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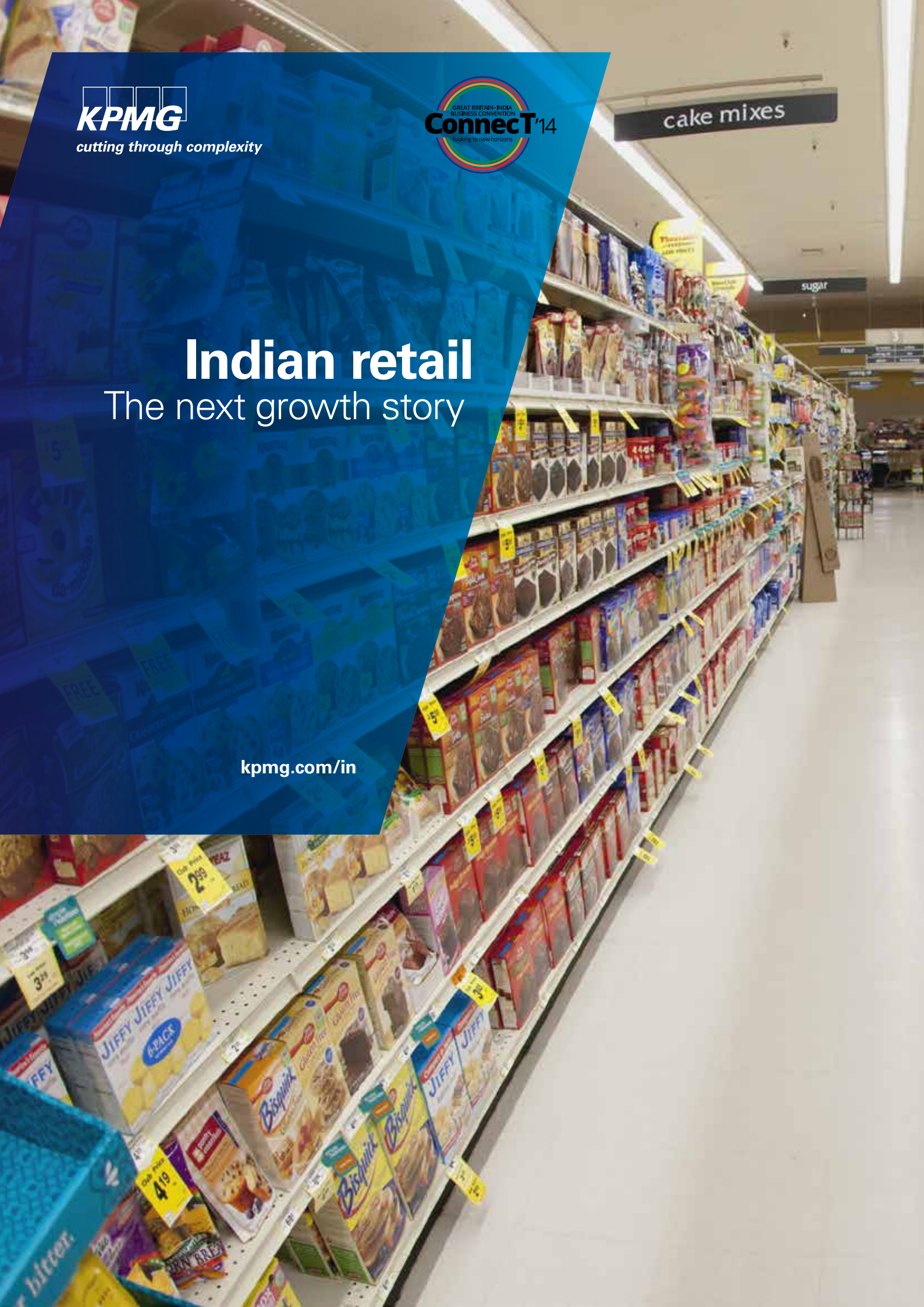
cutting through complexity



Indian retail

The next growth story

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Executive summary

Growing value proposition

Demand factor



- Growing youth segment and working women population
- Rising incomes and increasing purchasing power
- Higher brand consciousness
- Changing consumer preferences and growing urbanisation
- Increasing number of HNI's (high net worth individuals)
- Rising internet penetration

Supply factor



- Rapid real estate infrastructure development
- Easier access to credit
- Increased efficiency due to development in the supply chain
- R&D, innovation and new product development
- Growing interest of investors
- Conducive regulatory environment due to expected reforms

Emerging opportunity



Retail infrastructure

- India has emerged as one of the most attractive retail destinations in the world. The CAGR expected for retail (in value terms) is 13 percent (2013–19)
- The number of modern trade stores are expected to increase from 11,192 in 2006 to 67,100 by 2016
- The number of supermarkets are expected to increase from 500 in 2006 to about 8,500 by 2016
- Total retail space supply in India is projected to grow from 5.3 million sq.ft. to 6.6 million sq.ft. over 2013-15.



Rural retailing

- Rural markets, which constitute ~70 per cent of the total population base, account for only 40 per cent of the total consumption in India currently; this highlights the huge potential in terms of consumption boom in the coming years



Luxury market

- The CAGR is projected to be about 20 percent over the period 2012–15.
- High-growth categories are jewellery, watches, apparels and accessories



Online retail

- With rapidly growing internet penetration in India, online retailing in India is expected to reach USD1.7 billion, at a CAGR of 10 per cent over the next three years



Private labels

- Private label strategy is likely to play a leading role in India. There is great scope for development as, currently, the share of private labels is only 6 percent as compared to 19 per cent and 39 per cent in the U.S. and U.K., respectively



Sourcing base

- India is poised to emerge as a sourcing hub for several international retail chains, given the abundant supply of raw materials and cost competitiveness.
- In the last few years, several global retailers have established their wholly-owned subsidiaries to manage their sourcing operations from India

Industry size, structure, growth and global positioning

In the coming years, about 70 per cent of world's growth is likely to come from emerging markets, with 40 per cent contribution from China and India, alone. These forecasts and industry prospects suggest that emerging markets are likely to gain investor interest in the future.¹

In the last decade, global investors have been perceivably driven by market centric factors over efficiency centric factors while choosing investment destination. Many Large international retailers are continuously increasing their presence in new countries, particularly in emerging markets due to their high growth potential. The focus of retailers is on building a portfolio of countries with different levels of risk, at different stages of maturity, and with distinct consumer profiles to balance short-term and long-term opportunities.

Despite certain inherent challenges the Indian retailing landscape is very dynamic and India's twin-growth engines, economic liberalisation and demographic profile set it apart from other nations and presents a convincing business case for global retailers seeking to enter the market.

Landscape of the retail sector in India

One of the biggest opportunities and challenges that characterise the Indian retail sector is its structure. While it has matured over the years, it is still highly fragmented, with an estimated 12 to 15 million outlets. Its overall size is estimated to be INR31trillion (USD534 billion) in 2013-14, with a CAGR of 15 per cent over the last five years, which is much higher than the growth of the Indian GDP in the same period. Going forward, the overall retail sector growth is likely to witness a CAGR of 12-13 per cent, which would be worth INR55 trillion (USD948 billion) in 2018-19.

With over 92 per cent of the business coming from the fragmented unorganised sector, such as traditional family run mom and pop stores and corner stores, the Indian retail sector offers immense potential for growth and consolidation. The revenue generated from organised retail (or modern retail) was INR0.9 trillion(USD15.5 billion) in 2009, INR2.4trillion in 2012(USD41.4billion), and is expected to continue growing at an impressive rate to a projected INR5.5trillion (USD94.8billion) by 2019.²

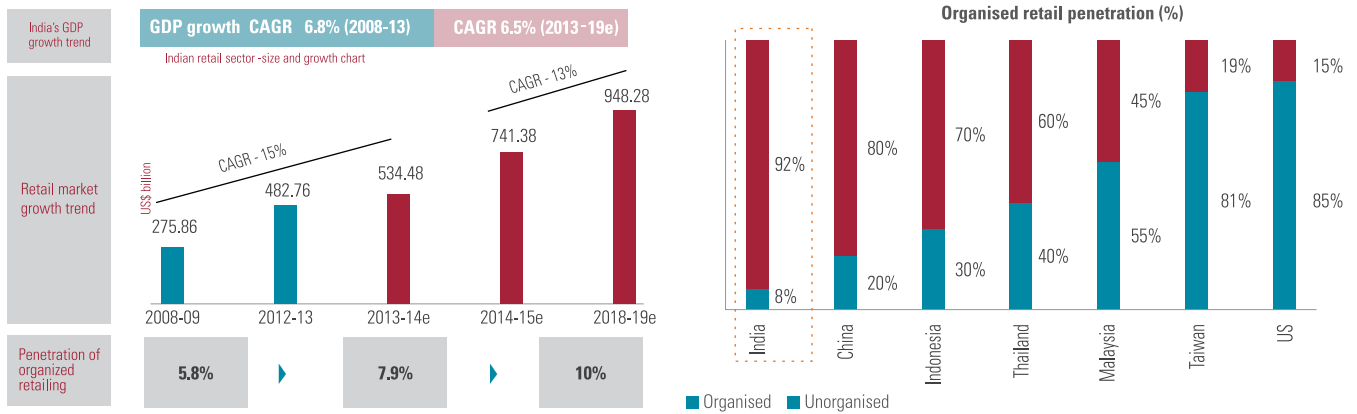
“Statistically, over 14 million outlets operate in the country and only 4 per cent of them are larger than 500sq.ft. in size. India has about 11 shop outlets for every 1,000 people. These are typically family owned and operated stores, which lack the scale to grow. Hence, the sector presents a dire need of more investments towards its modernisation.”

- Manisha Bapna, Images Group

¹ Fibre2fashion website, <http://www.fibre2fashion.com/softttx2012/exhibitors/wipro/downloads/CaseStudy.pdf>, accessed as on 8 September 2014

² Crisil Research estimates - 2014

Indian retail sector - size and growth



Source: Crisil Research Estimates – 2014

In terms of global comparison of the organised retail sector penetration, other developing countries, such as Malaysia, Thailand, Indonesia and China, are significantly ahead of India.

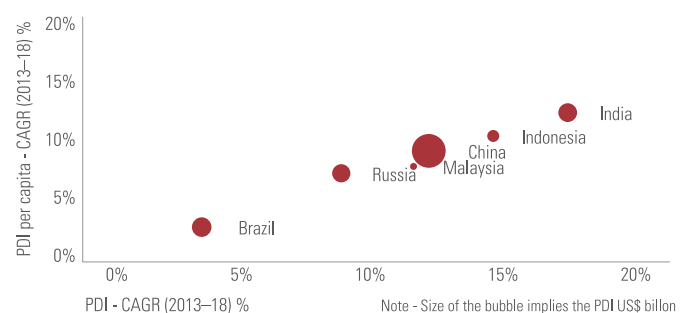
Global positioning of Indian retail

India was ranked fifth in 2012 on the Global Retail Development Index, by AT Kearney, highlighting it as one of the key foreign investment destinations worldwide. However, in 2013, the rank fell to fourteenth possibly due to slow spending and general economic slowdown, along with policy concerns over approval of multi-brand retail across several states in India. This trend is expected to reverse soon supported by factors such as improving demographics, rising disposable income levels, expansion of organised retail sector into Tier 2 and 3 cities, changing consumer habits, etc. This could provide a wide window of opportunities for national and international players in the next five to ten years.

Country	Overall GRDI (2013)	Overall GRDI (2012)
Brazil	1	1
Chile	2	2
China	4	3
UAE	5	7
Turkey	6	13
Mongolia	7	9
Georgia	8	6
Kuwait	9	12
Armenia	10	--
India	14	5

Source: "India Retail Report 2013", Images publication, 2013

India's personal disposable income (PDI) growth comparison with other emerging markets



Source: Euromonitor Estimates

Opportunity snapshot

Demographic dividend

Potential consumer segments



Rural consumers

Rural markets constitute ~70 per cent of the total population base, but currently account for only 40 per cent of the total consumption in India, due to minimal penetration of organised retailing. Several national and international retail and FMCG players have been planning to explore these untapped markets and are localising their products for this market with regard to price points, packaging, stock-keeping units (SKU) size, promotions, etc.³



Working population

The population in the working age group of 15 to 54 years is the largest spender on retail. As per the census of 2011, more than 50 per cent of India's total population falls under this group, indicating the significant influence wielded by this segment on consumer spending.⁴



Youth

As per the census of 2011, India also has about 500 million Indians under the age of 25. Young Indians are driving purchases in categories such as mobile phones, fashion, accessories, food and beverages, quick service restaurants, etc., and are willing to experiment and change habits. Young Indians have access to more money than before, driving independence, aspirations and demand for products.⁴



Middle income households

India has a large and aspirational middle-class of 75 million households or 300 million individuals. Over the years, the disposable income of middle-class Indian consumers has increased significantly, which is leading to a substantial change in their spending habits.⁴



Growing number of millionaires

The growth in millionaires in India is driving indulgence in luxury products, such as fine wines, Scotch whiskies, expensive handbags and branded jewellery and accessories. According to the World Wealth Report 2014, the total number of millionaires in India (with investible assets, excluding main residence and consumer durables, of more than USD1 million) grew by ~51 per cent, the second fastest in the Asia-Pacific region.⁵

Opportunity size and key retail segments⁶

833 million

- Personal care; hair care, teeth care
- CDIT; selected electronics
- Food and beverages

600 million

- Packaged food and beverages
- Luxury products
- Indentation
- Consumer electronics
- Personal care, beauty and wellness

500 million

- Food and beverages (packaged food products)
- Apparels and accessories
- Mobile
- Personal care
- Affordable luxury

75-300 million

- Food and beverages
- Apparels and accessories
- Mobile
- Personal care
- Home care
- Affordable luxury

156,000 (USDmillionaires)

- Luxury consumer electronics
- Home furnishings
- Luxury products

³ Indian census 2011

⁴ Crisil Research estimates

⁵ Economic time's website, India became home to 1.56 lakh millionaires in 2013

⁶ KPMG India analysis

Beyond metro cities

Geographic distribution of the retail sector

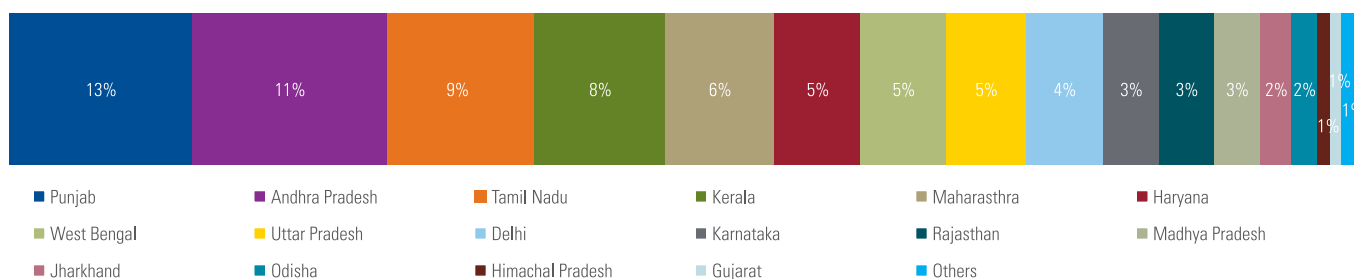


Key retail clusters		
City Cluster	Population (2011)	Population growth rate (2001–11) in per cent
Greater Mumbai	19,130,565	11.6
Delhi NCR	15,828,138	22.7
Bengaluru	8,425,970	54.9
Hyderabad	6,809,970	87.2
Kolkata	9,209,301	4.9
Chennai	5,751,981	12.9
Ahmedabad – Gandhinagar	5,778,884	55.5
Pune – Pimpri – Chnichwad	4,844,790	36.4
Surat	4,462,002	83.3
Jaipur	3,073,350	32.3

Source: India Retail Report 2013; Images publication, 2013

- The presence of India’s retail clusters seems to be directly based on the presence of large and concentrated consumer base.⁷
- The top 10 markets consist of metro cities, such as Mumbai, Delhi-NCR, Bengaluru and Hyderabad, including leading tier-I cities such as Surat, Ahmedabad and Jaipur. In terms of state-wise distribution of stores of some of the key retailers, concentration is highly skewed toward few states, particularly in south India, followed by west and north India. Eastern states have the lowest presence of organised retailers.⁷
- Over the last decade, existing metros have expanded significantly through the growth of peripheral sub-urban areas, and this has been a key driver of the organised retail segment.⁷
- These areas offer the advantages of better planned development, lower rentals and large spaces, needed by organised retailers.⁷

State-wise store distribution of key retailers



*retailers include Future Group, Reliance Retail, Aditya Birla Retail and Easy Day (Bharti Retail)

Source: State wise location of retail stores, Business Standard website, http://www.business-standard.com/content/general_pdf/012414_03.pdf, accessed 26 February 2013; “India Retail Report 2013”; Images publication, 2013; KPMG in India analysis as on 5 September 2014

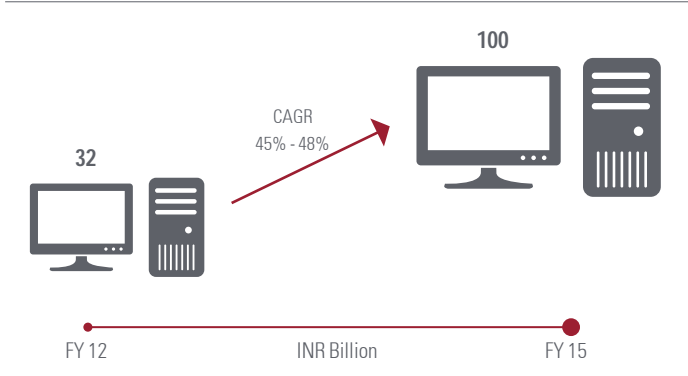


Online and luxury space

The rise of e-commerce

E-commerce, as a retail channel, has seen phenomenal growth over the last couple of years. It is driven by demand factors such as substantial rise in internet penetration, increasing speed of broadband connections, increasing use of smart phones, etc. in the urban areas, and by supply factors such as increased proliferation of venture capitalists/private equity-funded e-commerce startups. India has about one million online traders - small and large that sell their products through various e-commerce portals. The online retail industry in the country was worth INR32 billion (USD552 million) in 2012, and is expected to witness 45–48 per cent CAGR over the next three years, thereby making it worth INR100 billion (USD1,724 million) by 2015.⁸

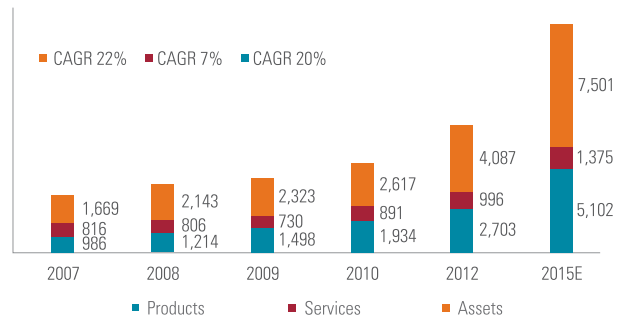
Growth of internet retailing



Fast-growing luxury market

The Indian luxury consumer landscape is experiencing strong evolutionary undercurrents that are redefining the consumer profile and the way luxury players operate in the space. The luxury market in India was worth USD7.7 billion in 2012 and is likely to be worth USD14 billion by 2015.⁹ Factors driving its growth are the growing number of HNIs and working women in India with rising disposable income levels. Several luxury brands, such as Porsche, Ducati, Jimmy Choo and Canali are increasing their presence in luxury malls, high streets and airports. While these players continue to grow cautiously in the luxury space, there is an increasing sense of buoyancy and optimism about the future potential of the Indian luxury market, supported by favourable regulatory environment and FDI rules.

Indian luxury market size growth (USD million)



Source: ASSOCHAM estimates

Key emerging categories for online purchase



Percentage growth of some high growth categories during January to March 2013

Note: Increasing popularity of new categories like fragrances, jewellery and accessories in the online space can be tapped to create a foothold in the space.

Source: Retailing in India report; via CRISIL database, accessed 13 August 2014

⁸ Retailing in India report; via CRISIL database, accessed 13 August 2014

⁹ ASSOCHAM estimates

Private label brands

The increasing acceptance of private labels in India

The trend of private labelling is fast catching up among the Indian retailers as it poses a win-win solution for retailers and customers in the current retail environment. Since rapid technological and socio-economic changes over the last decade have affected the shopping habits of the Indian consumers, many retailers are now forced to innovate and build

categories (private labels) across various price points to attract more buyers. They have not only created new labels but have also customised and localised the products to suit the Indian tastes, especially in the food and beverages category.

In the coming years, there is great scope for development for private labels as their share in India is only 6 per cent currently as compared to 19 per cent and 39 per cent in the US and UK, respectively.¹⁰

A Nielsen study said that food continues to dominate the private label market at 76 per cent of total sales. Packaged grocery dominates this market with about 53 per cent share of total sales.

Key food categories - packaged food and cereals

Key non-food categories - household cleaners (hold the top position at 48 per cent share), personal care, fabric care¹¹



¹⁰ ASSOCHAM website, <http://www.assochem.org/prels/shownews.php?id=4327>, accessed on 9 September 2014; IBEF — March 2014; KPMG in India analysis as on 9 September 2014

¹¹ KPMG in India analysis



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FDI environment in retail

The opportunity for international retail chains

Liberalisation of the FDI policy in retail sector could further provide impetus to the entry of large international retailers. The first movers are expected to be international retailers in single brand retail across categories like fashion/apparel, watches, shoes, etc. followed by international multi-brand retailers in food and grocery, where there are large domestic players who will look at JVs and tie-ups.

Franchising - an attractive mode of entry for international retailers

Due to regulatory issues and challenges with state wise approvals and laws, many international retailers prefer franchising as a way to test the waters in India. KPMG's analysis of 'Franchising Opportunity Attractiveness' further substantiates that among all segments, the overall opportunity for franchising will likely be relatively high in consumer services, food service, education and health, and wellness sectors. Cumulatively, these sectors have the potential to add about one lakh franchisees in the next five years.

Opportunity

- 100 per cent FDI in single brand retail
- 51 per cent FDI in multi-brand retail

Key riders

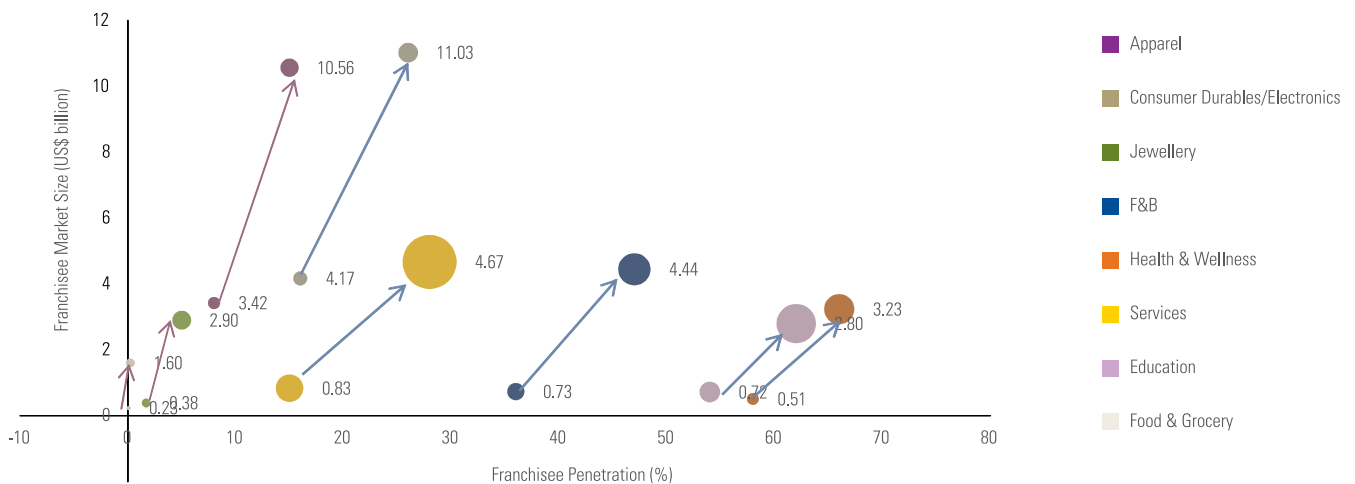
- 30 per cent sourcing 'preferably' from SMEs (small scale enterprises)
- Out of the first USD100 billion investment – 50 per cent should be utilised for back-end infrastructure

Expected high growth categories

- Food and grocery retailing
- Apparel retailing
- Luxury retailing

Source: KPMG in India analysis

Franchising growth from 2012 - 2017 (e)



Source: "Collaborating for growth," KPMG Thought leadership 2013; KPMG in India analysis as on 9 September 2014

Challenges

Heterogeneous market - highly diverse demographics of the Indian consumer

Poor supply chain infrastructure - lack of storage and transport logistics often leading to huge wastage

Real estate concerns - escalating real estate prices and rentals in large cities due to increase in demand

Workforce related issues - challenge of finding, training and retaining talent

Competition from unorganised sector - inherent advantages, such as low cost base, more proximity to the customers, negligible real-estate challenges

Bureaucratic and legal hurdles - multiple and complex taxation system, stringent FDI regulations

Retail shrinkage - rapid growth in frauds in retail lead to higher costs to retailers

Concerns with e-tailing - possibility of incorrect deliveries and higher instances of return due to COD (cash on delivery) facilities.

■ High ■ Medium ■ Low

Conclusion

In India, many retailers are looking beyond the top 20 Indian cities, pro-actively exploring the online space and closely following mall developments across the country. The recent clarifications on the FDI relaxation in multi-brand retailing provides an interesting dynamic to the Indian landscape. Several large international retailers are contemplating to invest in India to leverage the strong demand potential of the world's fifth-largest consumer market. Currently, a host of large retail chains are undergoing market assessment studies to set-up their operations in India.

Irrespective of any of the prevailing teething issues related to regulatory and operating environment, in the coming years Indian retail is likely to evolve as a mature and larger market.

Several large international retailers are contemplating to invest in India to leverage the strong demand potential of the world's fifth-largest consumer market. A host of large retail chains are undergoing market assessment studies to set-up their operations in India. However, due to teething issues in the regulatory guidelines and operating environment, companies looking at investments in India should understand the need to conduct detailed opportunity assessments and tailor their business models and strategies accordingly.



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