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CONSUMPTION

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A report by Crisil for IBEF

Executive Summary

The consumer goods market has undergone a sea change over the last 10 years with a large number of competing international brands and Indian manufacturers offering a wide choice of goods like air conditioners, refrigerators, TV sets, cars, two-wheelers, clothing, food and cosmetics. Competition, however, also means attractive prices and greater value to the consumer.

Growth in the market has been driven by rapid growth in the services sector, particularly IT and related industries, rise in disposable income of the average salary earners due to liberalisation of the economy and the availability of easy consumer credit at attractive interest rates. It has received further impetus by the fact that a large proportion of the consumers are in the 18-35 years age group, with a propensity to spend. As a result, the size of the market is currently estimated at 300 million, which is larger than the population of the United States and is expected to grow to 450 million before the end of the decade.

WHY INDIA

Since the liberalisation bandwagon began to roll during the early nineties, India made a dramatic transition from being a supply-constrained to a demand-driven economy. With a large middle-class population and their rising level of affluence, the country has one of the largest consumer markets across the globe and is reckoned to be at par with the other Asian behemoth, China. Consider the following facts:

- India is the sixth largest mobile handset market with sales over 16 million units during 2003. It is expected to overtake South Korea to become the fifth largest market by 2005.
- The car market, at a million-plus unit sales annually, places India at the 12th slot in the global tally. During the next three years, India is expected to become the seventh largest car market. It is also expected to overtake Italy, Canada and Brazil - all recording negative growth now. With an annual growth rate of 29 per cent during 2003, it is next only to China's 83 per cent growth.
- India is the fifth largest colour TV market with annual sales touching 8 million sets.
- It is the world's second largest two-wheeler market (China being the largest) with 5.36 million sales and this buoyant growth is expected to continue for quite some time to come.

India today offers tremendous market potential with a rapid growth rate in a wide range of products.

Key consumer markets: growth and size

US$ billion	1998-99	2003-04	CAGR	Share (in per cent)
New Housing	26.04	30.85	3.4	66.3
Passenger Cars	2.97	5.75	14.1	12.4
Two-wheelers	2.38	3.32	6.9	7.1
Colour Televisions	1.26	1.48	3.2	3.2
Washing Machines	0.21	0.24	2.1	0.5
Refrigerators	0.52	0.67	5.1	1.4
Air Conditioners (window and split)	0.33	0.48	7.5	1.0
Personal Computers	1.10	1.90	11.6	4.1
Mobile Handsets	0.09	1.81	82.0	3.9
Total	34.91	46.49	5.9	100.0

Source: CRIS Infac.

POLICY INITIATIVES

On the back of the consumption boom, investment norms have been liberalised considerably in order to accommodate foreign direct investment in this domain.

- 100 per cent automatic FDI is allowed in the consumer durables sector for instance electronic hardware such as TV sets, video players, refrigerators, ACs etc.
- In the automobile segment, especially cars, 100 per cent FDI is allowed under the automatic route
- In the Fast Moving Consumer Goods (FMCGs) segment such as food processing, 100 per cent FDI is allowed under the automatic route

FDI in retailing: problems and solutions

Although direct investment in retail remains closed to FDI as of now, companies have found alternative structures through which they approach the Indian consumers. Most popular foreign brands (Nike, Reebok, Adidas etc.) are present here and are doing brisk business.

- **Franchise Agreements:** Retail expansion in India by Levi's, Lee Cooper, Adidas, Nike, Benetton and Marks and Spencer was captured through franchise. The companies spread their reach to metropolitans through franchise agreements (outlet expansion)

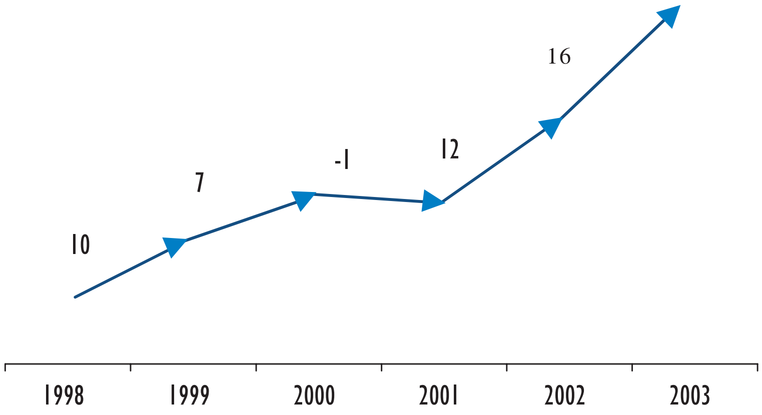
- **Cash and Carry Wholesale Trading:** Encouraged by the international success of its cash and carry format, METRO opened two distribution centres in Bangalore in the last quarter of 2003. These "Junior" format distribution centres offer business customers an unprecedented array of over 8,000 food and 9,000 non-food items in different pack sizes under one roof

- **Strategic Licence Agreements:** Tommy Hilfiger entered India through a strategic licensing agreement, a 50:50 joint venture between the Murjani group and the Lalbhai Group (which owns Arvind Brands) in 2004. British apparel major, Daks Simpson entered into a strategic licensing agreement with Mumbai-based company, Forbes Gokak, to manufacture and market its Daks brand in India in January 2004

CONSUMPTION TRENDS

The trend in aggregate consumer spending also corroborates the consumption boom in the economy. The rate of growth of spending on discretionary items (unlike basic necessities like food) has been growing at an average of 9 per cent per year over the past five years. Significantly, the rate of growth has been recording a sharp spurt during the past two years. Historically, a nation of savers, India has now become a nation of spenders.

Growth in consumption spending



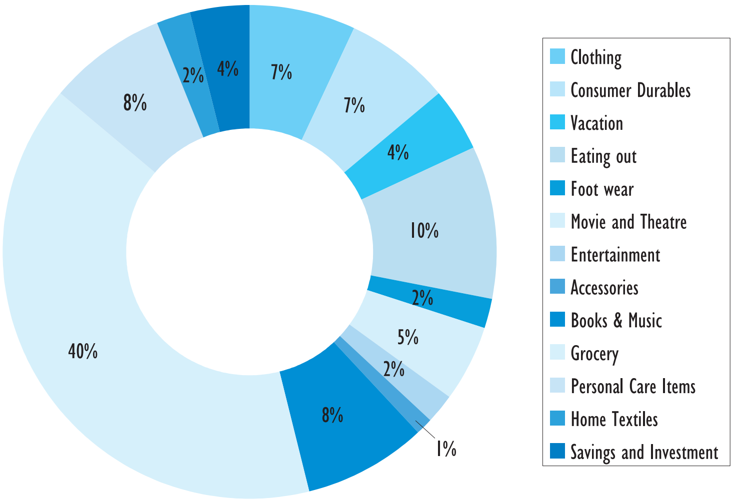
Note: Growth figures are in per cent

Source: KSA Technopak Consumer Outlook 2004

Keeping up with the global joneses

The Indians' consumption patterns are also slowly converging with global norms. The Indian consumer is now spending more on consumer durables, apparel, entertainment, vacations and lifestyle-related activities. Entertainment, clothing and restaurant dining are categories that have been witnessing a maximum rise in consumer spending since 2002. Globally, it is observed that as the income levels rise, the share spent on food and grocery in the total household income declines and the proportion of income spent on lifestyle-related activities increases.

Consumption pie



Source: KSA Technopak Consumer Outlook 2004

Some of these newer categories have seen some of the most rapid growth rates during 2003. Savings and investment, on the other hand, have been sharply declining, from 5.2 per cent during 2002 to 4.1 per cent at present.

2003 growth rates (in per cent) for new consumption categories

Consumer durables	53
Books & Music	32
Movies & Theatre	38
Vacation	32
Home textiles	29
Mobile phones	96
Payment to household help	48
Computer/Peripherals	10

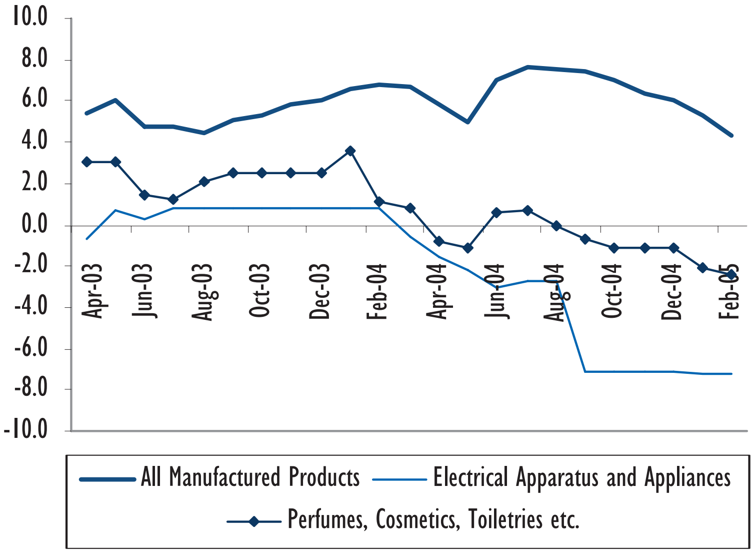
Source: KSA Technopak Consumer Outlook 2004

Rising volumes, not prices

The domestic consumer product markets have become intensely competitive both in the durables and non-durables (FMCG) segments. In an environment where supply is no longer a constraint, consumers are demanding more and better products at much lower prices. Thus, prices in these categories have been sluggish and in some cases have even declined over the past few years.

The following figure shows the rate of inflation in some of the consumer goods categories such as electrical apparatus and appliances, perfumes, cosmetics and toiletries and in all manufactured products. The consumer goods categories saw a much lower year on year inflation rate during 2003-04 and even deflation during 2004-05.

Year on year inflation rate



Note: Electrical apparatus and appliances consist of ceiling fans, TV sets, computer and computer based system, telephone instruments, lamps and fluorescent tubes
Perfumes, cosmetics and toiletries consist of laundry soap, toilet soap, synthetic detergent, tooth paste and hair oil

Source: Ministry of Industry, Government of India.

Sachets: small is beautiful and affordable too

Affordability is crucial in India's farm-dependent economy, where two-thirds of the billion-plus population live off the land and often only buy daily supplies. To reach a larger populace, especially in rural areas where people are usually daily wage earners, selling products in lower-priced small packs is the best way to get a share of their wallets. From shampoos, toothpastes and detergents to food products like jams, ketchup and coffee, everything comes in sachets and costs as little as 2.3 cents to 4.6 cents. Small pack sales have turned out to be a great success and have a major share in the toplines of marketers. For example, sachet sales constitute 70 per cent of the US$ 213 million shampoo market.

'Chik' sachets: success in rural India

'Chik' had been the flagship brand of the Cavinkare Company since 1983. Before launching the product, the company felt that the price-to-value equation of the shampoo market was not quite favourable for the rural consumers. This led to the introduction of the 'Chik' sachet worth 1.2 cents only. With such a low-priced product, the company targetted the rural and small-town consumers, who used bath soaps to wash their hair, had not seen any visible damage and were comfortable with the idea of a shampoo as long as it was within their means.

On the marketing front, the company bought radio spots and played out jingles peppered with dialogues from popular regional films on All India Radio.

The strategies helped and the rural penetration of the Chik shampoo improved substantially. Chik recorded an all-India rural market share of 39.1 per cent and overtook Clinic Plus (31 per cent) and Lux (8 per cent) in 2002-03.

Borrowing to buy

The Indian consumer has been traditionally hesitant about debt but this mindset is changing rapidly. Consumer loans from banks for an array of consumer purchases ranging from cars to holidays, is now an accepted payment method. The popular concept of Equal Monthly Instalments (EMIs) with predictable and planned outflows is making indebtedness more acceptable. The falling interest rate regime has also given credit offtake a big leg-up. As a result, personal credit offtake more than tripled from about US$ 11.1 billion during 2000 to about US$ 34.3 billion during 2003. However, not all of this has come from direct consumer loans, as credit cards too have played a major role. There are over 9 million credit card users in the country and this market is growing at a healthy rate of 25 per cent annually.

The rise of retailing

The retailing space has historically been dominated by the unorganised sector largely by small-sized shops clustered together in a market. The most important change in the retailing pattern that led to the boom in consumer spending has been the rise of organised retailing. The size of the organised retail industry was estimated at US$ 4.2 billion during 2003 with an annual growth rate of 8.5 per cent. This space is expected to log a ten-fold growth from the present 2 per cent of the total retail industry to a significant 20 per cent by the end of the decade. According to a report by global consulting firm AT Kearney, India takes the second place globally in the retail development index. Other international reports too affirm the AT Kearney ranking. According to a Knight Frank survey, India ranks fifth amongst the 30 emerging retail markets in the developing countries.

AT Kearney's 2004 Global Retail Development Index (top 10 emerging markets)

Rank	Country	Country Risk	Market (Economic and Political)	Market attractiveness	Time pressure saturation	Score
	Weight	25%	25%	30%	20%	
1	Russia	56	56	77	100	100
2	India	62	34	92	72	88
3	China	71	42	62	90	86
4	Slovenia	83	60	43	76	84
5	Croatia	61	53	55	93	83
6	Latvia	64	55	54	89	82
7	Vietnam	52	29	90	66	76
8	Turkey	50	58	67	65	75
9	Slovakia	69	48	35	100	74
10	Thailand	68	38	60	76	73
		0=high risk 100=low risk	0=low attractiveness 100=high attractiveness	0=saturated 100=not saturated	0=no time pressure 100=urgency to go	

Note: [Market attractiveness is weighted as follows: law and regulation (5%), population (5%), urban population (5%) and retail sales per capita (10%)
Market saturation is weighted as follows: share of modern retailing (10%), modern retail sales per inhabitant (5%)
number of international retailers (10%) and market share of leading retailers (5%)
Total weighted score has been calculated based on maximum score of 71 for Russia to equal 100]
Source: AT Kearney

Present scenario in retailing

At present, the organised retail activity is concentrated mainly in the apparel, food & beverages and entertainment segments. The organised apparel segment is expected to grow at a steady 9.5 per cent per annum over the next three years, driven primarily by the large domestic brands such as Westside, Wills Lifestyle, Shoppers' Stop, Pantaloons, Ebony and Globus. Of the three, the food and beverages segment is likely to see a higher growth rate.

Organised retail in apparel

Apart from providing a spacious, pleasant atmosphere to shop, department stores have employed a variety of strategies to boost sales and profitability. These include:

- **Strong emphasis on retail technology:** All department stores have spent a lot of money on state-of-the-art IT systems, covering the entire areas of operations like merchandise management, interaction with vendors, and stock planning. This has helped these stores in managing the complexities of interacting with a large number of suppliers, running various stores and warehouses and selling a large number of products to a broad consumer base

- **Loyalty schemes:** Most department stores operate loyalty schemes to promote repeat purchases and build a loyal customer base. Customers, who join such schemes are eligible for a variety of benefits such as accumulation of points against purchases for redemption on subsequent purchases, special offers, product previews, quick billing and so on. Such schemes also enable department stores to analyse customer-buying patterns which help in formulating future strategies. Shoppers' Stop has gone a step ahead by introducing a store card in collaboration with Citibank in 2002. This co-branded credit card, known as 'The First

Citizen Citibank Card' also carries all the benefits of Shoppers' Stop's loyalty scheme

- **Concessions:** Several department stores are offering space in their stores to other retailers selling various products and services including music, books and coffee. This increases the range of products/services available in these stores, thus, enhancing their customer appeal without the problems related to direct retailing such as supply chain and stock management. These factors are particularly important in areas where there is a requirement for special expertise and experience
- **Private labels:** In the clothing segment, many department stores have been selling their own brands in addition to other well-known brands, both national and international. Private labels are much more profitable and also enable stores to offer substantial price discounts and promotional offers to attract customers

Food retailing

The food and beverages retail segment can broadly be classified into three segments:

- Coffee house chains
- Fast food chains
- Groceries

The food and beverages business is primarily driven by coffee house chains. The forerunners in the business, Barista and Café Coffee Day, today have a total of around 400 retail outlets across the country. In the fast food segment, all the global names such as McDonald's, Pizza Hut, Sub Way, Dominos et al have a foothold in the domestic market. The efficient delivery system and overall services at these outlets have enabled these firms to nurture a growing client base.

Additionally, the organised grocery segment has been witnessing significant activity in the southern markets in India. Stores built on the format of Foodworld and Nilgiris in southern India have expanded the boundaries of grocery markets, which have so far been extremely localised.

The mall boom

Another notable trend is the development of integrated retail-cum-entertainment centres or shopping malls. An increasing number of retailers are focusing on malls now as opposed to stand-alone developments. While the number of shopping malls has seen a massive surge in the recent past in the metros and their suburbs, the latest trend in this sector is the increasing focus on providing leisure activities such as multiplexes, facilities for kids' entertainment, eateries etc. within the mall premises. These are enclosed, air-conditioned, multi-level malls of at least 100,000 sq ft.

Critical to these malls is the concept of the anchor, the key outlet or store around which other outlets cluster. The most popular Indian anchors include Shoppers' Stop, Globus, Pantaloon, Lifestyle and hypermarkets like Big Bazaar and Giant. Cinemas also often anchor malls. Driven by the lucrative tax breaks, the old single-screen theatres are being divided into three-five smaller screens, as was done in the US, years ago. Gurgaon, adjoining New Delhi, has the highest concentration of malls in the country now, with the average size of its malls being around 200,000 sq ft and the anchors occupying 50,000-60,000 sq ft space. Newer malls are bigger, with some planned in the 500,000 sq ft to 1.1 million sq ft range.

A noticeable feature in this sector is the fact that investment in the retail real estate space continues to yield the highest returns as compared to the residential and office segments. Yields are in the range of 13-16 per cent annually. For example, the housing and retail financing major, HDFC, has achieved a net annual return of 15.43 per cent on its initial investment into the Shoppers' Stop, Pune. The space leased out by Adidas at New Delhi's Ansal Plaza has yielded an annual net return of 15.84 per cent to the investor.

The direct selling revolution

Direct selling does away with the need for a retailing intermediary and reaches out to the consumer at his house through a sales agent. With the boom in the consumption pattern, this is another concept that has come of age in the country. Worldwide, the direct selling industry grosses around US$ 83 billion business annually and employs about 40 million sales force. India is the fastest growing direct selling market in the world with cumulative sales of about US$ 0.343 billion. From the perspective of employment and other economic linkages, the direct selling model has critical benefits since 90 per cent of the goods sold in the country are sourced from the small-scale sector and as many as 70 per cent of the direct salespersons are women. The bulk of direct selling is concentrated in the field of cosmetics, household products, cookware and health food. Most of the big names in the global direct selling industry like Amway, Tupperware and Avon are present in the domestic marketplace.

KEY PLAYERS

Following is the list of companies that are leading the innovation in the consumer market:

Food chains

Barista Coffee Company

During the past four years, Barista has created a niche in the specialty coffee segment. At present, Barista Coffee has 130 espresso bars and espresso corners, making it one of the largest retailers of specialty coffees.

In a strategic move, Barista is planning a major push in the vending machine market through a project called 'Barista on the Go'. The project is in addition to Barista's different retail formats, which are in existence now. For example, other than the present stand-alone espresso bar model on the high streets, Barista also has outlets within stores, store-in-store outlets, outlets at airports and major corporates. The company is also looking at doubling the number of its outlets within malls from 15 to 30 in the next few months. It is also pushing its franchisee-arrangement model by introducing 60 new franchisee-operated outlets, in addition to its existing 130 company-owned outlets within a year.

Café Coffee Day

Café Coffee Day is part of the country's largest coffee conglomerate, Amalgamated Bean Coffee Trading Company, is a US$ 57.3 million ISO 9002 certified company that was one of the first to roll out the 'coffee bar' concept in the country. Café Coffee Day's menu ranges from hot and cold coffees to several exotic international coffees, food items, desserts and pastries. In addition, exciting merchandise such as caps, T-shirts, mugs, badges etc. are available at these cafés. This is one of the largest retail chains of cafés with 130 joints and 30 Xpress kiosks and over 5,000 vending machines across 33 cities.

Domino's Pizza

Founded as a single store in 1960, Domino's Pizza today stands as the recognised world leader in pizza delivery. Dominos has had a presence in India for the last seven years. Domino's Pizza India Ltd has spread across 85 locations in 22 cities. Its sales model is take away and deliveries, with deliveries accounting for about 70 per cent of their business. Domino's Pizza India had also announced a scheme that if its pizzas are not delivered within 30 minutes of the order being placed, these will not be charged for. The company plans to raise its marketing and advertising budget by 20 per cent to over US$ 2.3 million in 2005-06. Dominos has begun focusing on offering its customer more food for less money and becoming the leader in the home delivery market.

McDonald's India

McDonald's India is a 50-50 joint venture between the global fast-food giant and two domestic companies - Hardcastle Restaurants and Connaught Plaza Restaurants. Launching its first outlet in 1996, the company is present in 12 northern and western cities now. But it is heading south with its first outlet coming up shortly in Bangalore.

McDonald's has conducted an interesting experiment of adapting food to suit local tastes with items like the McAloo Tikki Burger and McVeggie Burger etc. Its supply sources are almost exclusively local and not only provide fresh ingredients but also help the indigenisation effort.

Nirula's

Established in 1934, Nirula's today is a diversified group having a chain of elegant business hotels, waiter service restaurants, family style restaurants, ice cream parlours, pastry shops and food processing plants in India. The chain caters to over 40,000 guests every day.

Nirula's, a 62 outlet restaurant chain operating in five states, has successfully catered to the Indian palate for over 70 years. They have their own production units, warehouses, supply chain and quality control research laboratory.

Pizza Hut Inc

Pizza Hut Inc, a division of Tricon Global Restaurants Inc, has more than 7,200 units in the US and 3,000 units in more than 86 other countries. Pizza Hut first came to India in 1996 with a dine-in restaurant in Bangalore that had special vegetarian pizzas. In addition to traditional Italian toppings, it incorporates Indian favourites such as chicken tikkas, lamb korma etc. in its list of innovative toppings. Along with pizzas, the menu features appetisers like garlic bread and soups, fresh salads, oven baked pastas and choice of ice-cream sundaes. There are approximately 100 Pizza Hut restaurants in India now and the company has recently introduced the KFC brand.

The Economic Times' annual survey of the country's "Top 50 Most Trusted Service Brands" rated Pizza Hut as the most trusted quick-service restaurant company in India. According to the survey, Pizza Hut's focus on value pricing is leading the way for other food service brands. Pizza Hut India is the only restaurant company to bag a place in the Top 20. Pizza Hut India ranked 19 among 50 overall brands on the list.

Apparel retailing

Adidas

Adidas primarily caters to the higher-end sportswear market estimated at US$ 115 million. Adidas entered the Indian market in 1989 by signing a licensing agreement with Bata for retailing at its huge network of stores. The Adidas licensing agreement with Bata ended in 1994. Subsequently, the company launched a joint venture with Magnum International Trading Company in 1996.

The new joint venture company, Adidas India Trading Pvt Ltd, has been incorporated with an initial investment of US$ 2.5 million, with Adidas holding 80 per cent of the equity and the balance with Magnum. Adidas currently sells its footwear, apparel and accessories through 74 exclusive stores, run by franchisees as well as 800-1,000 multi-brand outlets, catering to around 40 of its distributors. The company is planning to open 20-40 exclusive shops this year, establishing its presence in some of the smaller cities and towns.

Levi Strauss & Co

Levi Strauss & Co markets branded jeans, casual sportswear and dress pants under the well-known brand names of Levi's, Dockers and Slates. The global operation of the company is spread over 80 countries, where its products are sold. The production facilities, both owned and outsourced, are spread over 40 countries.

Levi Strauss (India) Pvt Ltd is a wholly-owned subsidiary of Levi Strauss & Co, San Francisco. Levi Strauss (India) Pvt Ltd was established in India in 1994 when it ventured into the youth segment of western wear for men and women by launching its products under the iconic brand name 'Levi's'. It has since built a strong retail and distribution network spanning 33 cities backed by an equally strong sourcing base. The Levi's range includes jeans, double detached cargoes, woven shirts, knitted tops and accessories.

Marks and Spencer

Marks and Spencer is UK's leading retailer of clothes, food, home products and financial services. It has more than 400 stores managed under franchise in 28 countries, 9 wholly owned stores in Hong Kong and owns the US supermarket group, Kings Super Markets.

Marks and Spencer has entered India with an exclusive 7,000 sq ft franchisee outlet at Crossroads, a leading mall in Mumbai and as an outlet at the up market Ansal Plaza shopping mall in New Delhi. The objective is to participate in the growing retail business as the Indian retail sector witnesses significant changes. Marks & Spencer's garment collection in India has been designed to provide an everyday wardrobe.

Nike Inc.

Sportswear giant Nike entered India by appointing Sierra Industrial Enterprises Pvt Ltd, in 1995. Sierra is an established player and has in-depth expertise in distribution and marketing aspects. The company has a wide distribution network with over 700 Nike stores and shops across the country. During 2003-04, Nike ended its agreement with Sierra and became a 100 per cent subsidiary of the US parent. It already has close to 40 exclusive outlets and is soon likely to expand further. Sierra, however, will continue to be associated with the sales and retailing of Nike.

Pantaloon Retail India

Pantaloon is the country's largest listed retailer. The company is rapidly building retail capacity, in both its primary retailing formats, life style and value retailing. In life-style retailing, its stores 'Pantaloon' and the upcoming 'Central' offer apparel and fashion items targetted at the middle-class. Its 'Big Bazaar' discount stores target the price-conscious apparel as well as grocery ('Food Discount' brand) markets.

The company has also introduced a 'seamless mall' concept for the first time in the country. The 'Central' in Bangalore has 125,000 sq ft of retailing space, including a food court, a food & grocery section, a nightclub and other entertainment options.

Shoppers' Stop

Opening its flagship store in the north Mumbai suburb of Andheri in 1991, Shoppers' Stop comes from the K Raheja Group stable. Today Shoppers' Stop is recognised as the country's premier shopping destination, attracting about 50,000 footfalls every day, having a national presence with over 600,000 sq ft of retail space and selling over 250 garment and accessory brands. These stores offer a complete range of apparel and lifestyle accessories for the entire family. From apparel brands such as Provogue, ColorPlus, Arrow, Levi's, Scullers and Zodiac to cosmetic brands such as Lakme, Chambor, Le Teint Ricci etc. Shoppers' Stop caters to every lifestyle need. It also retails its own line of clothing, namely Stop, Life, Kashish, Vettorio Fratini and DIY.

Tommy Hilfiger

Tommy Hilfiger Corporation markets men's and women's sportswear, jeanswear and childrenswear under the Tommy Hilfiger trademarks. Through a range of strategic licensing agreements, the company also offers a broad array of related apparel, accessories, footwear, fragrance and home furnishings across the globe. Tommy Hilfiger entered India through a strategic licensing agreement, a 50:50 joint venture between the Murjani group and the Lalbhai Group (which owns Arvind Brands) in 2004, to market and export shirts, trousers and knitted garments under the Tommy Hilfiger brand. It selected Welspun India to market their premium home textiles through a licencee arrangement.

Westside

Launched in 1998 in Bangalore by the Tata's, the Westside chain has been setting the standards for other fashion retailers to follow. Style, affordable prices and quality - these are the factors that have shaped Westside's success story in the retail fashion stores business. Westside stands out from the competition for a variety of reasons. One is that a majority of the brands the chain stocks and sells are its own, unlike retailers who store multiple labels. About 90 per cent of Westside's offerings are home-grown and these cater to different customer segments.

The company has already established eleven Westside departmental stores measuring 20,000 sq ft each in major cities of the country. The company hopes to expand rapidly with similar format stores that offer a fine balance between style and price retailing. Future plans include establishing the Westside brand in all large towns with a population of over one lakh.

Direct selling

The sale of a consumer product or service through personal contact, away from a fixed retail location or shop is called direct selling. Worldwide, the number of direct sellers is growing at 220,000 a week. The direct selling industry is growing at 30 per cent annually in India.

Amway

Amway India commenced its operations in May 1998 and within this short span, this American multinational has already established a reputation in the country as a leader in the direct selling market. Its products range from home care, personal care and cosmetics to soft toys and food products.

With a distributor base of over 200,000 that is growing rapidly, an aggressive product launch plan, quality products and a distribution network spread across 26 cities servicing more than 306 locations, Amway has emerged as the country's largest direct selling company. Amongst its significant contributions to India is 'skill enhancement'. Every Amway distributor enjoys free, unlimited access to training sessions to gain product knowledge, motivation, and optimise his/her business potential.

Oriflame

Oriflame India, the subsidiary of the Swedish natural cosmetics company, Oriflame International, is a leading provider of natural cosmetics in the country. In fact, it is Oriflame that pioneered the concept of direct selling in the country with its entry in 1995. Oriflame's strength lies in its large brand portfolio comprising over 250 products and its extensive distribution network of over 50,000 active consultants across the country.

Tupperware

Tupperware is a US-based direct marketer selling plastic containers. Tupperware has invested about US$ 8 million in India since it began operations in 1996. Tupperware India has launched several new initiatives, including mobile carts, dedicated showcases and a presence at retail chains. It has launched kiosks at Shoppers' Stop and Ebony, to promote brand awareness and ramp up sales. Additionally, it runs co-promotions with Whirlpool and Procter & Gamble to generate awareness and sale leads.

Food & Groceries

Food Bazaar

'Food Bazaar', a division of Pantaloon Retail India Ltd, is a chain of large supermarkets. It was launched in April 2002. Food Bazaar's core concept is to create a blend between a typical Indian bazaar and international supermarket atmosphere with the objective of giving the customer all the advantages of quality, range and price associated with large format stores as well as the comfort to see, touch and feel the products. There are about 23 outlets of Food Bazaar in the country today.

Foodworld

The pioneer in the organised retailing space in the country, the US$ 68.8 million Foodworld is part of the RPG Group, which launched the first national chain of supermarkets. Foodworld started as a division of Spencer & Co, another RPG Group enterprise in May 1996 and opened its first supermarket in Chennai. The company has grown rapidly to an 89-store operation, today becoming the largest and fastest growing supermarket chain with a 62 per cent market share. During the past five years, its turnover has been recording a 30 per cent annual growth.

Subhiksha

The Chennai-based discount retail chain, Subhiksha started its service in 1997. The chain currently has 142 stores in Tamil Nadu and Pondicherry and expects to add 20 more soon. It is then expected to expand to other cities in the country. Subhiksha's activities are not restricted to serving customers at the outlets.

The home delivery concept has picked up in recent times and the company makes 16,000 deliveries every month. Generic medicines promoted by Subhiksha have also become highly popular. Subhiksha has also been in step with technological advancements. The e-Shop facility helps customers to order their goods on the net. With a second tranche of funding to the tune of US$ 5.7 million, ICICI

Ventures will be hiking its stake in Subhiksha to 24 per cent. The venture capital firm had earlier pumped US$ 3.4 million into the retailer's equity in 2000 to take a 10 per cent stake.

Consumer durables retailing

Vijay Sales

Vijay Sales was set up in 1967 as a small electronic goods retail store at Mahim in Mumbai. Today after three decades of successful operations, Vijay Sales has become synonymous with quality electronic goods. It has grown from one showroom to eight showrooms all over Mumbai catering to customers of all budgets and preferences.

Vijay Sales offers its customers the widest range of choice in products as well as brands. Some of the products available at Vijay Sales are: TVs (Plasmas/Projections), VCRs, VCPs, DVDs, VCDs, audios, home theatre systems, hi-fi separates, video cameras, water purifiers, washing machines, washers/dryers, refrigerators, ACs, vacuum cleaners, microwave ovens, cooking ranges, gas tables, chimneys, dish washers, home appliances, mixers, mobile phones from almost all the players in the category.

Vivek Ltd

Vivek Ltd has grown from a small showroom, selling folding chairs and radios in Chennai during 1965, to the country's largest retailing chain for consumer electronics and home appliances. The group owns 46 outlets under the Viveks and Jainsons brand and manages a store with the Spencers brand. The group's turnover approximates around US$ 46 million. It has decided to test its own labels among a number of national durable brands that it retails from its stores. The group felt that an "own brand" strategy would help earn better margins. Viveks, whose stores retail everything from irons and mixies to refrigerators has made a beginning with its own brand called Napro in the VCD/DVD category.

Entertainment

Crossword

Since its inception on October 15, 1992, bookstore chain 'Crossword' has received wide recognition for its achievements; articles on retailing in India invariably feature Crossword. The Bookseller, UK, has also described it as `being on the cutting edge of retailing' in India. Crossword's promoters are Shoppers' Stop Ltd (51 per cent) and ICICI Venture (49 per cent). Crossword's secret to success is not just to offer a wide range of products but to create an ambience that encourages the customer to spend more time and money at the store. Crossword is India's only national bookstore chain with 22 bookstores across the country.

Inox Leisure

Inox Leisure, a subsidiary of Gujarat Flurochemicals, has multiplexes in Pune, Vadodara and Kolkata and is planning to invest US$ 40-46 million to open multiplexes in Mumbai, Hyderabad, Bangalore, Chennai, Allahabad and Noida. All Inox complexes offer an option of three-five auditoria, modern projection systems and acoustics and THX-compliant halls. The company hopes to manage/construct 15 multiplexes over the next couple of years.

Music World

Music World is India's largest music retail chain with over 170 outlets across India. It provides all classes of consumers with a complete range and repertoire of music, from international to hindi, devotional and regional music, preferred in a superior ambience like air-conditioned atmosphere, with piped music at all times and music videos on TV screens.

Music World's mission is to be India's leading music retail chain offering range and repertoire, value added product presentation, consumer browsing and guidance facilities and supreme ambience backed by friendly and knowledgable customer service personnel.

Planet M

Planet M is about music and home entertainment offering VCDs, DVDs and CD-ROMs, audio accessories and Planet M memorabilia. In the five years since it was launched in Mumbai, Planet M has grown rapidly - Planet M now has 37 stores across 17 cities and 46 satellites which are shop-in-shops across big towns. Planet M claims that their stores across the country are the by-word of mega entertainment.

Priya Village Roadshow

Priya Village Roadshow (PVR) ushered in the multi-screen culture in the country in 1997 and is a pioneer in the field of state-of-the-art cinema exhibition. The company logged a US$ 13.7 million turnover during 2003-04. With 19 operational screens, PVR recorded 3.5 million footfalls in its cinemas in New Delhi and Gurgaon during the 2003-04 and above 4.5 million footfalls during 2004-05. It is now implementing new multiplex projects in New Delhi and its suburbs, as well as in Mumbai, Hyderabad, Bangalore and Indore now, which took its screen count to around 55 in December 2004. This expansion approximates an investment of over US$ 27.5 million, possibly the largest investment in the film entertainment industry by a single company during 2004-05.

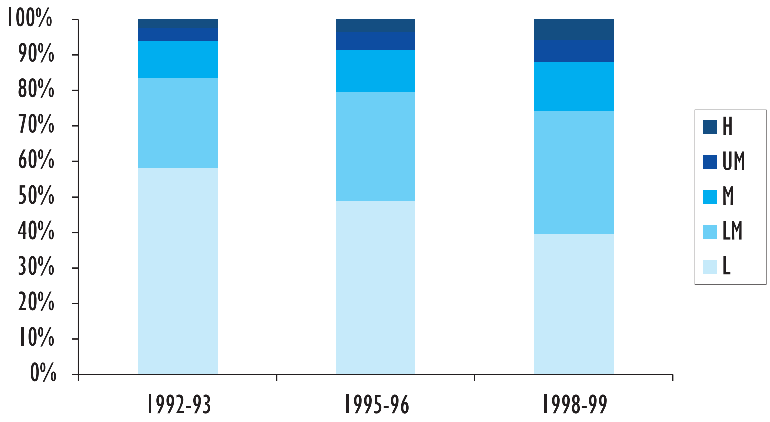
EMERGING OPPORTUNITIES

A slew of factors are catalysing the growth in consumption, namely the burgeoning middle-class with a high level of disposable income, over a half-a-billion youth, a good percentage of them affluent, the BPO boom and the resultant thickening of their wallets and exposure to foreign culture etc.

The bulging middle class

One of the key reasons for the increased consumption is the impressive growth of the middle class. At the start of 1999, the size of the middle class was unofficially estimated at 300 million people, larger than the entire population of the United States. And this figure is expected to grow to 445 million by 2006. A detailed survey undertaken by the economic think tank NCAER provides a quick view on how the proportion of the middle segments (UM or upper middle, M or middle and LM or lower middle) has grown over the years since the opening up of the economy.

Percentage of households in different income categories

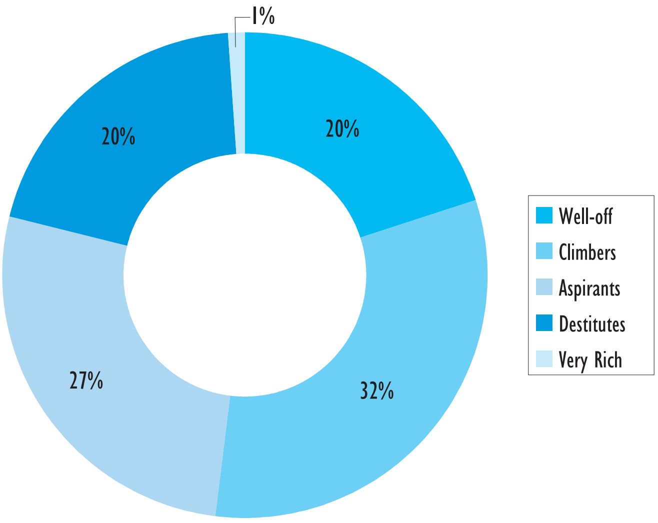


Note: High (H) >3328 (annual income in US$) at 1998-99 prices)
Upper middle (UM) 2496-3328
Middle (M) 1664-2496
Lower middle (LM) 832-1664
Low (L) <832

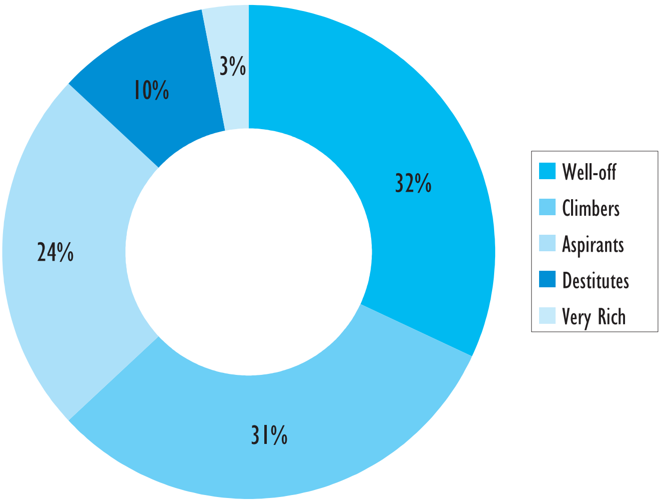
Source: India Market Demographics Report, National Council of Applied Economic Research (NCAER)

Another interesting trend as can be seen from the following figure, is the increasing share of the very rich and the well-off in the national income distribution. The market for premium and high-end products is rapidly expanding. India, thus, offers both large mass markets as well as niche/premium markets.

Changing income demographics



1995-1996



1999-00

Source: India Market Demographics Report, National Council of Applied Economic Research

Consumer classification definitions

The Affluent/Very Rich: Households owning personal cars/jeeps with other luxury products

The Well-off: Households owning any/all of the following - air conditioners, motorcycles, scooters, washing machines, refrigerators, colour televisions with other durable products but not cars/jeeps

The Climbers: Households owning any/all of the following - moped, VCR/VCP, mixer-grinders, sewing machines, audio equipment (two-in-ones, etc.), black & white television sets, geysers with other durable products but not those mentioned under the first two categories

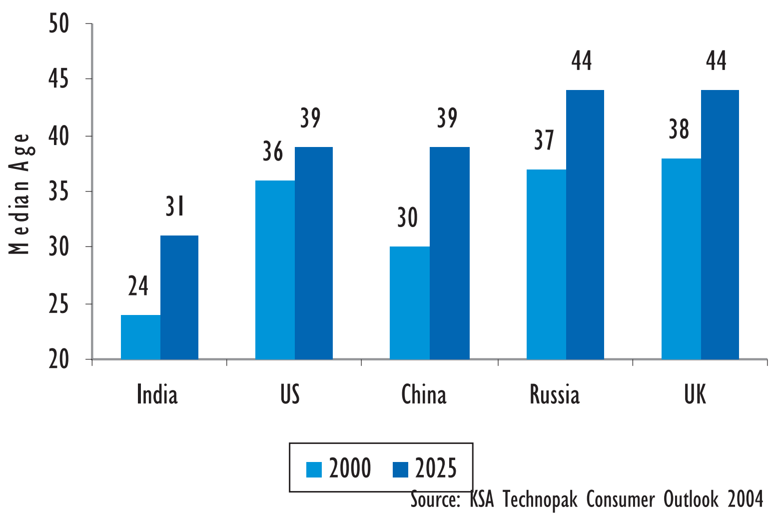
The Aspirants: Households owning any/all of the following - bicycles, electric fans, electric irons with other durables but not those mentioned under the first three categories

The Destitute: Households other than those classified under the four categories mentioned above (owning any/all/none of the following - wrist watches, pressure cookers, mono-cassette recorders, transistors/radios)

The young and the affluent

The age structure of India's population is also favourable. 44 per cent of the population is in the under-19 age bracket, with their literacy rate pegged at over 75 per cent. Going forward, the working population (19-60 year olds) is expected to increase from 485 million to 615 million by 2010 with an educational base of 21 million professionals and 90 million graduates/post graduates.

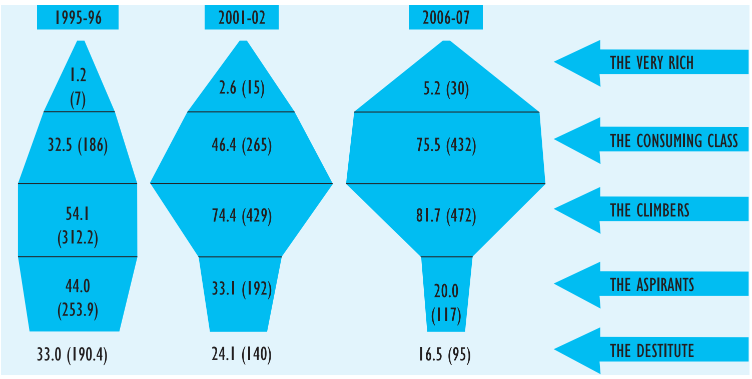
International comparisons of median age



Source: KSA Technopak Consumer Outlook 2004

The household mix is also changing fast. By 2006-07, the consuming class will form around 46 per cent of the total households as compared to around 17 per cent during 1995-96, according to an NCAER report. The combination of both these fundamental factors, age and household mix, led to the emergence of a huge consumer base for various products and services. By 2006-07, the consuming class is likely to have a large share of the population pie, as can be seen from the following figure.

Bulging consuming class



Note: Figures refer to households and (population) in million

Source: India Market Demographics Report, NCAER

The sunrise sectors and the rise of the new Indian professional

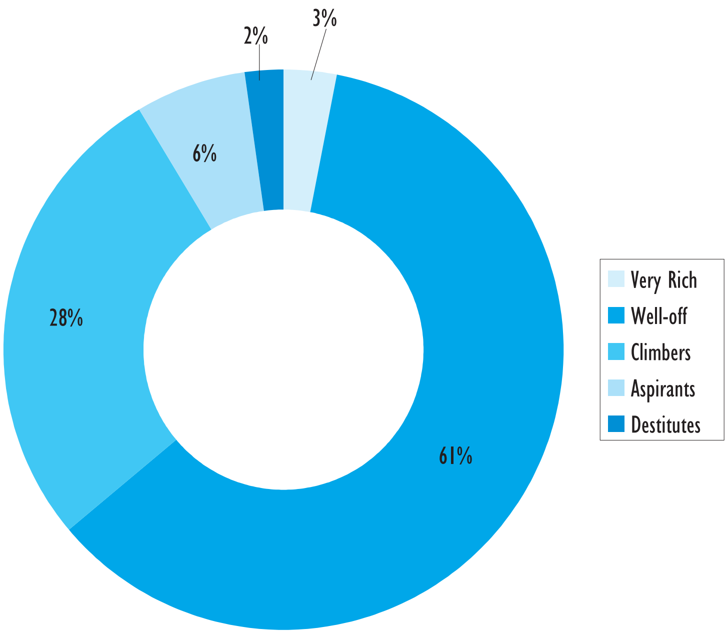
The Indian organised job market is also going through a rapid transformation phase. The 'old economy' of large-scale manufacturing and conservative salary structures is no longer the dominant entity in the corporate horizon. A booming services sector, especially the IT, ITES and BPO segments, have generated huge job volumes. The IT industry, for instance, created employment for over 700,000 professionals during 2002-03 alone. Anecdotal evidences suggest that the services sector professionals are younger, draw higher average salaries and are more willing to spend.

Changing lifestyles and status acquisitions

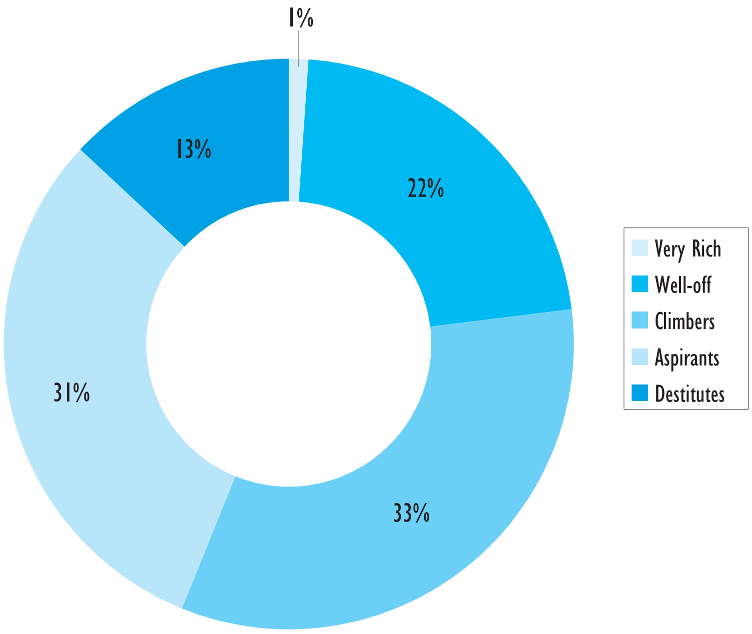
A younger, more affluent workforce implies a whole range of possibilities for consumer markets. Two elements are particularly critical - the need for variety and the growing phenomenon of 'status acquisitions'. The telecom and automobile markets best illustrate this trend. In telecom, the rise in connectivity from 2 million to 30 million between 2001 and 2003 was matched by the proliferation of a growing number of handset models. The clamour is for newer, sleeker handsets with an increasing number of premium add-on features. The mid-size and executive segment of the passenger car market has seen a similar boom with a slew of new models being rolled out during 2003 alone, with as many as six models being introduced in the executive and mid-sized segments during the year. The emergence of the premium Sports Utility Vehicles (SUV) category (with models like the Hyundai Terracan, Chevrolet Taverra etc.) is another example of the status acquisition phenomenon.

The rural mural

Income demographics - rural vs. urban



Urban (1999-00)



Rural (1999-00)

Source: India Market Demographics Report, NCAER

Rural markets are the bulwarks of the Indian consumer base with the rural area constituting more than two-thirds of the population. The share of 'well-off/consuming class' and the 'affluent' households is much lower in rural areas than in urban centres. The rural challenge thereby prevails in the mass-product categories. With rural India comprising 41 per cent of the country's middle-class holding 58 per cent of the disposable income, 48.2 per cent of the 'consuming' class and 76 per cent of the 'climbers' class, it remains a focus for both MNCs as well as domestic corporates.

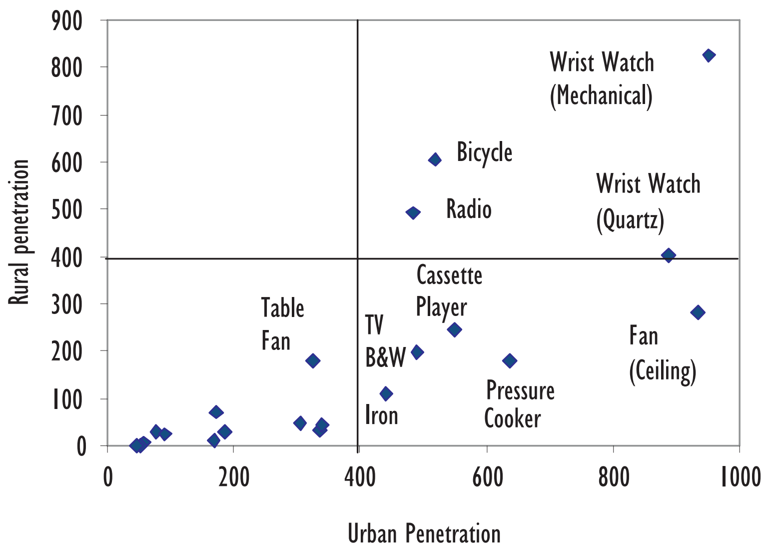
Selling cola in rural India

Coca-Cola India has doubled its number of outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, increasing its market penetration from 13 per cent to 25 per cent. The average price of its products has been reduced from US$ 0.2 to US$ 0.1, thereby bridging the gap between soft drinks and other local options like tea, butter milk or lemon juice. The MNC also doubled its ad spending on Doordarshan, the largest terrestrial channel and increased price compliance from 30 per cent to 50 per cent in rural markets. The company has tapped local forms of entertainment like annual *haats* and fairs and made huge investment in distribution and marketing infrastructure.

The rural market accounts for 80 per cent of new Coke drinkers and 30 per cent of its total volumes. The rural market for colas grew at 37 per cent during 2003, against a 24 per cent growth in urban areas. The per capita consumption in rural areas also doubled during the same period.

The story of rural India's market potential is also about relatively low 'penetration' (average consumption) compared with urban segments. For a number of items the average consumption by rural households is much lower than their urban counterparts. For marketers, this is a potential bonanza. The present low penetration implies that there exist unsaturated markets with the possibility of significantly increasing market presence.

Product penetration (per '000) 1998-99



Source: India Market Demographics Report, NCAER

To take examples, ceiling fans, colour televisions, cassette players, radios and electric irons have relatively higher penetration in urban areas (greater than 400 per 1000 population or 40 per cent) than in rural markets. In rural areas, bicycles, radios and wristwatches have over 40 per cent penetration levels. Geysers, motorised two-wheelers, sewing machines, VCRs and washing machines have comparatively lower penetration in both urban and rural areas.

India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets.

AT Kearney has estimated India's total retail market at US$ 202.6 billion, which is expected to grow at a compounded rate of 30 per cent over the next five years.

- In 2003-04, organised retailing, which has an annual growth rate of 8.5 per cent, swept past the US$ 4.5 billion, a figure that appears quite small if one were to compare the extent of the total market
- Organised retail at present comprises merely 2 per cent of the total market in India. This means that the untapped segment amounts to a whopping US$ 225 billion
- The share of modern retail is likely to grow from its current 2 per cent to 15-20 per cent over the next decade, according to analysts

ANNEXURE

List of industry associations

Retailers Association of India (RAI)

111/112 Ascot Centre, Next to Hotel Meridien
Sahar Road, Sahra, Andheri (East)
Mumbai
India
Tel: +91 22 28269527
Fax: +91 22 28269536
Web: www.retailersassociationofindia.org

Indian Direct Selling Association

A/5 Laburnum
Lady Jamshedjee Cross Road No. 1
Mahim, Mumbai 400 016
India
Tel: +91 22 24454245
Fax: +91 22 22653493

Federation of Hotel & Restaurant Associations of India

B-82, 8th Floor, Himalaya House
23, Kasturba Gandhi Marg
New Delhi 110 001
India
Tel: +91 11 23318781, 23318782, 23322634, 23322647, 23323770
Fax: +91 11 23322645
Web: http://www.fhrai.com/

Consumer Electronics & TV Manufacturers Association

J-13 (1st Floor) Jangpura Extention
New Delhi 110 014
India
Tel: +91 11 30908288
Fax: +91 11 24321616
E-mail: cetma@eth.net

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