

## **India, not China, is Land of Retail Nirvana**

Wal-Mart, Best Buy and other retailers are eager to enter India's \$300 billion retail market. India is a far more attractive retail market than China where American retailers have already invested tens of billions of dollars. Unfortunately, most retailers mistakenly believe they cannot get in because India's Foreign Direct Investment (FDI) rules prevent multi-brand retailers from opening stores there. On deeper examination, the FDI rules pose no real barrier to entry and can easily be bypassed. In fact, they may be a blessing in disguise forcing these retailers to enter India in a more capital efficient manner.

India, not China, offers the best international retail opportunity for American retailers. Among the world's large retail markets, India is the least competitive, is second only to China in population, its customers are hungrier for western products, its rapidly growing middle class is looking for ways to spend its newfound wealth – no wonder, the retail sector is expected to grow by 30% annually for at least the next decade. China on the other hand already has several multi-billion dollar local retailers and scores of foreign retailers fighting for a piece of the pie. By contrast, there is hardly any local or foreign competition in India where 97% of the retail sector is comprised of 12 million mom-and-pop shops. It is also easier to sell goods at higher prices because Indian consumers are less price sensitive than the Chinese who tend to be bigger savers. Also, Indian customers because of greater access to western media unlike in government censored China, are already familiar with western fashions and brands. The rising numbers of consumers who have credit cards - quadrupled in the past three years - are also more likely to spend on retail. India's affluent, burgeoning middle class of 300 million consumers craves a retail experience we take for granted – pricing transparency, quality merchandise, better service, convenience, reliability and customer-friendly returns, refunds and exchange policies.

### Penetration of Organized Retail is Very Low in India (%)



Indian consumers are in the thick of figuring out what, how, when, why, for how much and from whom they want to shop. Also, they are quite different from the largely homogeneous group of customers that retailers are used to in America. In India, there are 18 official languages with a new dialect spoken every few miles. Each of India's 28 states has its own culture, customs, cuisine, shopping habits and clothing styles that make it challenging to realize the scale advantages of American retailing. Retailers, therefore must test various formats, categories, channels, price points, merchandise assortments, service levels, promotions, advertising and marketing strategies before committing large amounts of capital to any single retail model. The governing principle in such an environment must be to quickly test concepts in a capital-efficient and disciplined manner while being opportunistic and responsive to the marketplace. Those who over-invest early run the risk of investing in the wrong formats, categories or concepts.

The most optimal, capital efficient way to enter and test the Indian retail market is a multi-channel, direct-to-consumer model -- eschewing high real estate costs for physical stores in favor of popular low-cost channels. India's sky-high real estate prices can dramatically drive up the breakeven costs for retail concepts. At the same time, over the past decade India has jumped two telecom generations and has twice as many cell

phones as landlines with more sophisticated features for advertising, one of the largest internet user populations in the world, and many more television channels than the average American household. Therefore, catalog, TV, internet and mobile phone can be powerful channels for customer acquisition, selling and customer service. Moreover, this flexible, database driven platform can be used to efficiently personalize product offerings, price points and service levels with much more precision for India's diverse customer base; and to build deeper and more profitable customer relationships.

In addition, these channels address some of the pet peeves of Indian shoppers – congested roads, impossible-to-find parking, limited or out-of-stock product and poor customer service. Retailers can complement the low-cost, direct-to-consumer channels with small physical stores in high-traffic urban locations like South Extension (Delhi) or Colaba (Mumbai). These stores, instead of being warehouses in expensive locations, would instead offer a location to experience the brand, touch and feel products, and for customer service. Orders from store, catalog, phone, TV or internet then could be delivered to people's homes or offices within hours from warehouses in adjacent industrial belts like Gurgaon or Thane with much lower real estate costs. Think of the Amazon or Barnes & Noble model in Manhattan for delivering books. India's reliable pre-existing courier network, and densely packed population centers make this even more convenient and profitable than Manhattan or Western European cities which are considered ideal locations for direct-to-consumer fulfillment. There is no dearth of high-quality, low-cost call centers to take orders and provide quality customer service.

Best of all, the above model circumvents current FDI regulations. There is nothing stopping multi-brand, multi-channel retailers like Wal-Mart, JC Penney, Target, Best Buy or Home Depot from entering India tomorrow.

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