

Organized Retail “Inquilab” in India

Current Landscape of Retail in India

The Indian government does not recognize retail as an industry. In India 98% of the retail sector consists of counter-stores and street-vendors.¹ With no large players, inadequate infrastructure and a small affording population that believed in saving rather than spending, Indian retail never attracted the interest of large corporations. That was till they realized that retail in India is a USD 320 billion dollar industry, growing at CAGR 5% and contributing to 39% of the GDP² (See exhibit 1 for projected market size of retail in India.).

It might seem almost nonsensical that this important sector of the country’s economy has been overlooked by corporate giants. One cannot blame them though. Indian retail has been a traditionally unorganized sector, dominated by counter-stores and street vendors (See Exhibits 2 and 3 for pictures). While retail employs a large sector of the population, most of these people are uneducated, unskilled individuals that regard retail as the preferred career alternative to agriculture. They never had the means nor will to develop the sector or expand their business. Retail never enjoyed the support of the Indian consumer. A miserly population that barely had the means to make end meet never treated shopping as a form of leisure. While individual retailers saw small gains, lack of infrastructure, an unattractive Indian consumer and absence of regulation never provided the scale that retail giants could capitalize on. Meanwhile, the government preferred to look the other way while this unorganized retail sector provided a meager standard of living to millions in a country where poverty plagued the majority of the population. The unorganized retailers survived on thin margins and low volumes, while the corporate giants preferred to spend their resources in areas like power, industrials and telecom where the large-scale opportunities were abundant. Today the retail industry has witnessed a remarkable transformation.

The country’s staggering economic growth of around 8%³ over the last 2 years has resulted in major shifts in the Indian class structure with higher incomes leading to the growth of the Indian middle-class. This is a middle-class that is aware of the standards of living in other countries thanks to exposure through the media and internet. Unlike their forefathers they have decided to adopt a “Spending” approach to improve their standard of living rather than a “Saving” approach. With an estimated 400 million shoppers and growing,

¹ “Engaging India-Nuclear power and ‘organised’ retail.” Financial Times. 23rd Nov., 2006

² “Retail in India – Getting Organized to drive growth.” CII-A.T. Kearney, Nov. 2006.

³ “Country Outlook-India.” Economist Intelligence Unit-The Economist. April, 2007.

This case was prepared by Rahul Thathoo and Rahil Kacheria, Students at Stanford University School of Engineering, under the supervision of Thomas J. Kosnik, Consulting Professor, Stanford School of Engineering.

Copyright © 2005 by the Board of Trustees of the Leland Stanford Junior University and Stanford Technology Ventures Program (STVP). No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Stanford Technology Ventures Program.

organized Indian retail's target population is larger than that of the entire United States.⁴ Voted the most attractive retail destination in the world for two years in a row, India is expected to witness 7-8% growth in its retail sector over the next few years.⁵

Recognizing the short-term and long-term growth of retail in India, a number of domestic business giants have entered the retail industry or are planning to do so in the near future. Some like Pantaloon Retail, Shopper's Stop and Pyramid Retail have been in the industry for a decade. Others like Reliance Retail Ltd.(RRL) have just entered and opened up a number of stores across the country.⁶ Still other domestic players like Birla⁷ and Bharti⁸ are planning their foray into this sector. In fact retail in India has also attracted global giants like Wal-Mart who have also indicated their interest in the sector by forming a Joint Venture with Bharti. Each of these domestic and international retail giants have or will introduce a number of modern retail formats like malls, hypermarkets and supermarkets. Initial consumer response to these novelties in the retail sector has been very promising and as the middle-class continues to grow, organized retail in India is sure to see large returns. In fact, organized retail is growing at a staggering 35% per year.⁹

As organized retailers enter the Indian market, however, they must be mindful of the unique status of retail in the country. Retail in the country has been dominated by millions of unorganized retailers who have used consumer proximity and home-delivery as their operating ideals to cater to the Indian consumer that has become accustomed to this convenience. Unorganized retail has both shaped the mentality of the Indian consumer and been shaped by it. As of 2005 retail contributed 39% of India's GDP, but even with this, the percentage of retail in the organized sector is only a measly 6%¹⁰ (See exhibit 4 for retail sector's contribution to India's GDP and penetration of Organized Retail). These counter-stores and street vendors might seem small fish in a retail industry that is soon to be dominated by giants like Pantaloon and Reliance. Yet, they cater to a different set of preferences of the Indian consumer and have traditionally survived on low turnover and thin margins. Individually they are a minor factor in the retail plans of any giant organized retailer but collectively they represent the historic state of retail in India that is so deeply intertwined in the economy of the country and the psyche of the Indian consumer that co-existence with them is a better policy rather than competition.

Another factor that major retailers must be wary of is the lack of infrastructure to support supply chains and efficient retail operations in India (See Exhibit 5 for a comparison of road development in India and U.S.A.). Companies like Wal-Mart that grew from the ground-up leveraged the infrastructure of U.S.A to build a large supply-chain which has been the backbone of its success. The story in India is very different. Inadequate highways, the absence of a cold storage facilities, an underdeveloped supply chain, limitless bureaucracy and the lack of regulations created a situation where the local corner-stores and hawkers thrived. What was the street-vendors gain will be a major hurdle for large-scale organized retailers. They will have to demonstrate unprecedented innovation, adaptation and experimentation to succeed in the Indian retail industry.

Having presented the immense potential and current status of the retail industry, this paper continues to flesh out the Indian retail story with the objective of highlighting some of the major concerns that organized retailers will have to consider as they venture into the Indian market. The paper outlines the transformation of the Indian consumer and highlights the characteristics of the unorganized and organized retail sectors in the country. It then presents some of the ground realities of the support infrastructure that will pose major challenges to the large retail chains in India. For example, India is the second highest producers of fruits and vegetables in the world, but only has cold-storage capacity for 10 per cent of the total production.¹¹ The paper goes on to provide the example of Pantaloon Retail, a large organized retailer that has enjoyed tremendous success in India. This serves as a case-study that demonstrates the kind of experimentation and

⁴ "Retail in India – Getting Organized to drive growth." CII-A.T. Kearney, Nov. 2006.

⁵ Ibid

⁶ RRL is part of the Mukesh Ambani run Reliance Industries Ltd., one of India's largest industrial houses.

⁷ Also known as the Aditya Birla Group, another large industrial house with various business interests.

⁸ India's largest cellular service provider.

⁹ "Retail in India – Getting Organized to drive growth." CII-A.T. Kearney, Nov. 2006.

¹⁰ "Retail in India – Getting Organized to drive growth." CII-A.T. Kearney, Nov. 2006.

¹¹ N Vishwanadham, "Can India be the Food Basket for the World."

adaptation required to operate in the Indian market. Finally the paper ends with some lessons for both domestic and foreign organized retailers as they attempt to make their foray into the largely unexplored but tremendously fertile Indian retail landscape.

Indian Consumer:

The Indian consumer has undergone a remarkable transformation. Just a decade or two ago, the Indian consumer saved most of his income, purchased the bare necessities and rarely indulged himself. Today, armed with a higher income, credit cards, exposure to the shopping culture of the west and a desire to improve his standard of living, the Indian consumer is spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fueling his addiction. His new mentality, in turn, is fueling the growth of organized retail in India.

Young Shoppers

India's population is young, very young (See **Exhibit 6** for India's bottom-heavy age pyramid and **Exhibit 7** for age-data for the populations of several countries). Most consumers have grown up with television, the internet, and have been exposed to the standards of living and consumer culture abroad. This generation is also making money at a younger age and lots of it, thanks to call centers and other avenues of employment opening up that cater to students in college and schools. As a result they are ready to spend most, if not all of their income on apparel, accessories, and electronics.

Higher Incomes

Liberalization of the country's economy has brought a number of employment opportunities. With the entry of a number of multinationals and the expansion of domestic corporations, job prospects in the country are looking up. As a result, incomes and consumption are projected to increase rapidly over the next couple of years (See **Exhibit 8** for the personal disposable income and **Exhibit 9** for the private consumption per head in India). This sets the stage for a very exciting and promising retail market in the future.

No Money, No Problem

The finance sector has already seen a huge expansion. Unlike a decade ago, credit cards and short-term loans have become easily accessible and have contributed to the emergence of a consumer culture in India. Credit card rewards schemes, flexible financing options and all the other common lures are tempting the Indian consumer to shop. With loans for everything from a home to an automobile freely available, the Indian consumer can start spending on big-ticket items that were traditionally within his reach only after years of savings.

Urbanization

Growing urbanization is also responsible for the changing consumer psyche¹². As urbanization spreads beyond the major cities, it converts the local population from net savers to net spenders. This is consistent with what has been observed in developing countries like Thailand, Malaysia and developed countries like U.S.A and the U.K.

The Lure of Organized Retail

Another important factor to consider is the effect of existing organized retail in India in fueling consumerism. New malls and supermarkets with their modern decors and multiple products are enticing Indian consumers. This is one of the most direct factors responsible for the mentality change of the Indian consumer. As people see their relatives, friends, neighbors shopping at these new establishments, they are bound to jump on the bandwagon as well.

¹² Indian Organized Retail- 'Fair're'tale'-SSKI Research, March 2006.

Different Strata of Indian Consumers

The consumer of today, at least what the multinationals are targeting, is popularly known as the aspiring India – the middle income segment which is growing faster than ever (See **Exhibit 10** for detailed segmentation of the Indian consumer class). While 10-15 years ago, people in this segment would ask – “Mera number kab aayega” (When will I be able to afford the simple luxuries of life), today this same segment says – “Mera number ab aayega”, (I am now in a position to afford the simple luxuries of life). The numbers on the Indian economy and retail sector in specific say a lot about the growth potential in India. However, the engine pulling this locomotive of the consumer goods market in India at breakneck speed is the 40 million Indian middle income households. Growing at around 10 percent a year, this section of the economy makes between \$4000 to \$10,000 per annum (\$20,000 to \$45,000, adjusted PPP), and its emergence and importance is signaled, for example, by the 100 per cent growth in passenger car sales (\$5 billion in 2004) in the period between 2000-2005.¹³

More on the Indian Consumer

Some of the features characteristic of these consumers is their tendency to borrow money in order to buy the upscale items – contrary to the traditional line of thought that Indian consumers are indisposed to credit. But these consumers not only have price and quality on their minds but also the fact that their brands effectively reflect their local environment and are consonant with their life style. And this is where the foreign multinationals coming into the Indian consumer market have to pay attention. Selling global brands in India at global prices is a road to perdition. Companies who have tailored their products to the Indian environment and customer have reaped high rewards. For example, Nokia in India customized its 1100 model mobile phone by adding features such as a dust-resistant keypad, an anti-slip grip, and a built-in flashlight (useful during the frequent and unannounced power outages in the country).¹⁴ Samsung washing machines have been equipped with memory backup to compensate for India’s frequent power outages and a special rinse cycle for saris¹⁵ to prevent them from becoming twisted and knotted.¹⁶

The Indian consumer’s change in attitude is going to manifest itself into rewards for the organized retail industry. At the same time, Indians will find it hard to give up their old habits of shopping at the local corner-store or buying goods from the street-vendor. The next section describes the unorganized and organized retail sectors in detail. It is critical to understand these sectors individually to speculate about possible the nature of interaction between them. While the traditional form of retail in India is sure to suffer a setback from the entry of large organized retailers, it is possible for both forms to co-exist serving the new personality and old-habits of the Indian consumer simultaneously.

Unorganized Retail in India:

Retail in India is essentially “unorganized.” 98% of the retail industry is made up of counter-stores, street-markets, hole-in-the-wall shops and roadside peddlers (See **Exhibit 11** for sector-wise break-up of Unorganized Retail). The term “unorganized retail” is better understood when comparing this form of retail to the organized retail that one is familiar with in developed countries. Unorganized retail is characterized by:

- 1) Family-run stores
- 2) Lack of best practices when it comes to inventory control and supply-chain management
- 3) Lack of standardization
- 4) Essentially a sector populated by anyone who has something to sell

Unorganized Retail is essentially the next-step above agriculture for those seeking to climb the ladder of affluence in search of a higher income. Combine this with very few barriers to entry in the retail sector and

¹³ “Winning the Indian Consumer.” McKinsey Quarterly, 2005 Special Edition.

¹⁴ “Winning the Indian Consumer.” McKinsey Quarterly, 2005 Special Edition.

¹⁵ <http://en.wikipedia.org/wiki/sari>

¹⁶ Ibid

one gets an industry run by people commonly referred to as “Baniyas”(See exhibit), with a lack of education, experience and exposure. This is the major factor responsible for the manner in which the retail industry functions. It is no surprise then that the productivity of this sector is approximately 4% that of the U.S. retail industry.¹⁷

Causes of Low Productivity in Unorganized Retail

- 1) Labor intensity: Counter-stores in India have a very low output to labor consumption ratio. Low labor costs, failure to employ part-time labor and the absence of multitasking are the mainly responsible for the unusually high consumption of labor. This has driven down the productivity in the sector.
- 2) Inventory and Supply Chain Management: Unorganized retailers in India rarely track consumer behavior and sales data to improve their inventory management practices. Even among the handful of retailers that employ experience-based improvements in their business, their efforts are largely met with no support from their suppliers. Counter stores and street vendors do not have the infrastructure, exposure or credibility to form lasting relationships with suppliers. As a result retailers usually use different suppliers every time they purchase inventory. This leaves them largely incapable of strategically managing their business.
- 3) With 700 million agricultural labor¹⁸ looking to move into retail, low barriers to entry and the absence of regulation in this sector have made it a largely over-supplied sector. The excess supply of counter-stores and street vendors represents a tremendous decrease in the productivity of this sector.
- 4) The absence of any real competition-almost all retailers find a way to make ends meet or change their merchandise till they make ends meet-is also responsible for a form of status quo in the sector where little to no improvements in efficiency, management and by extension productivity are seen. In fact, this sector is so stagnant with respect to operational changes that no improvement in productivity is expected in the near future.

Low Productivity, but Still Successful

However, low productivity is only an indication of underutilization and/or over allocation of resources. It does not reflect the market share or potential of the unorganized retail sector when it comes to catering to the Indian consumer.

The unorganized retail sector competes on the basis of a number of factors that give it a leg up on organized retail. Much of the reason why unorganized retail has dominated the retail market is the unique ways in which it operates when it comes to serving the consumer. Corner-stores have catered to the traditional Indian consumer psyche and are partially responsible for shaping it. For unorganized retail in India the market mantra is “convenience”:

- 1) Home-Delivery: Corner-stores and street vendors do their best to cater to the local population in the area in which they operate. As a result most of them provide home-delivery services, for any and all order sizes, at no extra charge. Shopping is as simple as making a phone call and narrating the shopping list to the store owner. Within minutes, the entire list of groceries with an itemized, hand-written bill reaches your doorstep. The absence of product variety, brand diversity, marketing and exposure had made shopping in stores almost unnecessary for the Indian consumer. Retailers unconstrained by labor costs had no problem in understanding this dynamic and adapting to the needs of the Indian consumer.
- 2) Credit: Unorganized retailers enjoy a loyal and limited clientele. The personal nature of transactions coupled with small transaction sizes allows unorganized retailers to sell goods on credit often settling bills with clients at the end of the month.
- 3) Proximity: Unorganized retailers like corner stores are almost always located at a few minutes walking distance from their clients. Street vendors will go door-to-door selling their goods. This has provided a number of advantages to the Indian consumer. He receives his purchase almost

¹⁷ McKinsey Global Institute India Report-Retail Sector.

¹⁸ United Nations Statistics Division

immediately thanks to the home-delivery of goods, he never has to move more than half a mile from his house to purchase food, clothing and other goods. Finally, the proximity of unorganized retailers caters to the just-in-time mentality of Indian consumers who prefer to buy goods when needed for immediate use rather than making bulk purchases in advance.

Cutting Costs in Any Possible Way: Legal and Illegal

Convenience is not the only aspect of unorganized retail that has allowed it to dominate the industry. The unorganized nature of this sector has also allowed it to survive price competition with large-scale organized retailers with efficient supply management, inventory control and bulk purchasing. Unorganized retail with their small inventory, high purchase costs and relatively small size have been able to save on a number of other fixed and variable input costs to offer goods at competitive prices:

- 1) Real-Estate: Unorganized retailers usually operate from their residences that double-up as counter stores or like street-vendors carry their merchandise with them. As a result, they incur little to no real-estate costs.
- 2) Labor Costs: Unorganized retailers usually staff their stores with family members who have no other source of employment than to work in the family store. As a result, labor costs are low. Additionally, the lack of regulation in the sector as well as high unemployment levels in India allow unorganized retailers to pay higher labor at very low rates.
- 3) Utilities: Corner stores operating out of homes usually pay residential rates for utilities like electricity and water. With the large disparity between commercial and residential utility rates, unorganized retailers do not have to worry about these inputs eating into their profits.
- 4) Tax: Unorganized retailers rarely pay taxes due to the absence of regulation and supervision in this sector. This also allows them to reduce price.

Unorganized retail has dominated the Indian market for decades. The small scale of each vendor was perfect to cater to the reluctant Indian shopper while the large number of players kept several people employed. In this situation there was little motivation to bring organization into the sector. It took strong economic growth, liberalization of the economy and change in the Indian mind-set to realize the advantages of bringing organization to India's retail industry. Organized retail has a bright future in India, but not one that will be easy to achieve. The country's lack of supporting infrastructure will pose a unique challenge to organized retailers who must strike a delicate balance between adaptation and innovation in order to succeed in the industry. The next section describes the Indian organized retail sector in detail.

Organized Retail in India

Organized Retail in India refers to the modern retail formats like supermarkets and hypermarkets prevalent in most developed countries. This form of retail accounts for a painfully low 2 per cent of the retail industry, but is growing at a healthy 35 per cent and is expected to cross the INR 1000 billion mark by 2010.¹⁹ Organized retail remained a dormant sector largely due to the lack of infrastructure for large-scale retail, absence of product variety and a conservative Indian consumer. Today the flood of products in the market coupled with a wealthier, more informed Indian consumer have created the atmosphere for the entry of organized retail to tap into the \$320 billion Indian retail industry (See **Exhibit 12** for sector-wise growth in the Organized Indian Retail Industry).

Current and Future Players

Organized retail in India is currently dominated by players that have been in the market for at most two decades. Pantaloon Retail is the market leader with its Wal-Mart-esque multipurpose low cost stores as well as specialized clothing retail outlets. Shopper's Stop operates multi-storey malls in the major metros and is the equivalent of a Macy's in the U.S. A number of other individual brand retailers like Haldiram, Raymonds and Titan also represent organized retail in India. Today, a number of major business houses in India are launching massive organized retail ventures like Reliance, Bharti (in a Joint-Venture with Wal-Mart) and The Aditya Birla Group. These companies that control many of the other industries in India have

¹⁹ "Retail in India – Getting Organized to drive growth." CII-A.T. Kearney, Nov. 2006.

recognized the potential of organized retail. They are leveraging their enormous cash reserves and decades of experience of doing business in the Indian economy and reaching out to the Indian consumer to launch a number of multi-store retail chains. (See Exhibits 13a, 13b, and 13c to see the latest malls in Gurgaon)

Learning from U.S.A. and China

As the counter-stores and street vendors of unorganized retail are converted to the supermarkets and malls of organized retail, comparisons with countries that have already undergone this evolution draws some important revelations about the future of organized retail in India. U.S.A and U.K. are the pioneers of organized retail. Beginning in the 1950's it took four decades of experimentation with a variety of retail formats before the U.S. completed the evolution of its organized retail sector into a giant multi-billion dollar industry.²⁰ As a result, the U.S. pretty much wrote the book on organized retail. Countries like China that had access to the U.S. example, could accelerate their experimentation and developmental phase to bring their organized retail sector to maturity in only about two decades. Today, the organized retailers in India with their supermarkets, hypermarkets, malls, departmental stores and boutiques are simultaneously experimenting with all the possible formats of retail that were developed sequentially in the U.S. With the U.S. and Chinese experience to draw from, organized retail will likely mature at a rate even faster than that witnessed in China.

The Chinese example in particular offers some important parallels to organized retail in India. A major factor that accelerated the development of organized retail in China was the large disparities between urban and rural organized retail penetration.²¹ While major cities in China witnessed the saturation and maturity of organized retail, the rural areas were still seeing organized retail in the infancy or early development phase. This forced large-retail chains to equip themselves with the skills necessary to handle all stages of development. India, with a similar rural-urban divide is witnessing the same multi-stage development of organized retail across the country. As a result, India is likely to witness the same compacted evolution in organized retail that accelerated the development of this sector in China. SSKI, an Indian research driven investment bank puts a figure of a decade within which the Indian retail industry will witness the same development and market penetration that took four decades in the U.S. and two decades in China.

The Success of Organization in other Domestic Industries

Aside from international examples, India can also draw from domestic instances to support the bright future of the organized retail sector in the country. The telecom industry in India saw a stagnant 1% market penetration.²² With the introduction of multiple technologies, removal of market regulations and influx of capital, the telecom industry saw a compressed evolution cycle where penetration reached 10% in a matter of 8 years.²³ Today, the Indian cell-phone industry is one of the fastest growing in the world.²⁴ Organization of the telecom sector was integral to tap into the unrealized potential of the giant but unrecognized Indian consumer market. Organization in the retail sector is likely to have the same effect.

Lessons from the Indian Auto-Industry: Tata Motors

The industry has enough room for foreign competition as well. With diverse brands like Nike, Tropicana, Guess having already entered the market and chains like Wal-Mart planning their entry, domestic organized retail in India should be excited rather than afraid. The Indian automobile industry has already shown how foreign competition accelerated development of the industry and increased productivity across the board of automobile manufacturers.

Tata motors, today one of the biggest and most successful automobile manufacturers in India suffered tremendous losses after the liberalization of the Indian economy in the early nineties that brought foreign competition to take advantage of the growing Indian automobile market. However, it was this competition

²⁰ Indian Organized Retail-‘Fair’re’tale’-SSKI Research, March 2006.

²¹ Indian Organized Retail-‘Fair’re’tale’-SSKI Research, March 2006.

²² Ibid

²³ Ibid

²⁴ “India’s Growing Consumer Product and Retail Market.” Marubeni Research Institute, Sept. 2006.

which made the company realize the cost inefficiencies of its production process and low productivity compared to the global average that had gone unnoticed in the insulated Indian economy of the past. Ingenious cost-cutting measures and a 360 degree change in operations brought the company back on the profit track.²⁵ Today it is one of the most successful automobile manufacturers in the one of the world's fastest growing automobile industries. The infusion of capital, introduction of foreign competitors, implementation of best-practices and a more attractive Indian consumer all led to the development and growth of the Indian automobile industry. With the same factors in place for organized retail, the Indian retail industry has already been touted as one of the fastest growing in the world.

Interest Shown by the Government

The government too has recognized the potential of the organized retail sector and is beginning to make changes that will remove the barriers to entry in this sector and open it up for expansion. Through the implementation of Value Added Tax (VAT), sanction of large plots of land for retail development, permission of Foreign Direct Investment (FDI) in real-estate and partial FDI in retail, the government has initiated the changes needed in the organized retail sector.²⁶

Critical Policy Improvements Required

Yet, despite all the optimistic projections of organized retail in India, a number of improvements in a number of areas will be required for organized retail in India to truly live up to its enormous potential. With the current status-quo, organized retail is a large market in India but with certain improvements, organized retail in India can be one of the biggest sectors in the world.

- 1) Currently, the government permits 51% FDI by a single-brand retailer.²⁷ The retail market needs to be opened up to 100% FDI to invite significant foreign competition that will introduce best practices, improve productivity in the industry and accelerate its development and penetration.
- 2) The government must also reduce the amount of bureaucracy that an organized retailer has to deal with. Currently, a large organized retailer needs to obtain a variety of permits from different departments to open each outlet. This creates significant barriers to entry and increases administrative costs. The government must set up a one-stop department that caters to the requirements of organized retail given the potential of this sector in bringing gains to the economy.
- 3) The government must give the retail sector industry status to allow it to enjoy the benefits that come with this status.

The government needs to introduce a number of policies to accelerate the growth of the Indian retail industry. The dormancy of the government, challenges posed by inadequate infrastructure together with a lack of exposure to best-practices have been responsible for low productivities experienced by the few organized retailers that have been present in the sector. Organized retailers that entered the sector before the current boom were plagued with a number of problems that were responsible for their poor performance. It is critical for new entrants to learn from their mistakes in order to succeed in the industry.

Productivity Performance of the Organized Retail Sector

This section tries to outline the challenges which need to be overcome by retailers thinking about entering the organized retail sector. The labor productivity of retail in India stands at a low 6% of US levels (See **Exhibit 14** for details on the productivity comparison with US in various sectors), according to a McKinsey Global Institute's report on Indian Retail Sector. This 6% per cent is distributed unevenly with 5 per cent

²⁵ "The Next People's Car," "Forbes.com, April 16th, 2007.

http://www.forbes.com/free_forbes/2007/0416/070.html

²⁶ McKinsey Global Institute India Report-Retail Sector.

²⁷ "51 Percent Foreign Equity Allowed in Retail Sector." Yahoo News, Jan. 2006.

for food retailing and 8 per cent for non-food retailing. In comparison, the food retailing productivity in Brazil is 14 per cent and non-food retailing in Poland is 25 per cent.

The rural retail employment accounts for about 60 per cent²⁸ of the total employment in the sector. Rural productivity in retail is about 60-65 per cent that of urban centers. There are certain clear cut reasons why this should be the case. The average sales, in terms of rupees per day, in a rural store is close to Rs. 1000 compared to Rs. 7000²⁹ per day for a store in an urban area. Some of the reasons for this can be attributed to lower purchasing power in the rural areas, self-consumption of agri-produce and a tendency of villagers to purchase from cities. Because of these reasons, people in the villages generally stock consumables such as tea, sugar, bulbs, wires, stationery, and a few items of clothing. Low opportunity cost of the labor entails longer work hours in this rural setting.

Reasons for Low Productivity

Some of the reasons that have been outlined for the poor productivity performance are – a format mix which skews towards transition formats, and poor operational efficiency of modern formats.

Vicious Circle

At any place, big supermarkets and specialty stores leverage their volumes to drive costs down and possess superior skills (especially in managing inventory and marketing) to make themselves more productive than counter stores. A key factor behind the miniscule growth share of supermarkets in India, especially in food retail is the under-developed nature of upstream industries. This results in a relatively higher pricing in the supermarkets when compared with counter stores, giving counter stores or the unorganized sector an edge over the organized sector in retail. A fragmented supply chain, a sub-scale processing sector and lack of proper cold storage facilities are some of the problems which plague the organized retail sector, especially in food. The current government policies are also favorable to counter stores in the form of relaxed labor and tax regulations.

Poor Productivity in modern formats

Supermarkets in India have to operate in face of productivity hassles which can be attributed to some of the following operational aspects of this sector: 1. Scattered and inefficient supply chain which inflates procurement costs (lack of focus in having a few nation wide suppliers and instead having up to 400 per region³⁰ needs a huge sourcing and quality control team raising costs of procurement). 2. The supply chain for food in India has two or three additional intermediaries on an average compared with supply chains in the US. This can, in part, be attributed to the market regulations such as constraints in food grain movement across states, inability to purchase directly from farmers, etc. This in turn slows down the growth of large processors.

Non-level playing field in the retail sector

Counter stores in India take advantage of some of the following benefits accorded to them by the government:

1. Tax Vacation: The government policy enforces higher tax rates for organized retailers, with making them pay at corporate rates, while counter stores still pay at individual income tax rates. Tax evasion is rampant among small counter stores owners, in fact so few of the small mom and pop store owners pay taxes, that most of them could be thought of being on a tax vacation with the government conveniently looking the other way.
2. Uneven tax rates across states: The present tax structure necessitates the imposition of tax on retail chains operating in a non-localized fashion. The sales tax structure has differences in rates across

²⁸ McKinsey Global Institute India Report - Retail Sector.

²⁹ Ibid

³⁰ McKinsey Global Institute India Report - Retail Sector.

- states, in addition to the imposition of a central levy on inter-state sales. It doesn't end there, another tax (octroi) is levied on the movement of goods from one district to another.³¹
3. Labor laws: Developing countries in general have generous labor laws.³² The labor laws in India ask that work for a retail employer is limited to 8 hours, and also require that the shop be shut for one day in a week. Though organized retailers adhere to these laws, the counter stores remain open throughout the year, making labor work for over 12 hours a day.
 4. Non-payment of market rates for inputs: Lower rent and nominal power cost (if any) characterizes the counter stores in India, as opposed to extremely high land and property rent paid by the organized sector.

Summary

Organized retail represents a large untapped market in India that is likely to see tremendous growth in the coming years. New entrants are bound to see large returns. However, they must adapt themselves to the unique state of retail in India where infrastructure and regulations provide little support. They must also understand the tastes of the Indian consumer who has only recently started treating retail as a form of leisure.

Meanwhile organized retail will continue to displace many unorganized retailers who are no competition for the large-scale corporations. Those street-vendors of the bottom or unorganized retail will be forced to turn back to agriculture or some other form of livelihood. Yet, corner-stores and hawkers will continue to be a part of the Indian retail experience. These retailers have always survived on small, diverse sales with small margins. In that regard, they do not compete in the same market as organized retail. The Indian consumer may have undergone a transformation, but the transformation is only partial. His higher income, increased exposure and greater willingness to spend will spur the organized retail sector. Meanwhile the conveniences of home-delivery, purchases on credit and proximity offered by the unorganized sector will drive him to the nearest corner-store or street vendor for his small, just-in-time purchases. Organized retailers have not are and are unlikely to worry about the threat of unorganized retail as both forms of the retail business cater to different preferences.

Pantaloons Retail: A Domestic Organized Retailer Shows How It's Done

Organized retail in India is simultaneously a promising and challenging prospect. New entrants can learn a lot from those currently operating in the Indian organized retail sector. This comprehensive case-study of a domestic organized retailer provides an in-depth view of the levels of adaptation required to succeed in the Indian retail sector.

If there is one organized retailer in India that has recognized the potential of Indian retail early, understood the unique characteristics of retail in India and built up itself to counter any competition, both domestic and foreign, it is without a doubt, Pantaloons Retail. What started as a small men's wear retailer has become one of the largest organized retail chains in India with a presence in every retail sector imaginable and more!

Pantaloons's Success

Pantaloons's success and continuous growth in the Indian organized retail market can be attributed to a number of factors, some of which mimic the strategies of large retailers in the west and others that have been completely tailored to the Indian market. What is evident at the outset is that Pantaloons has foreseen and understood the Indian retail roadmap better than anyone else.

1) Ground-up Development

³¹ Liable to change with every union budget.

³² Vincent Palmade, "The Importance of Sector Level Perspective: Findings and Methodology of the McKinsey Global Institute-Draft"

Pantaloon's major advantage over current and new competitors in the retail sector has been its unique understanding of the Indian organized retail market with all its quirks, shortcomings and challenges. By creating a retail business from the ground-up and expanding rapidly, Pantaloon has followed a Wal-Mart-esque pattern of growth. However, unlike Wal-Mart, Pantaloon's next step was not strengthening its supplier network and back-office operations. Instead the company recognized that the inadequacies of Indian infrastructure would greatly delay any returns or even results of investing in supply-chain platforms. It decided to experiment with as many retail formats, product-mixes and brands as was possible in order to gain maximum knowledge about the uncertain Indian organized retail sector and get a leg-up on any possible competition. In fact, current entrants in the organized retail market not only have to learn the ropes of the unique Indian organized retail sector, but also have to find a way to combat Pantaloon's dominant market share in almost all forms of organized retail-an uphill task for any competitor, regardless of size.

2) Multiple Formats, Multiple Brands-A Comprehensive Retail Experiment

Pantaloon has experimented with every retail format possible. They have opened supermarkets, hypermarkets, malls, department stores, fresh-produce markets, single area shops-like sports shops, office supply shops and others (See **Exhibit 15** for a list of Pantaloon's stores). Most of their experiments have proved successful and Pantaloon is continuously to experiment while expanding current ventures. However, success or not, what the real reward of these experiments is an enormous amount of knowledge and experience about the organized retail in India, consumer preferences, and operational strategies. This is knowledge that was most elusive in a previously untouched and unknown organized retail sector. What's more impressive is the insight of the company in recognizing the need for experimentation over expansion. This is an example of Pantaloon adapting itself to the Indian market rather than attempting to copy a Macy's or a Wal-Mart and follow a cookie-cutter model.

The experimentation process has not ended with testing different store formats alone. Pantaloon is also experimenting with a variety of products. From men's wear the company has moved on to experiment with retailing furniture, sportswear, kitchen appliances, food, electronics and children's apparel. Again, it knows what works and doesn't work in the Indian market, something that would not have been apparent as little as a decade ago.

Pantaloon has also gone a step further by experimenting with brands as well. It has introduced a number of its own brands, a successful strategy that has worked in stores like Target and Wal-Mart. For example, it has experimented with launching clothing lines based on famous Indian Bollywood movies (See **Exhibit 16** for brands and movie-theme based retailing). It has also introduced a number of specialty fashion stores where it has launched several clothing lines of its own. Within the brand retailing space, Pantaloon has also tied up with some of India's most popular brands like Gini and Jony to sell them in their stores. Rather than attempt to compete with existing popular brands the company has decided to partner with major Indian brands and leverage the success of these brands in the ambiguous Indian market. For whatever reason these brands have achieved success and a loyal following; Pantaloon's move is sure to bring in more customers and retain them.

With its comprehensive experimentation, Pantaloon has reached a stage where it can write the book on Indian organized retail as well as be in the best position to criticize it. Sure, Pantaloon's competitors have the opportunity to learn from the retail giant's experiences, but the experience that comes with managing these diverse retail formats in the Indian scenario with the sourcing, supply and real-estate challenges is something that new entrants will have to learn on their own. With the pace at which Pantaloon is moving, it is likely by the time new entrants figure out their strategy, Pantaloon would have made the several sectors of organized retail in India out of anybody's reach.

3) The Right JV's at the Right Time

In accordance with its experimentation policy and leveraging its unparalleled experience in the organized Indian retail market, Pantaloon has moved to form key joint ventures with a number of popular names like Staples and Starbucks.³³ Rather than blindly throw these brands onto the retail scene. One can be sure that Pantaloon will tailor and position these foreign brands to cater to the Indian retail market. With its first-

³³ "Starbucks brews India story with Biyani." The Economic Times, 25th October, 2006.

"Staples, Inc. Enters India Through Joint Venture with Pantaloon Retail Limited" Staples-News Release. www.staples.com. Accessed on 1st June, 2007.

mover advantage Pantaloon is actively closing doors for its competitors by snapping up major brands before other can get to them.

4) Versatile Retailing

Rather than expand as a men's wear retailer alone, Pantaloon's policy of comprehensive experimentation has given it an important advantage. Intentionally or unintentionally, Pantaloon has developed a versatile retail presence. Indian consumers see Pantaloon as an exclusive brand retailer, discount retailer, specialty retailer and food retailer all at once. The company has managed to avoid retail stereotypes and the insular strategies that result from catering to them. So while Wal-Mart is seen as a discount store, Safeway is considered a food retailer and Ikea is known as a furniture seller, Pantaloon is all of these at once. One of the reasons for this versatility is that the Pantaloon name has not been forced or even associated with the different products and stores other than the original men's wear line. Instead each store and product has been given its own identity and presence. While this has proven to be a successful bet for the company, it is not entirely a blind one. In a country where unorganized retailers, who have no co-ordination between themselves, control 98% of the market, versatile retailing might be the best way to go. Pantaloon is essentially an organized retailer in the disguise of a large number and variety of unorganized retailers. This again represents the company's unique understanding of the Indian scenario.

5) Winning Team

While Pantaloon retail has achieved much of its success on the back of its experimentation policy, it has also made some great recruiting decisions that have put the right people in charge of the right departments (See **Exhibit 17** for Pantaloon's Management Team and their diverse experience). The company understood the absence of any real knowledge or experience-base in the organized retail market. Instead of head-hunting people with pure retail experience, the company has poached a number of highly experienced managers and executives from a number of diverse and successful Indian companies. Their knowledge about the Indian business environment and supply-chain dynamics as well as experience of launching products in the country and adapting strategies to the unique tastes of the Indian consumer have been key to Pantaloon's success. The company understood the core competencies required to dominate in the untapped organized retail sector and made hiring decisions accordingly.

Looking Ahead

Pantaloon has continued its policy of comprehensive experimentation, but having achieved significant scale in a number of sectors, the company has begun to implement the more conventional strategies of organized retail to further improve its market-share and future growth. Although capital was initially exclusively used for experimentation, the company is now allocating resources in two major areas:

1) Real-Estate

To cater to the Indian consumer that is used to shopping a few meters away from his house, location is of prime importance for any retailer. Pantaloon's first-mover advantage has given it access to some of the most exclusive and retail friendly real-estate in the major urban centers. Yet, with the entry of a number of new and wealthy competitors, the company has recognized the need to ramp up its efforts in acquiring and developing prime real-estate for retail. Pantaloon has set up major real-estate funds, "Kshitij" and "Horizon" exclusively for the purchase and development of key real-estate for retail.³⁴ It has also begun to make strategic purchases in the smaller cities where the retail boom is predicted to continue once it stagnates in the major cities. However, in a crowded India where geographic proximity is most important, catering to a population that likes to shop close-by is the single largest factor that will determine success in the future. Pantaloon has at least recognized this and is preparing itself appropriately.

2) Supply-Chain and Behind-the-Scenes Operations

³⁴ "Pantaloon-promoted Future Capital to set up real estate fund." The Economic Times, 1st May, 2006.

For major retailers like Pantaloon especially, that have established a name and market presence through multi-format experimentation, the next step is the improvement of the supply-chain and behind-the-scene operations. These factors serve as the backbone of a successful organized retail chain in the long-run. Pantaloon cleverly ignored these aspects due to the unique inadequacies of Indian infrastructure and rightly favored experimentation over organization. But, to continue to grow at the pace it has over the last five-years it needs to pay attention to its sourcing network, transportation system and other logistics. By developing these now, Pantaloon will also be able to gain a leg-up on its competitors. Having lost the first-mover advantage, new entrants in the Indian retail sector are likely to start with back-end operations rather than format experimentation. While this policy is a flawed one in the Indian market, the disadvantages of this approach may be more than compensated for by achieving efficiency and scale in back-end operations, both of which are very difficult in India. Ultimately giants like Wal-Mart and Costco, no matter how they reached their market position, rely on solid supplier-network and strategic back-end operation management to survive and continue to grow. In this matter India is no different from any other country. What Pantaloon will have to improvise though, is the absence of basic infrastructure like transportation and regulation that the Wal-Marts and Safeways could make use of in their climb up the retail ladder. The pace of expansion of the retail industry is likely to outstrip that of the development of the country's infrastructure. Pantaloon will have to be innovative in how it compensates for these inadequacies while efficiently managing its supply-chain and logistics.

Threats

Pantaloon has the upper hand on the most potential foreign and domestic competition in the organized retail sector. However the same characteristics that have made it an exclusive and versatile retailer can find it a disadvantage.

1) Money: The Ultimate Differentiator

Much of Pantaloon's competition consists is either retail ventures of large Indian industrial houses (Reliance Retail, Birla's retail venture) or foreign retail giants (Wal-Mart). In other words, Pantaloon's competition is rich, very rich. While competitors may not have Pantaloon's large and diverse experience and knowledge bank, they still have enough money bank to potentially compensate for that. While the money versus experience competition is yet to play itself out in the Indian organized retail sector, in most industries money is a pretty good tool to compete with. Pantaloon, which is almost exclusively a retail body despite scattered efforts to diversify its portfolio, might find it difficult to raise sufficient resources to compete with the likes of Wal-Mart and Reliance. They might have a leg-up with their early-bird advantage but how long that will last in the face of stiff competition is anyone's guess. With capital intensive inputs like real-estate and supply chain development likely to dictate success in the organized retail market, Pantaloon might find it difficult to compete on an equal footing. Moreover competitors like Reliance will more than likely throw around their financial weight in hopes of achieving a dominant market-share, especially if no other method works.

One approach that the company has implemented is the formation of JV's with a number of leading international companies and brands from which it may be able to derive additional funding given it delivers strong results. Yet, there is no guarantee that JV's will be a sufficient source of additional resources and Pantaloon's prosperous market position might turn precarious if it doesn't address its lack of resources compared to its competitors.

2) Connections and Relationships

Pantaloon made the right decision by making supply-chain development secondary to experimentation to gain dominance in the unknown organized retail market. Its recent initiative to begin paying attention to back-end-operations would be successful if it weren't faced with formidable competition. Companies like Reliance that do business in a variety of sectors and locations in India might be better suited to developing a strong supply-chain and back-end operation system. Leveraging their diverse relationships across the board of Indian industry, Reliance might be able to quickly develop a sourcing-network that is both efficient and cheap. This scenario has the potential of robbing Pantaloon of the advantages it has enjoyed from its early presence and better understanding of the market.

Summary

Through a policy of carefully executed and comprehensive multi-format experimentation Pantaloon has managed to understand and take advantage of the compressed evolution of the organized Indian retail industry (mentioned earlier) to become the dominant player. Kishore Biyani has successfully spearheaded pantaloon toward a point of ‘perennial renaissance’ having high flexibility and high focus. (See **Exhibit 18** for details). As far as industry knowledge, experience and skill are concerned, Pantaloon with its dream team is looking in good shape. The company has also successfully identified the next steps in terms of real-estate acquisition and supply-chain development to further its growth. It has clearly won round one of organized retail in India.

Now Pantaloon is faced with stiff competition that is financially better-equipped. How it takes advantage of its existing resources, accesses additional capital and competes with its competitors in a race to develop an efficient supply-chain will determine the future of the company. While the task is daunting, Pantaloon has more than enough advantages and an enormous head-start compared to anyone else. However, given past records elsewhere in Asia and Europe, it remains to be seen how successful foreign retailers are in India. Unless they make corrective changes to their strategy based on lessons learnt in other countries, they might find India a tough (coco)nut to crack!

Lessons from China and South Korea

Established foreign retailers looking to enter the Indian market have, over the years, faltered in some of the global markets that they have entered. They would do well to take a lesson or two from mistakes committed in the past. Wal-Mart has maintained a presence in China for about 11 years now, opening its first stores in 1996. But till 2006 Wal-Mart in China opened only 56 stores, including 51 Wal-Mart Supercentres, three Sam's Clubs and two community stores, far fewer than its rivals Carrefour, Metro and even the local retailers Huanlian and Lianhua. In general, the growth of Wal-Mart in China has been stunted³⁵. The retailer has tried to make a dent in the market shares of others in the market by opening up outlets in Shanghai, but unfortunately for Wal-Mart, its huge hypermarkets do not fit in crowded cities like Shanghai where land is so scarce.

Wal-Mart faces different challenges in the smaller cities of China. Firstly, the distribution and supply chain networks (logistics, etc) are still under-developed and will likely remain so for many years to come. As such, consumers in small town China are people in the lower echelons of the economic ladder and hence cannot afford most of what is on sale in Wal-Mart. Some of the logistical problems faced by Wal-Mart are an artifact of its own creation – being located in the suburban areas, customers who don't have cars find it a hassle to shop at Wal-Mart, even with lower prices offered there. Even people who own cars see the advantage of lower prices evaporate with the high cost of fuel.

Experts feel that even with the pricing, Wal-Mart may not have significant advantages in China over Carrefour and other established players. Another key aspect of the Wal-Mart way of retail is that Wal-Mart sources products directly from the manufacturer to control the costs, but in China the manufacturers are scattered all over the nation and infrastructure (for example, transport logistics) are still under developed. Another fact, almost laughable, is that in China, Sam's club has its customers confused by requiring membership. “Why”, the Chinese customers ask, “should I have membership just to buy some eggs?”

The above problems in China provide for a perfect crystal-ball vision into what problems the big organized retailers could face in India. When Wal-Mart enters India, it would have to leverage every bit of its expertise in global retail marketing and supply chain management. Most importantly, it will have to leverage the country-specific experience of its Indian partners.

Elsewhere in Asia, Wal-Mart has been at the receiving end as well. In 2006, Wal-Mart put an end to its misery in South Korea by shutting down operations in that country. According to reports, Wal-Mart put off

³⁵ http://english.people.com.cn/200606/26/eng20060626_277399.html

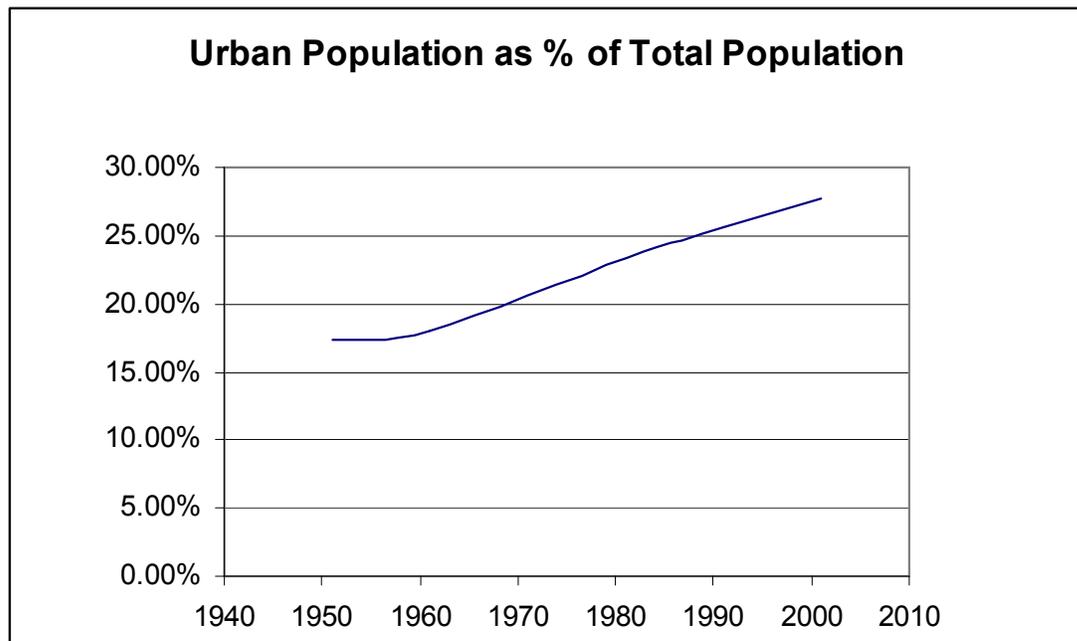
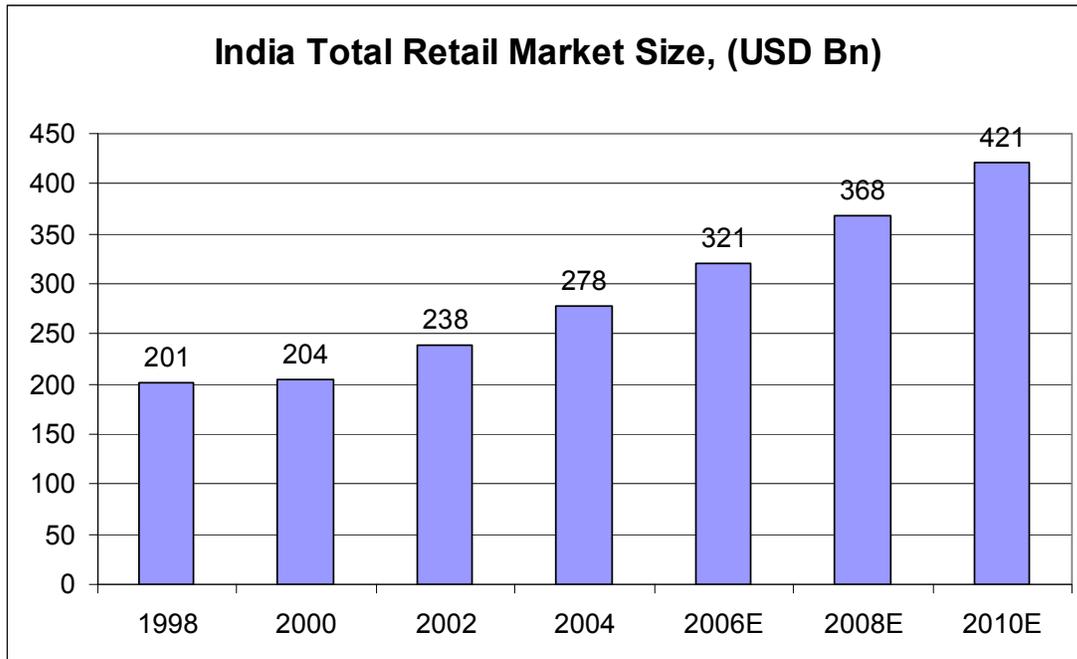
its customers trying to apply its western markets' marketing strategy by concentrating on the non-food dry goods market (electronics, clothing, etc)³⁶, while rivals laughed their way to the bank focusing on food and beverages, which is the segments which attracts South Koreans to hypermarkets. An interesting contrast could be drawn in the way Wal-Mart sold its goods and the methodology used by its rivals. Wal-Mart stuck to its old school way of selling products by the box, where as rivals stole the show by hawking away their goods using megaphones and hand-clapping.

Conclusion

This paper lays out before the reader the state of the Indian retail sector at a moment in time when it is in great flux. Almost every two months we see big corporations who had previously shied away from the retail industry, announcing huge investments into the sector. Companies already in the market are coming up with new formats almost every quarter. Coupled with the economy growing in leaps and bounds and the government at the center obliging with favorable policies, the retail sector is a bus no one wants to miss in India. However, to succeed in India requires knowing what's on the mind of the Indian consumer, what works for him and what does not, and understanding that global products and pricing need to be customized to fit with the local scheme of things. Without having a strategy in place for the Indian consumer market in place, foreign retailers would find it tough to compete with the local organized retailers and the mom and pop shops; local retailers with their recent entry into the market should try to leverage their knowledge of the consumers and experiment with formats to see how they can capture the maximum market share. In the few years to come, it would be interesting to see who comes out on top and what the winning strategy is, and also why the strategy succeeded and others failed.

³⁶ http://internationaltrade.suite101.com/article.cfm/walmart_learns_a_lesson

Exhibit 1: Projected Growth of Retail Market helped by a growing urban population.



Sources: Economist Intelligence Unit (EIU), Euromonitor, A.T. Kearney analysis

Exhibit 2: Street Vendor in Jodhpur, India



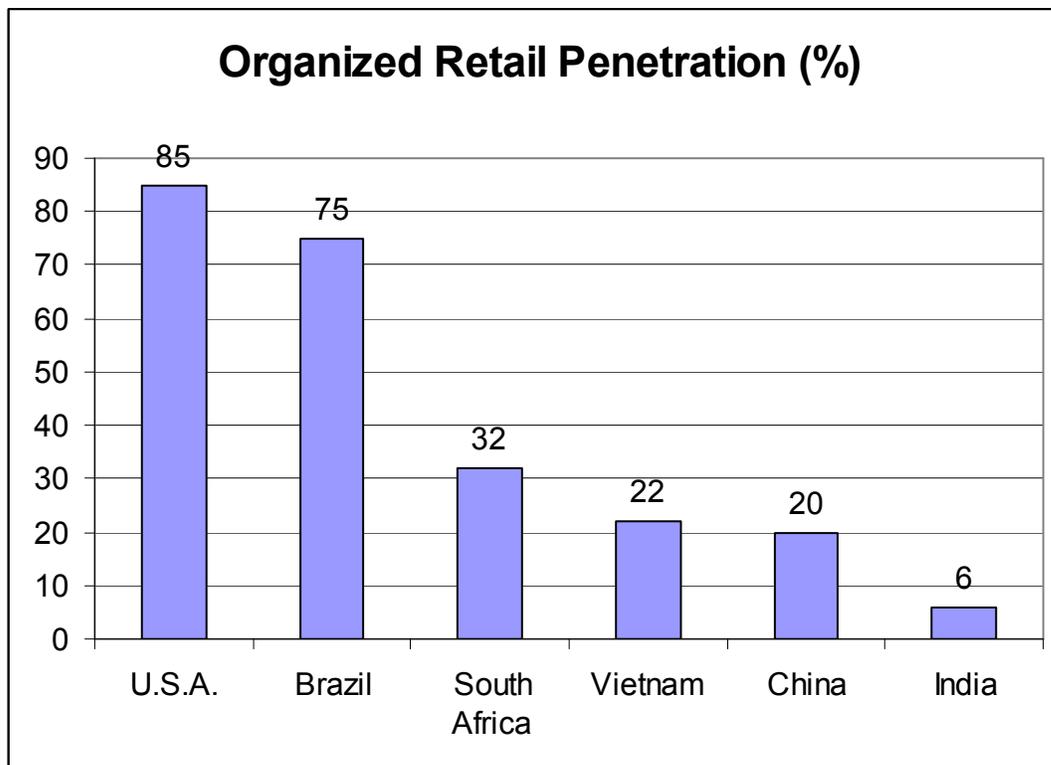
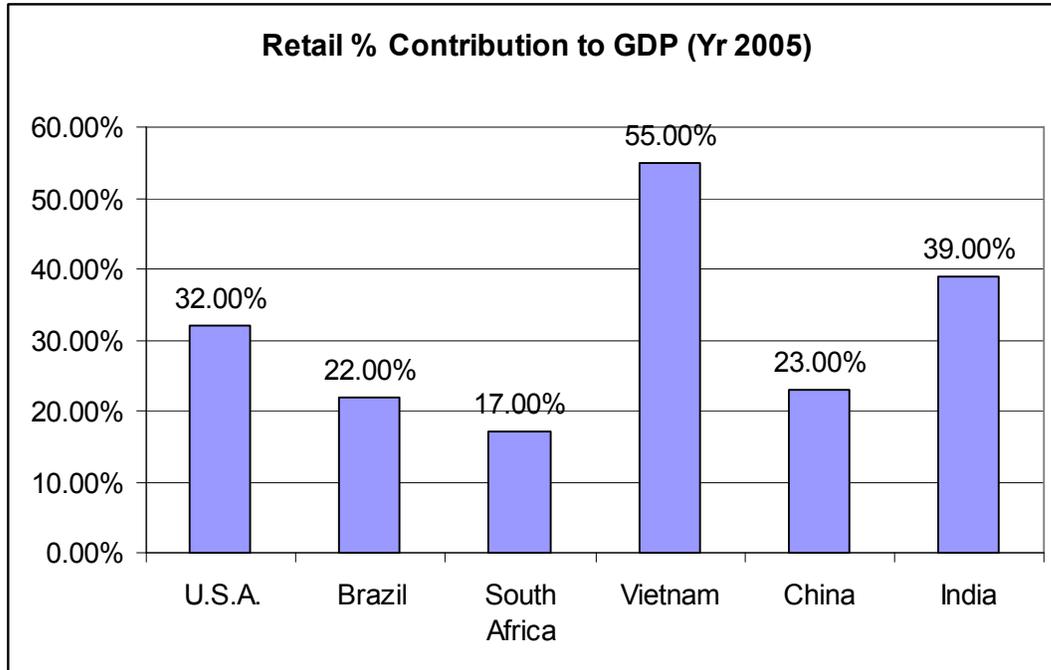
Source: flickr.com

Exhibit 3: Fruit sellers in India



Source: flickr.com

Exhibit 4: Retail sector's contribution to India's GDP and penetration of Organized Retail



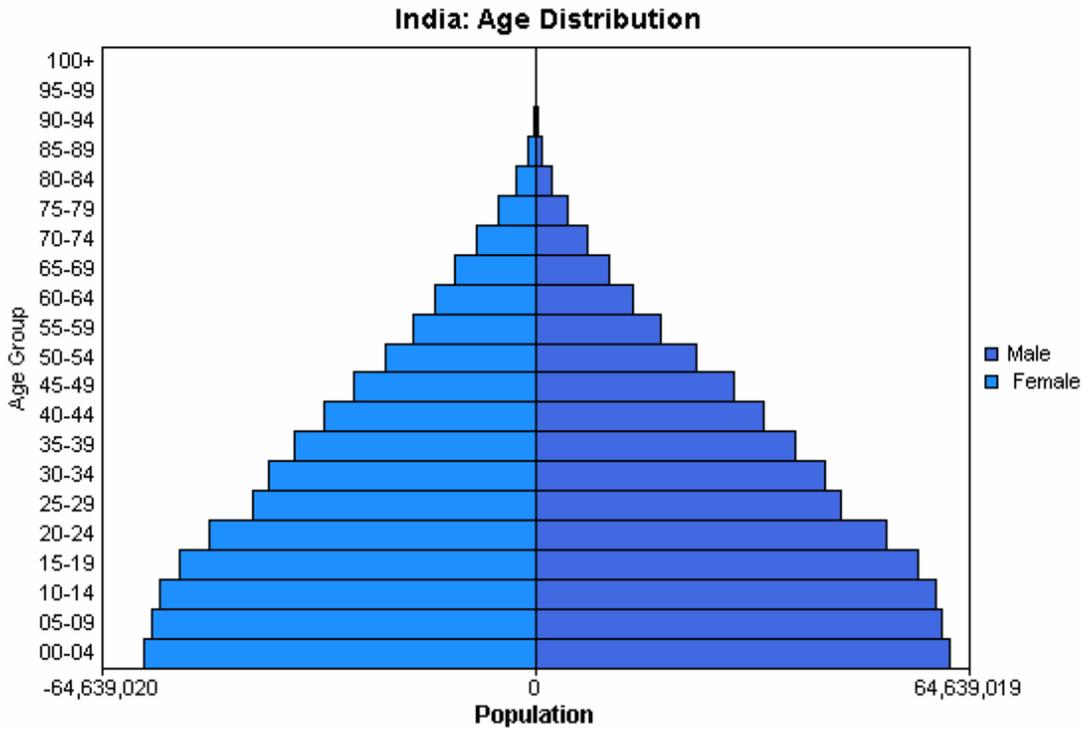
Source: "Retail in India: Getting organized to drive growth". A.T. Kearney, Confederation of Indian Industries

Exhibit 5: Comparison of Road Development in India and U.S.A.

	India	US
Roads, Paved (% of total roads)	47	66
Roads, total network (km)	3,383,344	6,421,037

Source: World Bank Development Indicators (India: 2002, USA: 2003)

Exhibit 6: Bottom-Heavy Age Pyramid of the Indian Population



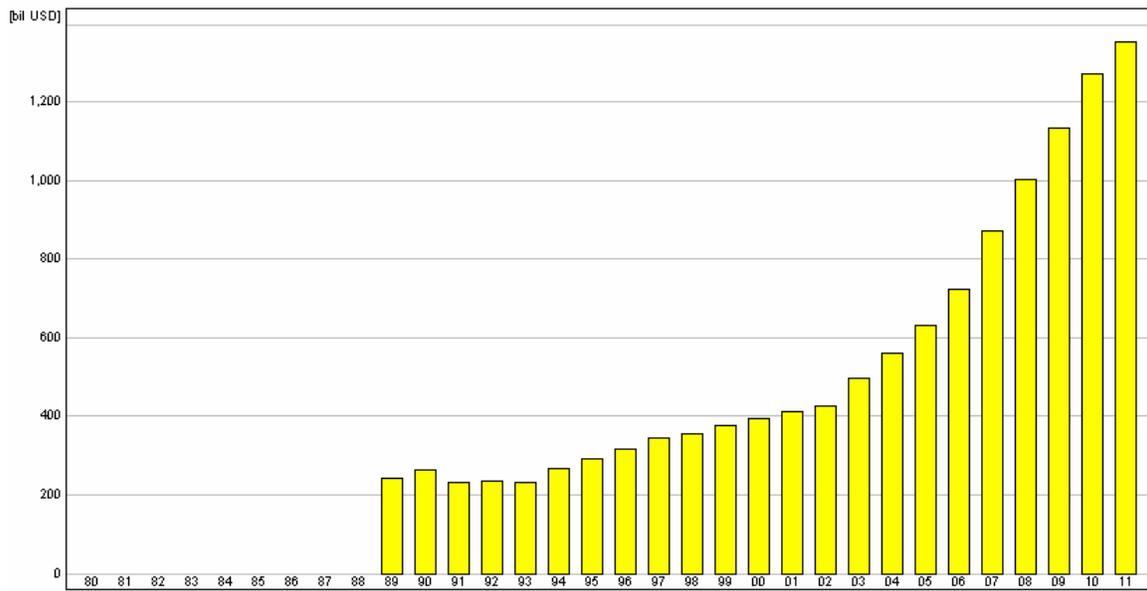
Source: United Nations Statistics Division: Common Database. "Country Profile-India." http://unstats.un.org/unsd/cdb/cdb_country_prof_results.asp?crID=356&cpID=21. Accessed on 1st June, 2007.

Exhibit 7: Age Comparison of the Populations of Several Major-Retail Markets.

	India	Brazil	China	USA	UK
Population ages 0-14 (% of total)	32	28	21	21	18
Population ages 15-64 (% of total)	63	66	71	67	66
Population ages 65-above (% of total)	5	6	8	12	16
Total Population	1,094,583,040	186,404,912	1,304,499,968	296,410,400	60,266,500

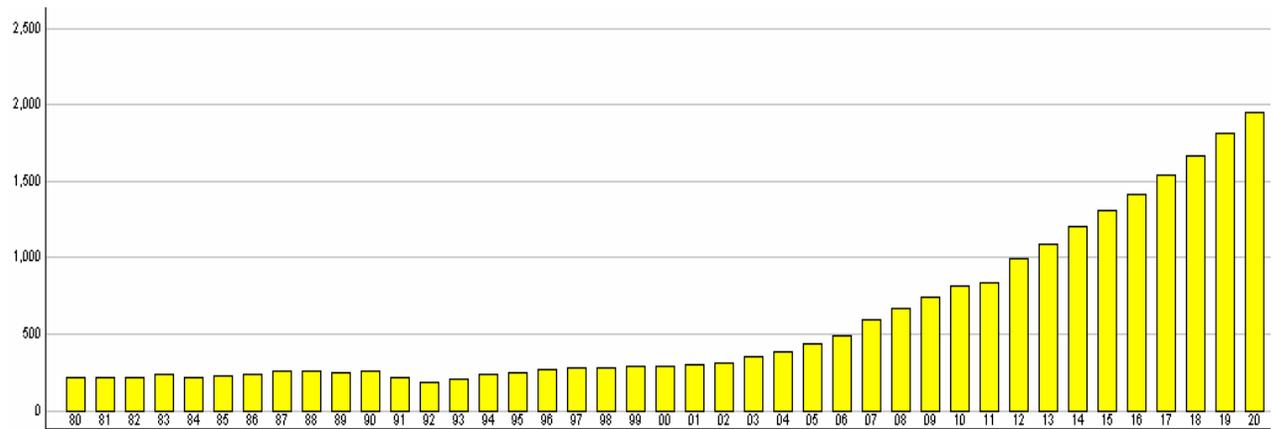
Source: World Bank Development Indicators (2005)

Exhibit 8: Personal Disposable Income: Actual and Projected (1989-2011), in USD Billion.



Source: Economist Intelligence Unit (EIU) Country Data.

Exhibit 9: Private Consumption Per Head: Actual and Projected (1980-2020), in USD



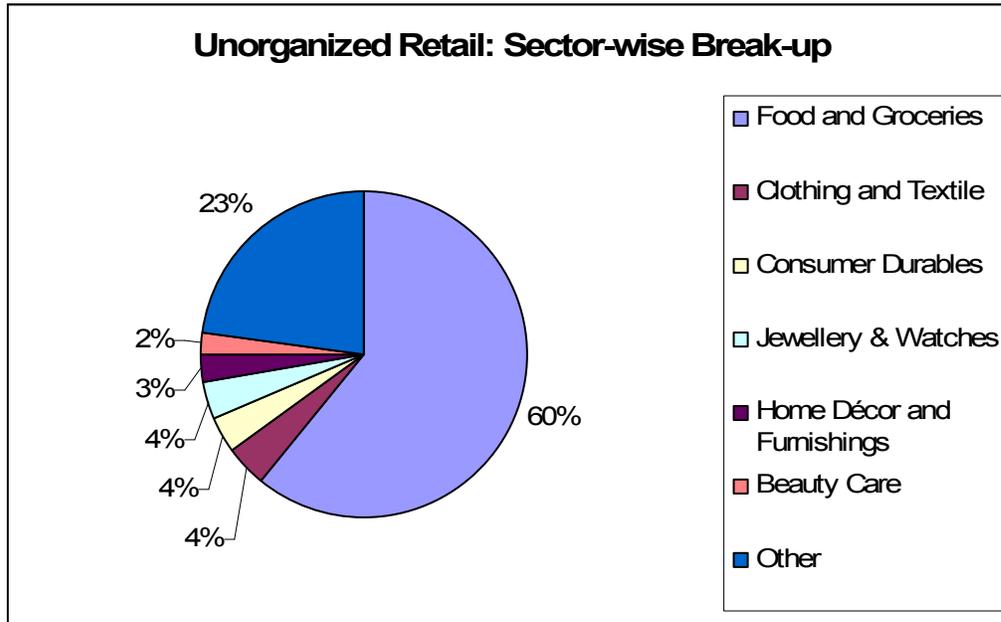
Source: Economist Intelligence Unit (EIU) Country Data.

Exhibit 10: Classifying the Indian Consumer

The range of spending power				
FY 2004				
Household income classes	Real annual household income (average size of household = 5.4),¹ \$	Segment size, millions of households	Common occupations	Assets owned
'Global India'	>\$10,000	1	<ul style="list-style-type: none"> • Businesspeople in small to midsize enterprises • Corporate/government employees • Rich farmers 	<ul style="list-style-type: none"> • 1–2 bedroom house • Color TV, mobile phone, refrigerator, washing machine • Car worth \$5,000–\$10,000
'Aspiring India'	\$4,000–\$10,000	40	<ul style="list-style-type: none"> • Salaried employees • New-services employees (eg, IT, media) • Shopkeepers 	<ul style="list-style-type: none"> • Color TV, refrigerator, telephone • Scooter, motorcycle, or small car worth ~\$4,000
'Struggling India'	\$1,500–\$4,000	110	<ul style="list-style-type: none"> • Shopkeepers • Service workers (eg, waiters, drivers, maids) • Farmers 	<ul style="list-style-type: none"> • Bicycle • Radio, black-and-white TV
'Destitute India'	<\$1,500	40	<ul style="list-style-type: none"> • Subsistence farmers • Farm workers 	<ul style="list-style-type: none"> • Watch

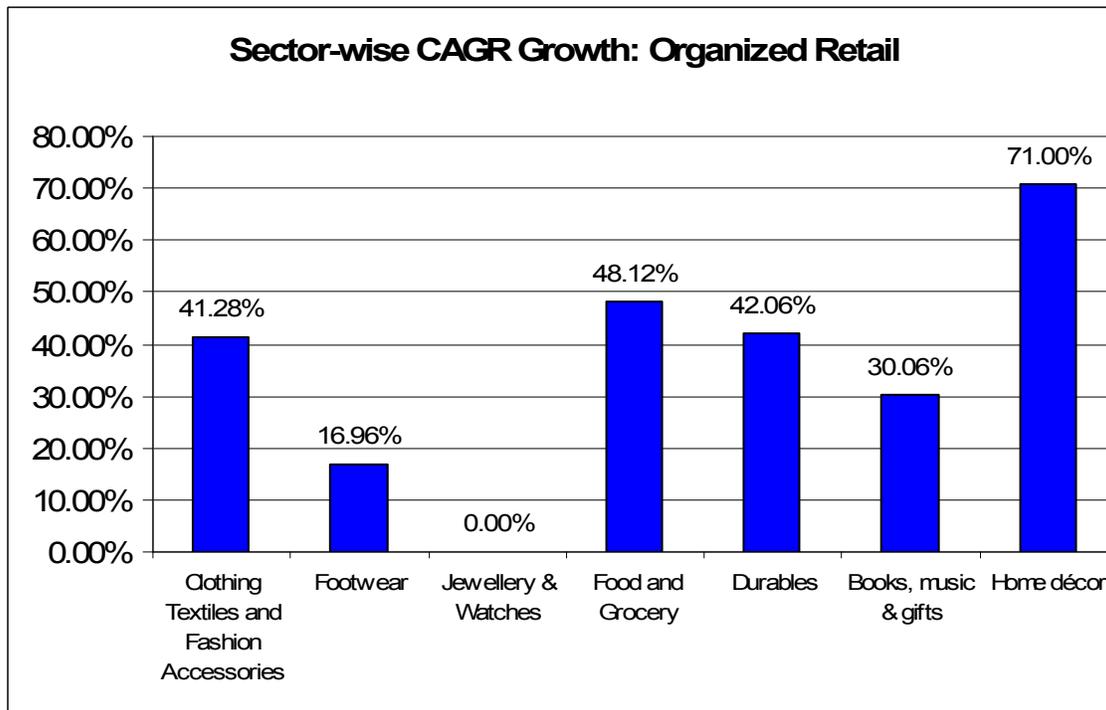
¹Not adjusted for purchasing-power parity; base years = 1995–96.
 Source: National Council of Applied Economic Research (NCAER); National Sample Survey Organisation (NSSO), Ministry of Statistics and Programme Implementation, government of India, 2001–02; McKinsey analysis

Exhibit 11: Sector-wise Break-up of Unorganized Retail in India



Source: Adapted from "Retailing"- Annual Review. CRISINFAC, Sept. 2005.

Exhibit 12: Sector-wise growth in the Organized Indian Retail Industry



Source: "Retailing"- Annual Review. CRISINFAC, Sept. 2005.

Exhibit 13: Malls in Gurgaon
Exhibit 13a



Exhibit 13b



Exhibit 13c

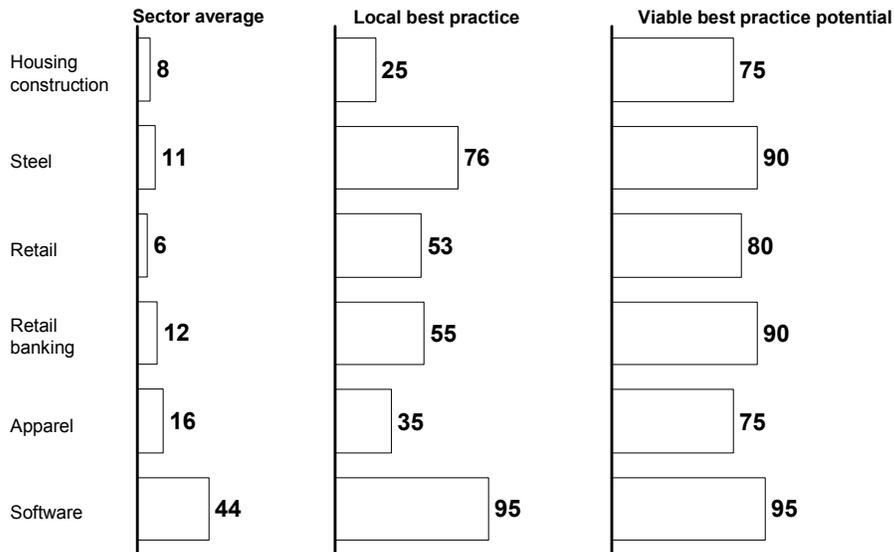


Exhibit 14:

DCO-ZXE081-20031100-jg/fp1

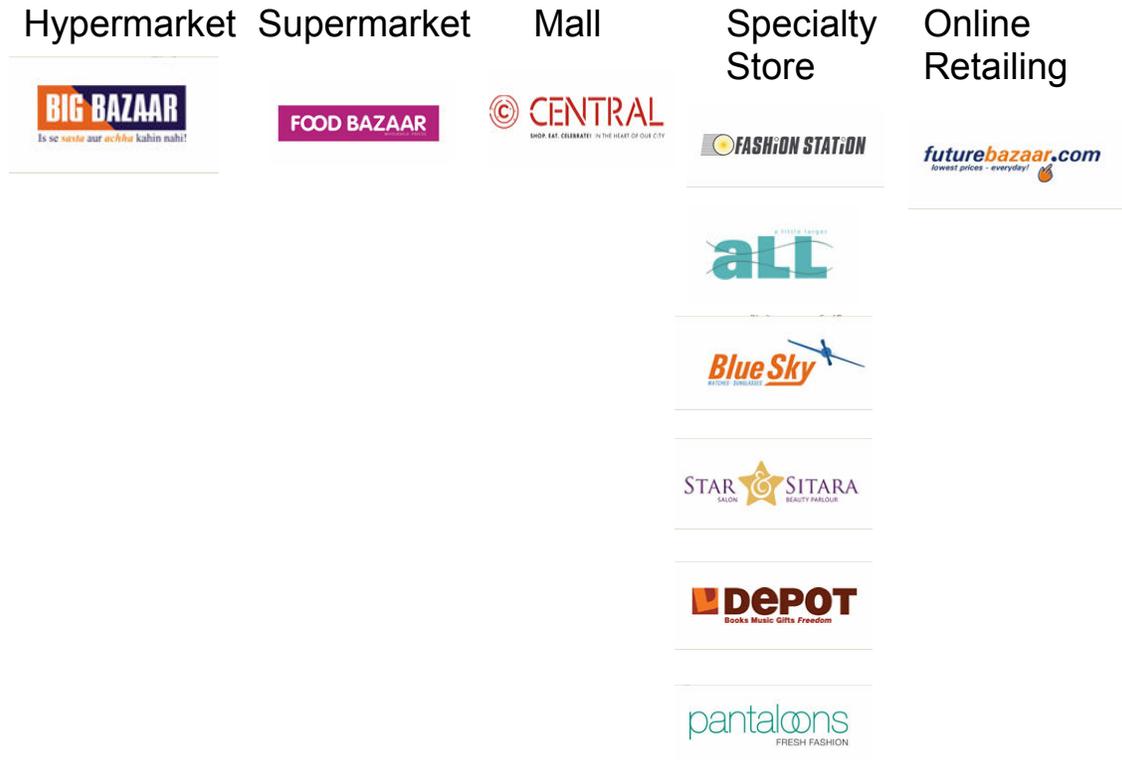
COMPARISON OF SECTOR PRODUCTIVITIES – INDIA

Productivity, U.S. = 100



Source: The Importance of Sector Level Perspective: Findings and Methodology of the McKinsey Global Institute, Vincent Palmade

Exhibit 15: Pantaloon's Multi-Format Approach to the Indian Retail Market



Source: Adapted from www.pantaloon.com. Accessed 1st June, 2007.

Exhibit 16: Some of Pantaloon's brands and movie-theme based retailing



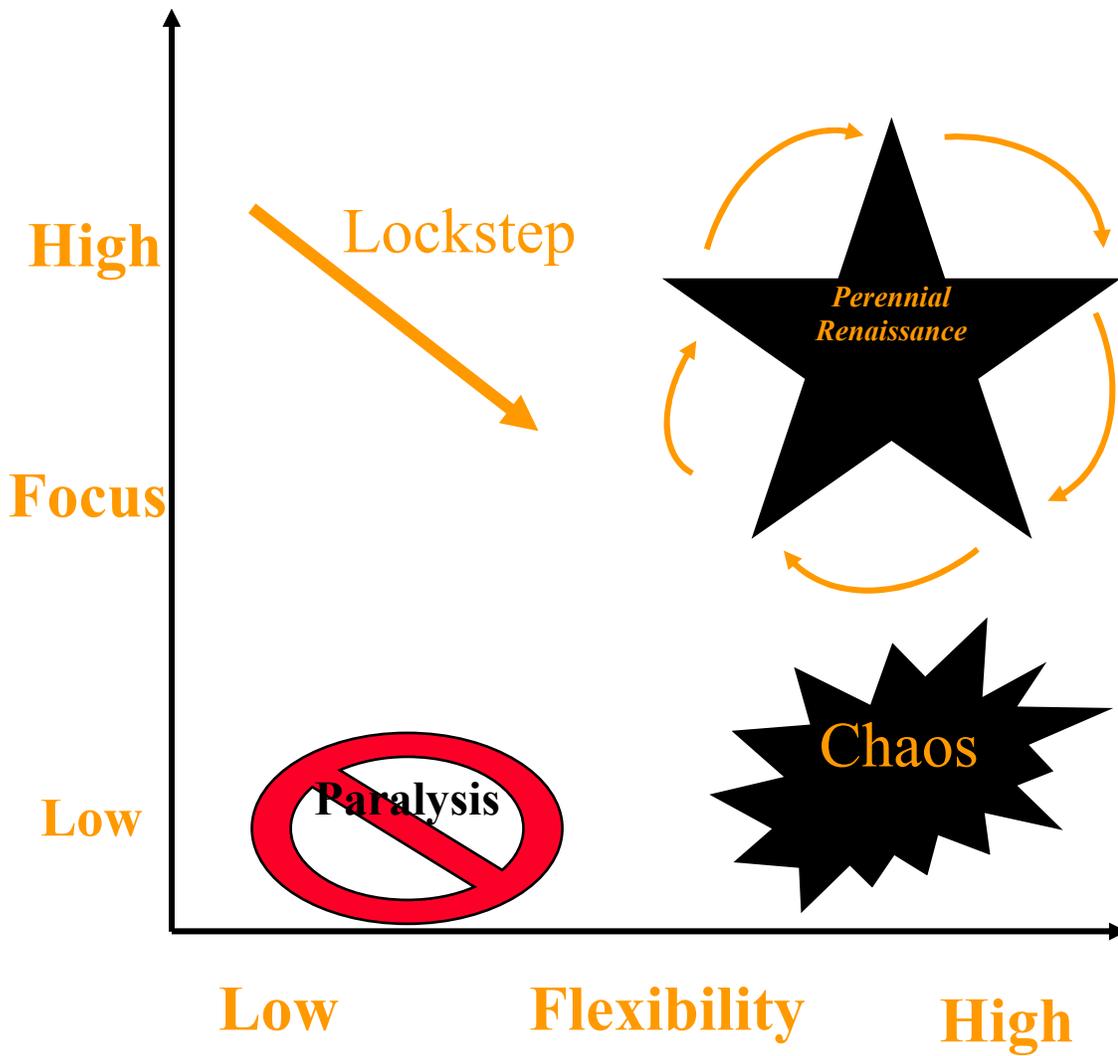
Source: Adapted from www.pantaloon.com. Accessed June 1st, 2007.

Exhibit 17: Pantaloon's Management Team

Name	Designation	Educational Qualifications	Previous Assignment(s)
Rakesh Biyani	CEO - Retail	Advanced Management Program - Harvard Business School Boston, B.Com	On the Board of Pantaloon Retail (India) Ltd.
Anshuman Singh	CEO - Value Fashion CEO - Future Logistics	BE (Mech), MBA - Finance	Grasim Industries Ltd., H & R Johnson Ltd., Bombay Dyeing & Manufacturing Ltd.
Arvind Chaudhary	CEO - Foods	M.Sc. Dairy Economics	R.K.Foodland, General Mills India
Damodar Mall	CEO - Incubation & Innovation	PGDM - IIM Bangalore B.Tech - IIT Bombay	Hindustan Lever
Kailash Bhatia	CEO - Integrated Merchandising Group	M.B.A Marketing	ColorPlus, Weekender, Arvind Mills
Rajan Malhotra	CEO - Big Bazaar	MBA - Kurukshetra University	Niryat Sam Apparel, Design Connection, Raymonds
Sadashiv Nayak	CEO - Food Bazaar	PGDM - XLRI Jamshedpur BE (E&C) - KREC Surathkal	Hindustan Lever Ltd., Asian Paints
Sankarson Banerjee	CEO - futurebazaar.com	PGDM-IIM, Kolkata M.Sc. - IIT, Kharagpur	Senior Architect-Mphasis BFL
Sanjeev Agrawal	CEO - Pantaloons	PGDM - IIM Lucknow B.Tech - BHU	Balsara Home Products, Modi Revlon, Procter & Gamble, Godrej Soaps, Hindustan Lever
Krishna Kant Rathi	CFO - Retail Businesses	ACA - ICAI ACS - ICSI B.Com - Rajasthan	H&R Johnson, KEC International, Universal Cans & Containers, Bihar Alloys & Steels, Macneil & Mayor
G.Mohana Sundaram	CFO - Central & Brand Factory	Masters in Commerce, ICWA, ACS	Oyzyterbay Private Limited, Titan Industries limited
K. Jayaprakash Nair	CFO - Big Bazaar	AICWAI, ACS	National Heavy Engineering Ltd., Kesar Enterprises Ltd., Mabati Rolling Mills Ltd. (Kenya), DGP Hinoday Industries Ltd.
Roopa Purushothanam	Chief Economist & Strategist	BA Yale University MSc London School of Economics	Goldman Sachs
Narayan S Iyer	Chief Solutions Officer	MS, University of Texas B.Tech. IIT - Bombay	Demantra, Maingate Technologies, I2 Technologies, Microstrategy
Kruben Moodliar	President-Operations (Value Retailing)	HAND - University of Sussex B.A. (Economics) - University of Capetown	Checkers Shoprite (South Africa), Game Discount World (South Africa), RPG Retail
Mayur Toshniwal	Head - Operations (North Zone)	PGDM - IIM Ahmedabad B.Tech - Institute of Technology, Bhubaneshwar	Coca Cola India, Asian Paints
Rohit Malhotra	Head - Operations (South Zone)	B.Tech (Mech) - BHU, PGDM - IIM Ahmedabad	Coats Viyella India Ltd., Spice Telecom, Reliance Infocomm, Bharti Airtel
Sandeep Marwaha	Head - Operations (East Zone)	B.E., Punjab Engineering College M.B.A. (Marketing & Systems) FMS, New Delhi	Reliance Infocomm - Business Head

Source: Adapted from www.pantaloon.com. Accessed June 1st, 2007.

Exhibit 18: High Flexibility and Focus are corner stones of Kishore Biyani's Pantaloon Retail



Source: Tom Kosnik, Vision for GLEAN companies, 2007.