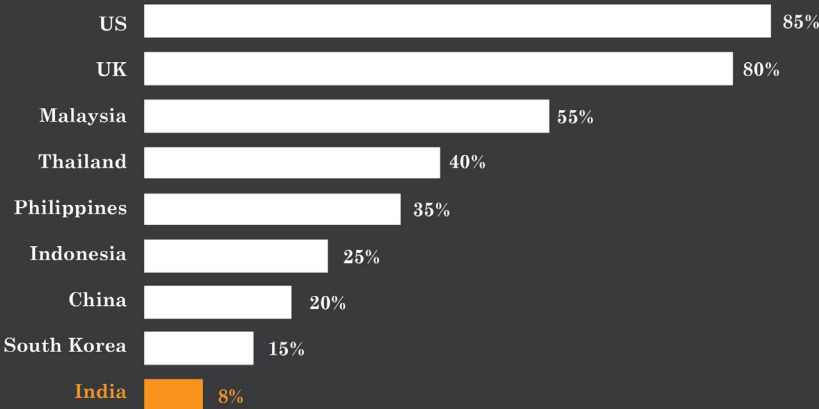
Table 2: Retail Ecommerce Sales as a Percent of Total Retail Sales in Select Countries, 2013-2018

Country	2013	2014	2015	2016	2017	2018
UK*	11.6%	13.0%	14.4%	15.6%	16.9%	18.0%
China**	8.3%	10.1%	12.0%	13.8%	15.5%	16.6%
Finland	9.2%	9.8%	10.4%	10.8%	11.2%	11.5%
Norway	8.8%	9.7%	10.7%	11.5%	12.1%	12.7%
South Korea	8.1%	9.0%	9.8%	10.5%	11.3%	12.7%
Denmark	7.7%	8.6%	9.3%	9.9%	10.4%	10.8%
Germany	6.1%	7.3%	8.4%	9.4%	10.4%	11.2%
US*	5.8%	6.5%	7.1%	7.7%	8.3%	8.9%
Canada	4.5%	5.2%	5.9%	6.6%	7.4%	8.2%
Japan	4.4%	4.9%	5.4%	5.8%	6.2%	6.7%
France	4.2%	4.6%	5.1%	5.4%	5.8%	6.2%
Netherlands	3.8%	4.3%	4.6%	4.9%	5.1%	5.3%
Australia	3.6%	4.1%	4.5%	4.9%	5.3%	5.6%
Spain	3.6%	4.1%	4.8%	5.4%	6.0%	6.5%
Brazil	3.4%	3.8%	4.1%	4.4%	4.6%	4.8%
Sweden	3.2%	3.5%	3.8%	4.1%	4.4%	4.6%
Russia	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%
Italy	1.5%	1.7%	1.9%	2.1%	2.2%	2.3%
Argentina	1.3%	1.4%	1.6%	1.9%	2.2%	2.5%
Mexico	1.0%	1.2%	1.5%	1.9%	2.2%	2.6%
India	0.6%	0.7%	0.9%	1.1%	1.3%	1.4%
Indonesia	0.5%	0.6%	0.8%	1.0%	1.2%	1.4%

Note: Includes products or service ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets; * forecast from Sep 2014; ** excludes hong kong

Source: eMarketer

Graph 2: Penetration of Organized Retail



Source: Published data

neighborhood markets have continued to coexist with big Chinese retail chains that have emerged. Organized retail has only been able to capture about 20-22% share of retail even after large global players focused on growth in the Chinese market. Ecommerce further accounts for 10% of the organized retail sales in China.

In countries like Indonesia, South Korea and Brazil too, unorganized, organized and online retailers co-exist and compete under protection laws that define the market for each.

Traditional / Unorganized Retail has Unique Strengths

As against the concerns of many, Wazir believes that traditional unorganized retailers will continue to grow due to their inherent strengths and hyper convenience. There may be temporary reshuffling of market shares, the timing for which will vary from one micro market to another, and from category to category, but overall the absolute revenues for local stores will continue to grow. There may however be fewer new mom and pop stores as the organized and online retailers may capture the new demand that is generated.

Detailed below are some of the unique strengths of unorganized retailers that will continue to give it the push for growth:

1. Consumer preference for traditional stores

A large number of retailers continue to prefer unorganized retailers over organized ones for the following reasons:

- Convenience in terms of locational proximity and quick service
- Credit facility provided
- Longer operating hours
- Goodwill and relationship with the retail shop owner
- Personalization in service

Traditional traders are also viewed as cheaper although this may not be the actual case. Modern organized stores comparatively offer greater variety but it is not as big a competitive edge as a cluster of stores, together, can offer almost the same range, especially in packaged products. Further traditional retailers do keep most of the high selling products, so except for some “long tail” products the perceived advantage is not very high.

For shoppers in India, foods and other regular purchase items bought two to three times a week are generally purchased from traditional retailers. Supermarkets and other organized formats appeal more to the affluent consumers and for bulk or less regular purchases such as packaged foods, certain FMCG goods and staples, such as rice and pulses. In general though, even affluent consumers prefer

TOP REASONS WHY CONSUMERS PREFER:

Small retail stores

1. Convenience
2. Credit A
3. Longer operating hours
4. Goodwill and relationship with the retail shop owner
5. Personalised service

Organized retail stores

1. All under one roof
2. Large variety
3. Ambience
4. Offers and discounts
5. Overall experience
6. Good quality and service

CONSUMER THOUGHTS

39 years, female, Delhi
She doesn't expect the experience of shopping at large retail stores to be significantly different from that being offered by local retailers. The primary factor that decides where she shops is location and the convenience of a quick checkout.

32 years, female, Mumbai
While she shops at kirana store for daily goods, she also looks forward to visiting the large-format stores. Local stores being small and cramped, she goes there knowing what she wants, and calls for home delivery at other times. At the large format retailer, she walks around, picking and choosing in a leisurely mode.

28, male, Pune
While he has a better shopping experience at large retailers, he does not expect to drastically change the way he shops as a result of it.

traditional stores, as they are closer to home and many even deliver the purchased items with no additional charge and with very little threshold bill value.

2. Local orientation of small retailers

The biggest strength and advantage that a small neighborhood retailer has over its larger competitors is its local orientation. Across categories, mom and pop stores offer a more localized assortment and service. This starts right from being close to their consumers, understanding their consumer tastes and needs and accordingly stocking the right merchandise.

3. Flexibility

Retail is all about quick decision making and this is something that the unorganized retailers master at. Being mostly owner managed the decision-making time for a small retailer is very small as there is no organizational hierarchy to approve or disapprove decisions. Thus, a small retailer can quickly update stocks as per the changing demands of the consumer, hyper-localize his inventory and pricing decisions in an instant, something which organized formats will do in a few days or maybe weeks. Thus the local retailer is hyper flexible and responsive.

4. Lower operating costs

Most unorganized stores are

owned and managed by small business owners and their families, and many are operated within premises owned by the shop owner. Also, in general they have higher stocking density than modern stores which are very particular about the visual merchandising aspects. Organized players, on the other hand, are subject to high operating costs in the form of rentals and other store expenses like power, manpower, IT etc. Thus operating costs are low for unorganized stores and the efficiencies high, giving them an edge.

Also as against the unorganized retailers, the organized segment typically has greater enforcement of taxation and better labor law adherence.

Overall, though the gross margins of organized players are higher than unorganized players, the gross operating costs are even higher thus resulting in lower profitability.

5. Better control

One of the biggest hurdles in large-scale rollout faced by organized retailers loaded with money is the ability to tightly control far-flung stores and the limited “ownership” of professional managers. In unorganized retail, being owner managed, the control over everything is much better resulting in better and more efficient operations, more

precise inventory planning, lower wastages and pilferages, etc.

6. Penetration and market segments catered to

Most organized formats still cater to the affluent and upper middle class families. However, there is a large population of lower income groups, daily wage earners and urban poor and their requirements are significantly different from others. Local unorganized stores best understand their requirements and are suited to cater to their demands.

Further, organized formats also lack penetration into smaller markets and rural areas and are largely clustered across the larger towns, leaving a significant open market for the unorganized players. In fact, these mom-and-pop stores continue to be the only point of sale in rural areas of the country, for most categories, be it FMCG, consumer goods or textile and apparel.

7. Ability to offer and manage credit

The role of credit is still very high in the Indian market. There are large sections of people who only buy on credit, especially in the smaller towns, rural markets and even in markets catering to the lower income groups in large towns. Local mom and pop stores are a part of the social fabric of these areas and are able to give and manage credit well. These

markets thus are not easily penetrable for organized chains.

Weakness Analysis

1. Lack of negotiating power with suppliers

Most unorganized retailers have lower gross margins than organized retailers due to the following reasons:

- Higher negotiating power of the large organized retailers.
- Investments made by organized retailers in the supply chain, resulting in value capture across the chain. Most supply chains in India were made to cater to the unorganized sector and lacked efficiencies thus requiring organized retailers to invest to make the supply chain as per their needs.

Because of the above, organized retailers are able to offer better deals and discounts to the consumers and give a stiff competition to unorganized retailers.

Though there are sourcing alliances that have been formed between few unorganized retailers to negotiate with the suppliers, such alliances are still in their infancy and lack the power of large organized retailers.

2. Lack of efficient retail systems

Modern retail organizations

emphasize on increasing profitability through efficient systems and best practices. Some of these include:

- Focus on increasing customer footfalls
- Capturing higher share of customer's wallet
- Improving sourcing and inventory stocking efficiencies
- Reducing supply chain wastages across the multiple handling points
- Improving product assortment, depth and width
- Offering differentiated products and service
- Enhancing the store ambience and displays

For most small scale unorganized retailers, these aspects are mostly fringe issues and are not focused upon much. Additionally, they are also not aware of how to address many of the above through use of latest technological tools that help raise efficiency thereby reducing operational costs.

However, the advent of organized large brands has educated the retailers on the benefits and need to focus on better and more evolved retail systems. Many organized retailers, as detailed later in this paper, are themselves educating the small retailers on modern tools and the retail best practices.

3. Lack of credit for modernization and expansion

Still not given an industry status, though this has been a long-standing demand of the sector, it is very difficult for the small retailers to raise capital for modernization and growth. This negatively impacts their power to compete head on with the organized retailers backed by large companies with financial muscle.

4. Consumer requirement for better experiences

As briefly discussed, consumers are now shifting towards better experiences and the traditional retailers may be losing out a set of customers who largely prefer experience over convenience. Especially for lifestyle products, this shift is more pronounced as the displays, the communication and the overall experience is far superior.

To that extent many unorganized stores have upgraded themselves to give a modern look, feel and experience to its consumers and have reaped stupendous results to the tune of 20-100% increase in sales throughput.

Summarizing, the traditional unorganized retailers have unique

strengths that they can leverage to grow in today's market. It will however require adaptation to the new consumer realities and choices and retailers to open up to new ways of doing business, taking cue from the organized retailers. Those who will adapt to the new environment will prosper and those who do not may stagnate.

Organized and Online Retail as a Growth Platform for Unorganized Players

Growth of the organized market in India, nudged the unorganized small to medium retailers to undertake a number of steps to become more competitive and consumer centric. These range from adding new product lines and brands to better in store displays and communication, store renovation, home delivery, credit sales, usage of in-store IT including automated billing machines and acceptance of credit cards. Further, this has led to the creation of a sub-segment within the set of small retailers – the 'independent modern retailer'. These are traditional family owned retailers or first generation entrepreneurs who have upgraded and modernized their stores and have increased their sales throughput to match or exceed the throughput of modern organized retailers. They now form a third segment within the Indian retail market, significant enough for major retail companies and brands to take into consideration.

These independent retailers combine the shopping experience of the larger 'organized' counterparts with the convenience of traditional "mom & pop" stores, offering a varied set of add on services such as home delivery, credit, and discount programs. Independent retailers are

spreading far and wide across retail sub-categories including apparel and accessories, jewelry, footwear, home products, consumer goods, fast food (QSR), and many more. Further, many of these have now expanded to open multiple stores, though largely localized in a given geography.

Additionally, beyond competition that is helping unorganized retailers raise the bar, they also tend to benefit from modern trade both directly as well as indirectly. The various avenues of partnership between unorganized retailers, organized retailers, online retailers and brands are detailed below.

Direct Partnership Opportunities between Unorganized Retailers and Organized and Online Retailers

1. Partnering through franchisees

Collaboration between the large and small retailers is increasing in every field. Large retailers are collaborating with small entrepreneurs to expand their reach in tier-II and tier-III cities through franchising route. Bata

Table 3: No. of Sellers Registered with Online Retailers (approximate)

May 2015	Amazon	Flipkart	Snapdeal	eBay
Sellers	25,000	30,000	100,000	50,000

Source: Published data

was among the first franchisor in India, and the market has since then matured to offer thousands of franchising opportunities across various categories and formats. Franchising is seen as a route for brands and retailers to quickly expand without much capital deployment. Franchisees get the advantage of small business ownership supported by benefits of a big business network and the assistance provided by the franchisor in the initial training and business startup.

In India, only 4-5% of total retail sales (organized & unorganized) totaling about USD 25 Bn is driven through the franchising route, as against 50% in US, indicating huge potential for the market in future. The Indian franchising industry is growing at about 35% per annum driven by growth of existing players as well as new entrants, both Indian and International.

The rate of success in franchising is higher than a start-up business, as franchisors have developed work practices and management, proven systems and processes and ongoing training and support for the franchisees.

2. Online Market places, a new leverage for small scale businesses

The success of the online marketplace in India has encouraged several small entrepreneurs and businesses to build their presence online and benefit from it.

- In addition to the extensive reach of the online retailers, these small to medium scale business have also been able to piggyback on the existing supply chain infrastructure and marketing and advertising campaigns of the e-commerce companies. Today the market is much more leveled for smaller players than it ever was and many small businesses have been able to do very well for themselves, driven by the growth of the online channels. Brand building, supply chain and front end capabilities building, that required time and resources now come without much effort and open a huge market ready to be tapped.
- Technology / E-commerce/ Digitization also offer several benefits to society enabling

SUCCESS STORIES

Sachit Sharma wasn't very successful with his wholesale and retail sari business. However, since moving on to an online marketplace to sell his saris, he has witnessed a 35% y-o-y revenue growth. He now sells his goods online and expects revenue to rise 100% in the next 2 years.

Hina Hussain, based out of Lucknow, was a housewife wanting to do something with her free time. She started selling chikankari products online and soon discovered that her range was flying off very fast. She started her own small manufacturing unit and today sells through multiple websites.

Prateek Chadda sells computer parts and accessories from his second floor shop in Nehru Place. While thousands visit the market daily, only a fraction climb up to visit his store. To overcome the locational challenge, Prateek registered his firm as a seller on a number of online marketplaces. Today, over 50% of his sales come from online marketplaces.

Garima Sethi started her designing boutique in Mumbai and tied up with an online site to sell her designs. In addition to margins ranging from 30-40%, visibility for her business has multiplied and so has sales. Her products and her brand name are well recognized now.

Tariq Ahmed owns a handicraft business which he moved online to increase domestic presence. Earlier, he only exported his products. However, since moving online, he is also able to tap the domestic market and has seen a growth of approximately 100% in revenue.

In 2006, Kanika Arora put a up a few pieces of self-designed jewellery online. Today, she has a small business selling handmade jewellery online. While initially she did not have the means to start a physical store, now she does not plan to have one, as the online marketplace has become her business place.

uninhibited growth of entrepreneurial ventures, creating an inclusive ecosystem, and promoting SME growth. Technology is creating new avenues of income for small entrepreneurs, right from restaurant owners to taxi drivers to other SME and MSMEs.

As such, SMEs across the country have embraced the e-commerce model to reach out to and sustain themselves in both domestic and international markets.

Online retail has provided that platform to unorganized retail, that it always wanted and will help the local retailer reach out to consumers across the markets.

3. Online aggregators and social discovery platforms

The second wave of e-commerce companies comprised of aggregators and social discovery platforms. These allow consumers to discover products, offers and updates from brands and stores around them, across segments like Fashion, Home Décor and Lifestyle, Restaurants and QSRs etc. These companies gave visibility to small formats stores and created a new platform for them to market their products and services, bringing in new consumers and sales. A case in point is Zomato which changed the fate of many a small restaurants and eateries, increasing their business many-folds.

Using these platforms, each business can obtain access to a dedicated profile, with complete control over the content and an interface to update the same thereby expanding the horizon of small local retailers beyond brick & mortar.

Further, it is not just the pure-play online players that are creating the e-commerce opportunities for the retailers, but even the brands. HUL recently launched Humarashop.com as a pilot to tap the grocery segment. HUL not only helps the 'kirana' retailers have an online presence by creating a different page for each store, but also carries out the delivery for them. Humarashop.com promises to deliver any product in just two hours anywhere in the city. Meanwhile, other players such as Godrej and Marico are also mulling an online play.

4. Local stores as delivery and pickup points

Adding a new dimension, the small unorganized stores are now being looked at as delivery and pickup points for online players. Smaller cities accounted for nearly 55% sales of large online retailers in the country in 2014, making it necessary for these firms to be able to deliver products in time to their customers in these locations. Amazon is piloting the express delivery service called KiranaNow in Bangalore and promises

delivery within 4 hours. Many other leading online players are also formulating similar strategies looking at the deep penetration of the small retail stores. This will add a new line of revenue for the small retailers.

Benefits of Growth of Organized and Online Retailers to Unorganized Retailers

1. Technology adoption

Earlier, small retailers managed their business personally and management evolved with time. These businesses were passed on from generation to generation within a family and were closely held. There was little use of technology or modern retail systems and this was not just a factor of the retailers' mindset, but also the costs involved. Generally, small and medium retailers did not have affordable tools to create productive insights or extract important information from huge amount of transactional data that was being captured in their business. And this information is very important for a business to derive strategies for its growth.

Growth of modern retail and its large-scale use of technology has set in economies of scale and has lowered the cost of technology, both hardware and software, and many other retail inputs. Also, the organized retailers

have led to the development of better local solutions, which are more customized to the Indian markets. The new generation entrepreneurs are well aware of the need of technology to scale up their business and are therefore incorporating them into their business. Advancement of technology is helping the small-medium players to grow rapidly and compete with the larger brands that have been using these technologies for years now.

Common areas that a small retailer can use technology to improve efficiency are:

- Merchandising and range planning
- Pricing and promotions management
- Inventory management
- Supply chain management
- Customer relationship management
- Accounting and finance

2. Improving the supply chains for smaller retailers and helping them become more "organized"

The traditional retail model from producer to consumer is filled with inefficiencies, because of which there are reduced profits for the retailer. For small retailers, their problems are compounded by lack of resources like finance

and knowledge of technology, that further limits their ability to grow the business.

In the Indian retail sector, significant losses are incurred across the supply chain due to:

- Multiple intermediaries
High number of aggregators, wholesalers, stockists, etc. between the producer and the retailer all adding to the overall margin structure
- Multiple handling points
High wastages due to multiple handling points specially in perishables and commodities
- Poor infrastructure & inefficient supply chain
Damages, pilferages and spoilage due to unavailability of appropriate storage and protection facilities

Organized retailers have been trying to improve the situation and reduce supply chain inefficiencies by:

- Upgrading infrastructure
By investing capital for proper handling and storage to reduce wastage and by collaborating with large suppliers to reduce intermediation.
- Innovation
In various technologies that

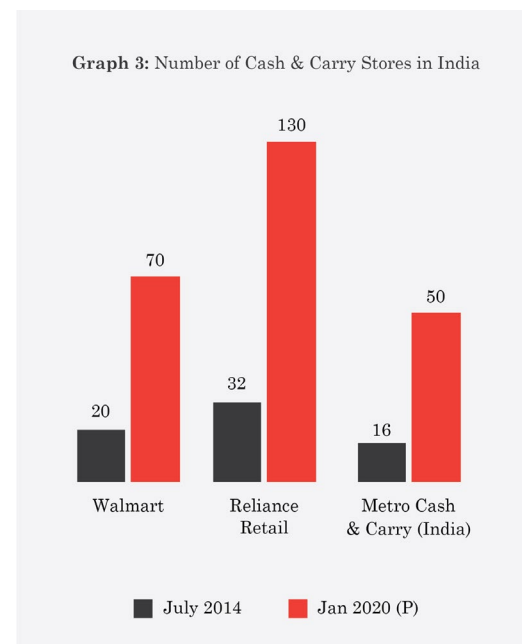
make the supply chain more responsive and transparent thereby reducing the distortions created by the intermediaries

Innovations in product packaging and handling to reduce in transit damages and pilferages and increasing the shelf life of products

A resultant of this improvement in supply chain is that the small-unorganized retailers also benefit from the overall betterment of the ecosystem and get a good price and reliable supply by leveraging systems developed for organized retail.

3. Cash and Carry stores are organizing the wholesale markets

Cash and Carry stores that cater to traders, small local shops, as well as larger businesses, are creating a new set of opportunities by organizing the unorganized supply chain for the small retailers. Small stores, which dominate the current retail landscape in India, do not have the benefit of economies of scale or the negotiating power, thus having a limited selection of products and little price advantage. Further, the supply chain has low fill rates, specifically for remote areas. Cash and Carry wholesalers' invest in creating better and more efficient supply chains with minimal intermediaries thus getting rid of the high distribution inefficiencies,



Source: nxtinsight.com; P: Planned

leading to higher retail margins for the small shopkeepers.

Cash and Carry players are pushing their private labels through the kirana store rather than the modern retailers. Many retailers now stock private labels from Metro Cash & Carry, Walmart and other organized wholesale players and earn much higher margins than what popular national brands offer. While this is still limited to certain categories, consumer's recognition of the Cash & Carry players gives credence to their private labels and helps the small retailer sell those without much of a difficulty. The gross margins in certain categories could be as much as 100% higher than what national brands offer, and small retailers tend to gain immensely.

Further, to make the small retailers more competitive and in sync with the changing trends, Cash & Carry stores are taking various steps to help unorganized retailers understand the modern retail techniques. Cash & carry Stores are grooming the small retailers to:

- Understand evolving market, study consumer needs and improve store assortment, and hygiene
- Improve store layout and visual merchandising. Understand and implement planograms
- Manage inventory in a more efficient way thereby freeing the cash locked up in inventory
- Improve store communication, promotions and customer service

4. Brands helping small retailers transform stores

Globally, as well as in India, organized retailers across categories and formats have always promoted private labels and own brands, which take away share from distributed national brands. Private labels also act as a lever for negotiations with national brands and help the retailer get an upper hand in terms of negotiating power. National brands thus took the alternate route of promoting and supporting unorganized

stores with the purpose of helping them compete and grow with the organized players thus maintaining the power balance. A case in point is the Consumer Packaged Goods (CPG) brands that have actively worked with local kirana stores for modernization, in lieu of shelf space and or preferential consumer data.

About 5 years back HUL started the "perfect stores" program where it attempted to transform nearly 20,000 mom-and-pop stores and chemists selling its brands in 72 cities into one resembling an organized retail store chain. These "perfect stores" have set plans for fixtures and products display and help the customer better navigate the store thereby increasing sales. Between 2010 and 2014, more than a million stores were converted into "perfect stores". While the transformation has helped retailers increase sales, they have also helped HUL brands increase their sales from these stores thereby creating a win-win situation for all stakeholders.

5. Space leasing by small retailers

Getting consumer eyeballs is becoming critical for brands and no space is considered too small, particularly those generating consumer footfalls. As a result, mom-and-pop stores can now earn rentals with in-store branding of large brands. Such marketing techniques make business sense

for both the brand, given its visibility benefit at the point of sale, as well as the retailer, given the additional income.

Large FMCG firms as well as consumer goods companies use this advertising space very effectively, connecting not just with their customers, but also keeping the small retailers happy. This form of advertising is also beneficial in promoting new product launches as well as new schemes, given the direct touch point with the end customer at the point of sale.

6. Brands using organized and unorganized retailers for improving penetration

Most brands have realized that the Exclusive Brand Outlets structure is good for brand building but cannot be used to penetrate the smaller towns where demand may be less than threshold to make the store commercially viable. Thus, while there was a time that prominent brands were focusing on EBOs and modern trade, most have now balanced their channel structure to add traditional retailers to penetrate the markets deeper.

7. Partnering to overcome other infrastructure barriers

A number of other major barriers to profitable retailing still exist in India. These include regulatory challenges, tax issues, inefficient transportation network, supply chain complexities, etc. All of these, together or individually, place substantial burden on small and medium retailers who do not have the volumes to overcome these hurdles to profitability.

Some of these issues, though, may be tackled by partnering with larger brands and retailers that offer efficient supply chains, finance, advanced MIS systems and synergies of scale to overcome these barriers. Additionally, the advent of e-commerce has also made a number of these issues redundant.

In conclusion, the unorganized retailer is here to stay and prosper and the overall growth of retail and advent of organized formats and online players will open up more opportunities for the smaller players. The sector just needs to be aware of its competitive advantages and understand the shifting consumer preferences, thereby adapting their offering to make it more relevant for the new Indian.



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