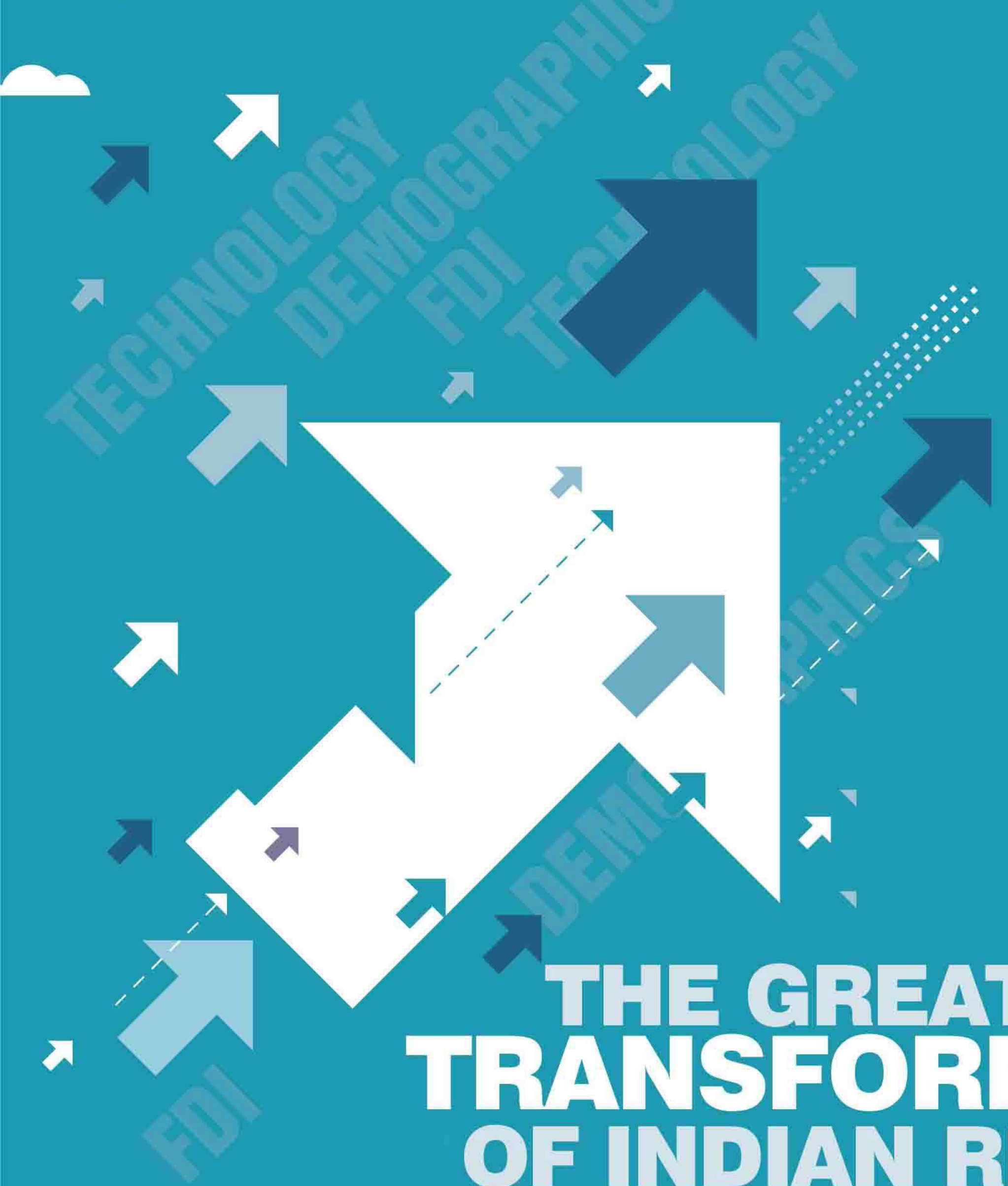

Indian retail industry has witnessed tremendous growth in recent years. Demographics, technology and foreign direct investment seem to be growth drivers for the industry. Moreover, massive smartphone penetration and relaxation in laws from the government for international players, the growth phenomena seems to be continued for 2015-2020 as well.

THE GREAT TRANSFORMATION OF INDIAN RETAILING

By Shabori Das

Consumers are not shying away from spending on luxury over necessity

Millennials, in the age group of 21-35 years, dictated the shopping pattern completely in the past five years. Though generation Z (those under the age of 20) comprise the majority of the population, the millennials, in their early working years, changed the retailing landscape with their shopping behaviours.

One of the most benefitted channels due to the millennials in retailing, were - the fashion and lifestyle retailers. And unlike the popular opinion this was not limited to the online channel only. Store and non-store retailers, both grew strongly, if present in the fashion and lifestyle space.

Millennials typically have no loyalty towards brands or channels, however they were more than happy to spend on themselves. They have higher disposable incomes and with

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the help of that, most consumers were trading up their choice of brands from unbranded, to branded, to mass, to premium, and eventually those who can afford it, to luxury. Millennials had plenty of choices to spend money on, and were driven more by want than need for a product, or a brand.

This change in consumer behaviour helped to drive the growth of luxury brands in India. If we move away from the products consumers were willing to spend their hard earned money on, and take a look at the average amount consumers were willing to spend, one can see, luxury retail had a good period in India as well. Though not one of the biggest markets in Asia Pacific, India was the fourth fastest growing luxury retailing market in the region. The average expenditure on luxury goods in India per capita registered a growth of 20 per cent on a year on year basis since 2010. Companies such as LVMH Moet Hennessey, Louis Vuitton SA, Kering SA, Burberry Group Plc, Hermes International SCA and PVH Corp were the top five global players in luxury retailing in India. Between these five companies, brands such as Louis Vuitton, Gucci, Burberry, Hermes, and Calvin Klein amongst many others enjoyed strong consumer attention.

Small screens became the first point of contact between retailer and shopper

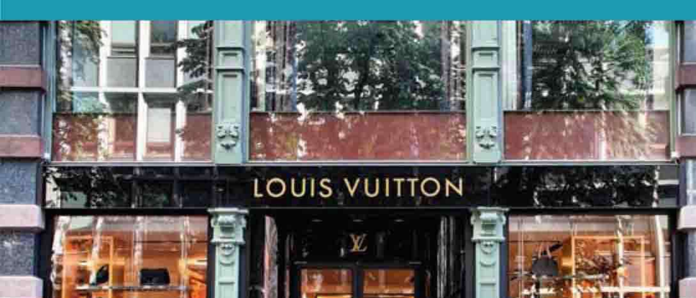
The availability of internet enabled devices helped change the face of retailing in the last five years. Technology has changed the path to purchase observed in retailing. Though traditional retailing holds its ground strongly in the country, the path to purchase of shopping was completely different in 2015, as compared to 2010. From the first point where the aspiration of owning something sets in, to researching and eventually purchasing, use of technology has become an integral part of the shopping process. Small screen viewing and showrooming have become everyday retail practices amongst consumers. Most consumers will pick up their smartphones to compare features, prices and other specifications as part of research before purchase.

Technology provided consumers two key things which drove retailing growth to newer heights. Firstly information and secondly convenience. The millennial consumers were more aware of brands, pricing, discounts, and other such details due to higher connectivity. Part of it was driven by social media, and the other part was due to the availability of the copious amount of information online. Hence, not only does technology help consumers to research before buying a product, it also helps consumers to have total awareness prior to a purchase.

Convenience of course was another key to the growth of internet retailing in India. Growth of internet and mobile usage allowed consumers to shop at their own convenience and at their choice of prices. As this new consumer was more open to spending, consumers were more than willing to shop more, as long as they had the best prices and delivery. Both of which were made super easy, thanks to the internet and mobile phones.

Easement of FDI policies and retailing growth occurred hand in hand

The retail scenario in India registered the paradigm shift since 2011 when the Government of India allowed 100 per cent foreign direct investment (FDI) in single brand retailing as long as 30 per cent of sourcing was done locally. In the following year, the government allowed 51 per cent FDI in multi-brand retailing, subject to individual state laws, which meant in some states it was allowed. These developments were met with a lot of criticism from domestic players. However, this move changed the face of retailing in India. Brands which were earlier available only if a cousin or another family relative were visiting India from abroad



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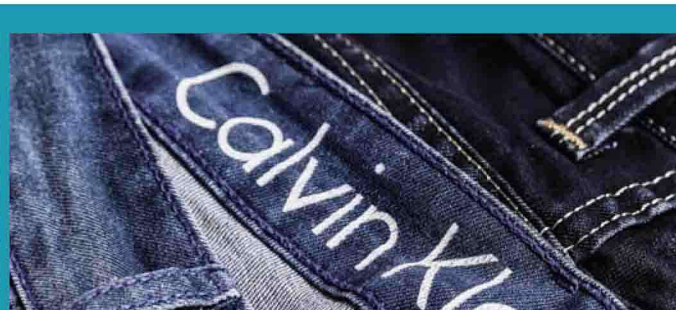

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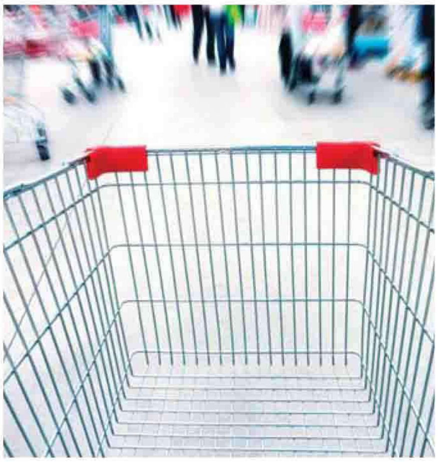
Technology provided consumers two key things which drove retailing growth to newer heights. **Firstly information and secondly convenience. The millennial consumers were more aware of brands, pricing, discounts, and other such details due to higher connectivity.**

were now easily available. Some of these brands entered the country both in online and offline stores, hence tier 2 and tier 3 city population could also buy them. This approach was followed, as most of the offline stores of the international brands were located in metropolitan cities only, hence tier 2 and tier 3 city population could only buy these brands online. This proved to be a huge push to the growth of retailing in India.

As a result, foreign brands rushed into India. H & M Hennes & Mauritz, opened their first store in India in October 2015 and clocked sales worth Rs 17.5 million in a day. The company is on its way to open the third store in the country, in Bangalore in March 2016. Gap Inc has eight stores in the country already, and enjoys strong brand recognition amongst the consumers. Zara India in 2015 crossed US$1 million in sales, and became the first international apparel brand to do so. Ikea is expected to have its first store in 2016, and consumers are waiting for its availability quite impatiently. All this was made possible because of the easement of foreign direct investment policies in India. The competition between the domestic and international players was intense over the last couple of years, with leading domestic brands namely Titan Company Ltd, Reliance Retail Ltd, Future Group, and Aditya Birla Retail Ltd amongst many others feeling the heat from the international players. With this move, the government successfully pushed the envelope of growth for retailing to a whole different level, where the retail landscape, brand preference, style, design and quality was no longer the same, and consumers were more than happy to have more options to choose.



The growth in retailing is sustainable

These three main industry drivers, millennial consumers, technology and the expansion of foreign direct investment are long term trends. Millennials' purchasing power will only grow as they progress in their careers and will have access to cheaper, better technology with which to research and purchase goods. Whether India will open its door to 100 per cent multi-brand retailing or not, remains to be seen, but foreign brands that meet the current legislation will surely continue to grow.

As a result, the retailing industry in India is expected to grow by 50 per cent in the next five years—the second fastest growing retail market in Asia Pacific. The next five years will be an interesting phase in the retail scenario for the sub-continent: the battle between traditional vs modern retail and domestic retailers vs. foreign retailers to capture the wallets of an empowered consumer. IR

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