DON'T FIGHT NATURE YOURS AND OTHERS

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The winter and fall seasons have lived upto their nature. Retail Industry has seen the worst winter. For the organised retailers this is the first real winter after a very prolonged spring. I always wonder how we try to alter the nature and the nature comes back to prove its real nature. Came this winter and you could see white all over. The large trees covered with no sense of life and the medium ones buried. Interestingly, small retailers, like grass, are flourishing and seem to have come out winners. Everything seems to have gone into hibernation. Whatever leaves were there on some of the trees fell during the fall season. Never ever did the Indian retail industry witness such a wrath of nature. This time of course it was the human nature of greed and running after a rainbow.

Inspite of all this, I firmly believe in the Phoenix. Those with good intent and customer value based business model would rise from the ashes.

When I look at the players in the industry, I can very clearly see the emerging classification of retailers. The players need to understand that they have a DNA of their own and any other kind of behaviour would need genetic engineering which may not always be successful. The classification is based on the size of a firm and its posture as given in **Figure**

ELEPHANT RETAILERS

These are large but are not predators. They have power but do not tend to be fast, unless agitated. They are likable, look docile, and are respected for their unexercised power. They are playful and believe in being part of a group. They set their target and keep moving on a designated path. Nobody dare cross their path; not because the fear of attack, but the fear of being stampeded by chance. Elephants feed of a variety of foodstuff and would seldom destroy the tree or foliage. Essentially herbivorous, they know that their customers would not run away and hence would tend to build a longer term relationships than a transaction based relationship as in case of tigers. Their competitive strength comes from the fact that despite being powerful, they use their energies to care and service the customers. Even when they match the prices of other competitors, they use non-price values to attract customers. While due to their large size and slow movement, they seem to be easy target. But they are not. They are nimble footed when they choose to be one. As they say, one of the most pleasant sights in the jungle is a dancing elephant. And the only animal that the tiger is afraid of is the elephant. Their business model is designed around maximising the share of the requirement of the customer.

TIGER RETAILERS

Predators by nature, these are large players with killer instinct. They have power and speed. They would identify their targets and would keep pursuing till they have hunted them down. Very shrewd in their thought, they are very focussed and would not mind using guile. They have the ability to hunt during night. They are aware of the market and its structure to the T. What adds to their stature is their majestic look and poise. Like the real jungle, they cannot let another tiger enter their territory. Any other tiger coming in would face very stiff challenge which may lead to one of them being killed. A constant warfare would be witnessed, till they have settled their territory or one of them has been recognised as the leader of the pack. Such retailers are very aggressive in their customer acquisition plans. After all they are hunters and would hunt even for customers. They would tend to play the price and promotion game almost as a chore. The low margin necessitates a large customer base and a large merchandise mix to service them. This leads to larger store sizes fuelling the need to sell more due to higher costs. Thus, like the tiger in a jungle, they would hunt the customers and feed on it to the fullest. Their business model is designed to generate higher share of the wallet in every visit of the customers.

PIRANHA RETAILERS

These are small retailers who are week individually but as a school they can eat a whale out within no time. Their power is their unity. Examples of these were seen when Cadila wanted to enter the retail business. Just before their launch, the retailer association threatened to boycott their products. The company had to postpone their launch and could not start their operation for almost a year. Similar incidences were noticed with the entry of Metro as Reliance. As a move to counter hypermarkets, some of the shops in the main street of Rajkot adopted the same brand name. The small retailers in Europe form or become members of buying groups or centres to achieve the economies of buying and offer product at a competitive rates.

GRASS RETAILERS

These are independent small mom-and-pop stores. Most of the retailers in India would fall into this category. Like the grass, they survive on small resources and grow everywhere. Unless the weather is very harsh, they do not die. They live even during peak summers and winters. Even after being weeded out, they pop up. Their resilience is well known. Even after being stampeded by elephants they grow up. Most importantly none of the other types; Tigers, Elephants and piranhas eat them. They also do not attack and are happy with whatever comes their way. Their competitive strength comes out of the immense emotional value that they create with their customers.

RECOGNISE YOUR NATURE

This classification brings out the fact that while all of them live in the same jungle, they have their own territory (customer segments) and path. Despite the power of the large retailers, even in Europe and USA, more than 75% stores are small. It is also noticed that even the oldest formats are existing today. Added to this is the information that despite being the largest in the world Wal-Mart has just about 12% market share, indicating a very fragmented industry. With the low cost of entry and exit of the small retailers, the competitive intensity is high and consolidation a longer process.

It is an established fact that, as consumers, all of us have a primary retailer and secondary retailers, indicating that customers derive different values from these different formats, even when buying the same merchandise. The business models of each of the formats is different, hence the DNA of each of the types of retailers is different. Thus even if a company enters through a hybrid format of large and small store, the way of managing them is very different and unless the company is designed and structure differently, it would be difficult to succeed. There are not many examples of retailers across the world that have succeeded with several format at one time. Even Tesco and Carrefour started with one format, consolidated their business and then introduced other formats one by one. Thus, If this is the nature of business, Indian retailers must realise that (a) they need to co-exist with small retailers who simply cannot be obliterated, (b) do not bite more that what they can chew and (c) recognise that to change the DNA and behave like other formats one requires genetic reengineering.

'No change in limit on foreign investment in single-brand retail'

The Union Commerce and Industry Minister, Mr Kamal Nath, said that the 49 per cent cap on Foreign Direct Investment (FDI) in single-brand retail would remain and there would be no change in sectoral limits. He said the changes in the FDI policy will not allow backdoor entry for foreign investment into the retail sector.

"The Government has rationalised the calculation of foreign investment norms keeping in mind the compression and depression in the global markets. Now, we have brought the concept of ownership and control in management together. We have integrated them and by this process, we expect, there will be further inflow of foreign investments into the country which is very essential at this point of time without disturbing the question of ownership and control," Mr Nath told reporters on the sidelines of an industry event. India does not allow FDI in multi-brand retail but permits up to 51 per cent in single brand retail and 100 per cent in cash-and-carry wholesale trading. Though there is a ban on FDI in big multi-brand retail stores, there is no restriction on companies accessing the foreign equity market through the American and global depository receipts.

Business Line, Feb 2009

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SEBI WANTS INDEPENDENT EVALUATION BEFORE DEAL

In an unusual move, India's capital markets regulator has asked for an independent evaluation before allowing Subhiksha Trading Services Ltd to be merged with Blue Green Constructions and Investments Ltd. This comes as another hurdle for distressed discount retailer Subhiksha, whose merger proposal is also being objected to at Madras high court by investors and creditors. The Securities and Exchange Board of India (Sebi) had asked Mumbai-based Bansi S Mehta and Co. to conduct the independent valuation three weeks ago, according to Shiva Ganesh, president, Collins Stewart Inga Pvt. Ltd, the manager of the deal. Blue Green Constructions was a non-deposit accepting non-banking financial company, but surrendered its certificate and the Reserve Bank of India cancelled it in December, according to an official at the central bank who did not want to be named.

Subhiksha's investors, ICICI Venture Funds Management Co. Ltd and PremjiInvest, the private equity arm of technology billionaire Azim Premji, have filed a petition in the Madras high court objecting to the merger. Tata Teleservices Ltd and Hindustan Unilever Ltd, which have unpaid bills with Subhiksha, have objected in court on similar grounds.

Indian laws mandate that a merger of companies has to be cleared by a high court.

Live Mint, February 2009

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YOU CAN SOON SUE DOCS, COS FOR CONCEALING FACTS

The government is framing a law to empower consumers to sue manufacturers and service providers who dupe them by concealing information that could influence their purchase decisions. Under the proposed law such companies will also be prosecuted for not issuing receipts of purchases. According to a Cabinet note, the penalty will be equal to the value of the product or the service along with an interest . The note proposes to amend the Consumer Protection Act 1986.

The proposed move will also define 'unfair contract' to protect the weaker party from incurring losses arising out of such unfair trade practices. The Consumer Protection (Amendment) Bill 2008 will replace the Consumer Protection Act, 1986, which will help in faster disposal of consumer cases , said a senior government official associated with the drafting of the Bill.

Every complaint would be heard by consumer forums on a day-to-day basis. As of now there is a huge gap between the time a case is filed and the time it comes up for hearing. The Bill also says that any request for adjournment of a case would have to be accompanied with genuine reasons. It has also reduced the time frame for serving a notice to the accused from 21 days to 14 days.

There are 35 state consumer disputes redressal commissions and 610 district consumer forums in the country. There is one National Consumer Disputes Redressal Commission at the apex level. About 29,000 cases were filed in these forums up to 2008.

The Economic Times, March 2009

NEWS

GOVT SAYS NO ROUNDABOUT ENTRY FOR FDI IN PROHIBITED SECTORS

Foreign investment cannot enter India through a circuitous route in sectors like multi-brand retail, atomic energy and the lottery business and will need to operate within the sectoral caps, according to new guidelines. Foreign investment will "have to comply with the relevant sectoral conditions on entry route, conditionalities and caps with regard to the sectors in which such companies are operating," the Department of Industrial Policy and Promotion (DIPP) said.

Even a domestic firm in which investment is made by another Indian company (that has an FDI component) will be subject to the "sectoral conditions on entry route". This will prevent circumventing of rules though indirect investment.

India prohibits FDI in multi-brand retail, atomic energy, the lottery business, gambling and betting, chit funds and nidhi firms. Besides, an FDI ceiling has been put on sectors like insurance, aviation, asset reconstruction, private sector banking, FM radio, cable network and commodity exchanges.

The government on 11 February changed FDI policy and excluded indirect investment through domestic companies from overall sectoral ceilings, which led to the criticism that the new policy allows FDI through the "back door" in sectors where it is banned. It also made FDI caps meaningless.

With the government subjecting the FDI through indirect route to the overall sectoral entry and ceiling norms, the 'Press Notes 2/3' of 11 February get turned upside down.

These 'press notes' had said if a parent firm has less than 50% FDI invests into another company, the overseas investment would not be counted; thereby allowing firms to exceed sectoral caps.

Even the sectors where FDI was not allowed could have been considered thrown open since less than 50% overseas investment was treated as domestic money.

Live Mint, February, 2009

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MNC LIAISON OFFICES MAY GET TAX BREATHER

A ruling that the liaison office of home furnishing multinational Ikea is not liable to pay income tax in India could set an important precedent and benefit for foreign retailers, which have set up similar operations to oversee sourcing of goods from India.

In a recent decision, the Authority for Advance Rulings (AAR) said that the liaison office of Ikea Trading (Hong Kong) does not earn any income in India because its activities are confined to the purchase of goods that are exported by Indian vendors to the company or its nominees.

The Economics Times, Jan 2009, Delhi

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TATA CAPITAL NCD PROCEEDS FOR RETAIL, SME LENDING

After a long hiatus, non-convertible debentures (NCD) for retail investors have once again hit the market. The NCD, issued by Tata Capital, a subsidiary of Tata Sons, has evoked considerable interest, given the lack of activity in the equity market. The bank channels are what we are dependent on right now. But we can't depend on only one channel of finance which is why we came up with the NCD offer. When there is a liquidity crunch it is extremely difficult to depend on only one source. Another problem with taking loans from banks is that they can only have some limited proportion of their exposure to an NBFC and to a group company. Inherently, there is limitation up to which the banks can lend to an NBFC.

Business Line, Feb 2009

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