

# Chazen International Study Tour Report The Retail Revolution: India in Fashion

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### **Chazen International Study Tours**

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Destinations change yearly, as study tours are student-initiated. Recent destinations include Brazil, China, India, Japan and South Korea.

For millennia, India has been a shopper's Mecca. The ancient Greeks and Romans braved monsoon winds to reach south Indian ports, eagerly trading for spices such as cinnamon, cardamom, cloves, pepper and sandalwood, as well as precious materials and gems, including diamonds, rubies, emeralds, pearls and ivory. The Romans went on a particularly wild shopping spree, spending some 50 million sesterces a year in gold and silver for Indian goods at a markup of one hundred times the original local value, even triggering fears of bankrupting the empire.<sup>1</sup> Indeed, the lure of India long outlasted Roman reign: Venice later rose to prominence and power on the back of the spice trade, Marco Polo delighted in the wealth of pepper, ginger and cinnamon he found in Kerala and Christopher Columbus famously sailed west into the Atlantic in pursuit of Indian commodities.

Today, India remains as tantalizing an opportunity as ever, enticing consumers and corporations alike as one of the world's hottest emerging retail and luxury-goods markets. The stakes are higher, too: for the first time in history, the country is developing into a vital domestic consumer in its own right, not just a source of exotic wares for foreign buyers; its 1.1 billion inhabitants boast an exploding middle class, predicted to grow from about 5 percent to more than 40 percent of the population within just two decades, forming the fifth-largest global consumer base.<sup>2</sup> The surge amounts to a very influential 583 million potential new customers and 41 trillion rupees (US\$1 trillion) up for grabs among the world's retailers. Adding back the highest and lowest income brackets, total spending swells further to 70 trillion rupees (\$1.8 trillion). In response, retailers spanning the spectrum of sectors, channels, demographics and geographies are feverishly strategizing how to capture a share of this quickly materializing prosperity. But like the Roman sailors before them, they must first navigate a storm of critical challenges in order to finally succeed in this rapidly reforming and ever complex land of contrasts.

Acknowledging the multifaceted environment that beguiles many retail efforts, Sunil Bharti Mittal, chairman and managing director of Bharti Airtel, revealed to the Chazen tour: "There are several Indias." The country cannot be described or handled as a single homogeneous mass, especially with respect to its burgeoning consumer market. An important division lies in organized retail versus mom-and-pop shops. What is commonly conceived of as retail in America—that is, branded stores in a mall—makes up only 4 percent of the total Indian market,

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<sup>1</sup> Pliny the Elder *Natural History* 6.23, 101.

<sup>2</sup> Jonathan Ablett et al., *The "Bird of Gold": The Rise of India's Consumer Market* (San Francisco: McKinsey Global Institute, May 2007), 13.

according to Louis Vuitton India retail country manager Karen Wilson Kumar.<sup>3</sup> Case in point: our tour failed to find a single Starbucks in the region, truly reminding us we weren't in Kansas (or New York City) anymore.

Why has organized retail not taken hold in this massive and crucial untapped market? A number of daunting obstacles have blocked its growth over the decades. First, and perhaps most relevant to leading retailers worldwide, though India has permitted limited levels of foreign direct investment (FDI) for centuries, strict government regulation has discouraged many international businesses from setting up shop. Only as recently as January 2006 have single-brand foreign retailers been permitted FDI up to 51 percent, with further liberalization to 100 percent rumored to be on the horizon. Now, instead of going the franchise route and risking the company brand, a business may retain majority ownership and control of its Indian stores.

Foreign brands have responded enthusiastically to the rule change, particularly in the surging luxury-goods sector. French leather-goods producer Louis Vuitton, long a regional player counting the maharajas among top historical clients, is one of 70 international retailers to be featured in real estate giant DLF's Emporio, India's first luxury shopping mall, opening in New Delhi in March 2008; others under the same roof will include Armani, Cartier, Dior, Dolce & Gabbana, Escada, Fendi, Hugo Boss and Versace. As India indulges its voracious retail appetite, additional shopping centers flood the construction pipeline; the country has gone from not having a single mall nationwide a decade ago to 40 to 50 today to an estimated 300 to 500 in just two years from now.<sup>4</sup> Missing from the mix are big-box and department stores: India does not yet allow FDI in multibrand retail. International multibrand enterprises meanwhile must find more creative entrees to India, such as Bharti's 50/50 joint venture with Wal-Mart, with Bharti managing the retail outlets and Wal-Mart overseeing back-end supply-chain operations and logistics.

Even after a corporation finds a suitable local partner and overcomes the difficulties of FDI limitations, other vexing complications await. Incumbent retailers hold the twin advantages of local market intimacy and established distribution channels but often cannot match the balance-sheet power of foreign challengers. High import taxes (45–55 percent) and a lack of infrastructure impede progress, too.

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<sup>3</sup> Karen Wilson Kumar in a speech delivered at the Crowne Plaza Surya, New Delhi, January 8, 2008.

<sup>4</sup> Ajay Khanna (managing director, DLF Retail Developers Ltd., retail, commercial and IT parks), "Trends in Retail" (presentation, Real Estate International Development Summit 2005, Federation of Indian Chambers of Commerce and Industry, New Delhi, November 11, 2005, <http://www.ficci.com/media-room/speeches-presentations/2005/nov/real-estate/session2/Ajay-Khanna.ppt> (accessed January 28, 2008).

To compensate, Louis Vuitton, for example, has raised prices in India, counteracting with superior customer-relationship service, even for its lofty standards. An Indian Louis Vuitton sales representative will commonly invest quadruple the time in a patron than does his or her Champs-Élysées counterpart.<sup>5</sup> The brand also circumvented the absence of organized retail infrastructure, such as malls, by establishing its first outposts in the lobbies of five-star hotels, ensuring a controlled environment. Finally, cultural boundaries still persist after all else: convincing Indian women to shed their saris for haute couture is a tricky process yet under way. For its part, Louis Vuitton does not currently offer ready-to-wear apparel in its local stores, instead sticking to more conservative items like its iconic leather goods, with hopes that the Indian consumer might be more amenable to high fashion in the near future.

In stark contrast to slick new urban luxury malls, the flashy face of up-and-coming Indian retail, the overwhelming majority of the nation's estimated 12 million retailers remain in the unorganized sector, revealing yet another "India" with enormous consumer potential. Known as kirana shops, these small neighborhood outlets the size of Upper West Side studio apartments (less than 500 square feet of space) are liberally sprinkled throughout the Indian landscape, with 11 for every 1,000 people—the highest shop density in the world.<sup>6</sup> They serve as the pantries and closets of the local population. Instead of driving to Wal-Mart to purchase a shopping cart's worth of groceries, toiletries and other consumables, a typical Indian consumer simply steps around the corner and selects the items he immediately needs. In a region with horrendous traffic congestion, low refrigerator penetration and little disposable income, the kirana shop is a convenient and natural solution.

The unorganized retail segment may itself be divided among rural and urban businesses: 57 percent of private spending is currently attributed to rural areas.<sup>7</sup> Adi Godrej, chairman of engineering and consumer products titan the Godrej Group, recognizes rural markets as "the growth drivers of the future" and has positioned his company to be a major player in this key demographic. He has successfully identified the fast-moving consumer goods (FMCGs) that sell to predominantly rural populations—washing cakes, cooking oil, tea, toilet soap—and those appealing to a more urban constituency—shampoo, health beverages, packaged biscuits, toothpaste; the next step is making the appropriate assortment accessible to the target rural

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<sup>5</sup> Karen Wilson Kumar in a speech delivered at the Crowne Plaza Surya, New Delhi, January 8, 2008.

<sup>6</sup> Mayank Krishna, comment on "Great Indian Retail Dream: Euphoria or Reality?" Logical String Blog, comment posted December 28, 2006, <http://mayankkrishna.blogspot.com/2006/12/great-indian-retail-dream-euphoria-or.html> (accessed January 28, 2008).

<sup>7</sup> Ablett et al., "The *Bird of Gold*," 90.

consumer base. Recognizing the influence of the kirana shops, Godrej has mirrored a Procter & Gamble initiative of tapping into the poorest Mexican customer segment with extremely cheap single-serving products at neighborhood bodegas; Godrej likewise serves India's enormous but cash-strapped lower class with sample-size packets of popular items.<sup>8</sup> Godrej spoke to the tour about one especially successful example: a single-use hair-dye sachet. At only nine rupees (approximately US\$0.25), it is sized and priced to reach rural Indian consumers who are paid day-to-day and never have more than a few spare coins in his pocket. By maximizing consumer benefit and value in this underserved niche, sales have hit a phenomenal 250 million sachets a year and climbing.<sup>9</sup>

Metropolitan centers are dominated by kirana shops as well, but the shops face a mounting threat from invading contemporary competitors. As big retail enters the picture, small shopkeepers and vendors fear for their livelihoods, with thousands recently taking to the streets in protest and burning effigies of Wal-Mart, Bharti and Reliance.<sup>10</sup> With retail as the second-largest employer in the country, behind agriculture, some 40 million jobs are at risk should neighborhood kiosks be displaced.<sup>11</sup> In this modern-day David and Goliath story, the battle for market share has only begun, with no clear solution yet in sight.

Even invisible invaders are chipping away at unorganized retail in India. E-tailing, though not yet a major force, looms large on the horizon. India is home to 40 million Internet users, a figure bound to explode in step with the middle-class population.<sup>12</sup> As a virtual world of endless shopping possibilities opens up, aided by increased credit-card penetration by banks like Citibank and ICICI as well as improved delivery options, brick-and-mortar traditional retailers may feel the impact. Perhaps a sign of trends to come, the December 2007 issue of *Vogue* featured a report from a journalist discovering the sublime beauty and magic of the city of Jodhpur—then conducting all her holiday shopping online from her hotel room.<sup>13</sup>

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<sup>8</sup> Ana Escalante, "P&G's Global Target: Shelves of Tiny Stores," *Wall Street Journal*, July 16, 2007.

<sup>9</sup> IndiaEarnings.com, "Godrej Consumer Products," April 25, 2007,

[http://indiaearnings.moneycontrol.com/sub\\_india/compnews.php?autono=278140](http://indiaearnings.moneycontrol.com/sub_india/compnews.php?autono=278140) (accessed January 28, 2008).

<sup>10</sup> Vyapar Janvad aur Bharat, comment on "Thousands Protested to Oppose the Bharti-Walmart Joint Venture," Retail Democracy Blog, comment posted December 29, 2007, <http://retaildemocracy.wordpress.com/2007/12/29/thousands-protest-to-oppose-bharti-walmart-retail-entry-strategy/> (accessed January 28, 2008).

<sup>11</sup> Madhur Singh, "A Backlash for Big Retail in India," *Time*, October 17, 2007, <http://www.time.com/time/business/article/0,8599,1672425,00.html>, (accessed January 28, 2008).

<sup>12</sup> Mayank Krishna, comment on "Great Indian Retail Dream: Euphoria or Reality?" Logical String Blog, comment posted December 28, 2006, <http://mayankkrishna.blogspot.com/2006/12/great-indian-retail-dream-euphoria-or.html> (accessed January 28, 2008).

<sup>13</sup> Sally Singer, "Hunt & Peck," *Vogue*, December 2007, 208.

Retail is poised to be the next great revolution to transform India—Louis Vuitton’s Kumar agrees: “Retail is the new software”—but what kind of retail, in what markets and led by whom? Just as there are several Indias, there must be several retail strategies to satisfy the multifarious and highly fragmented consumer market. With no clear rules or path to success, the obstacles and risks unique to this land are frightening in scale and scope, and have kept many would-be entrants shyly waiting at the border. Those who have daringly forged ahead are participating in the active development of the sector, and the cleverest will be richly rewarded with leading roles in India’s Cinderella economy. For retailers and consumers around the world, today and tomorrow, India is without a doubt the latest fashion.