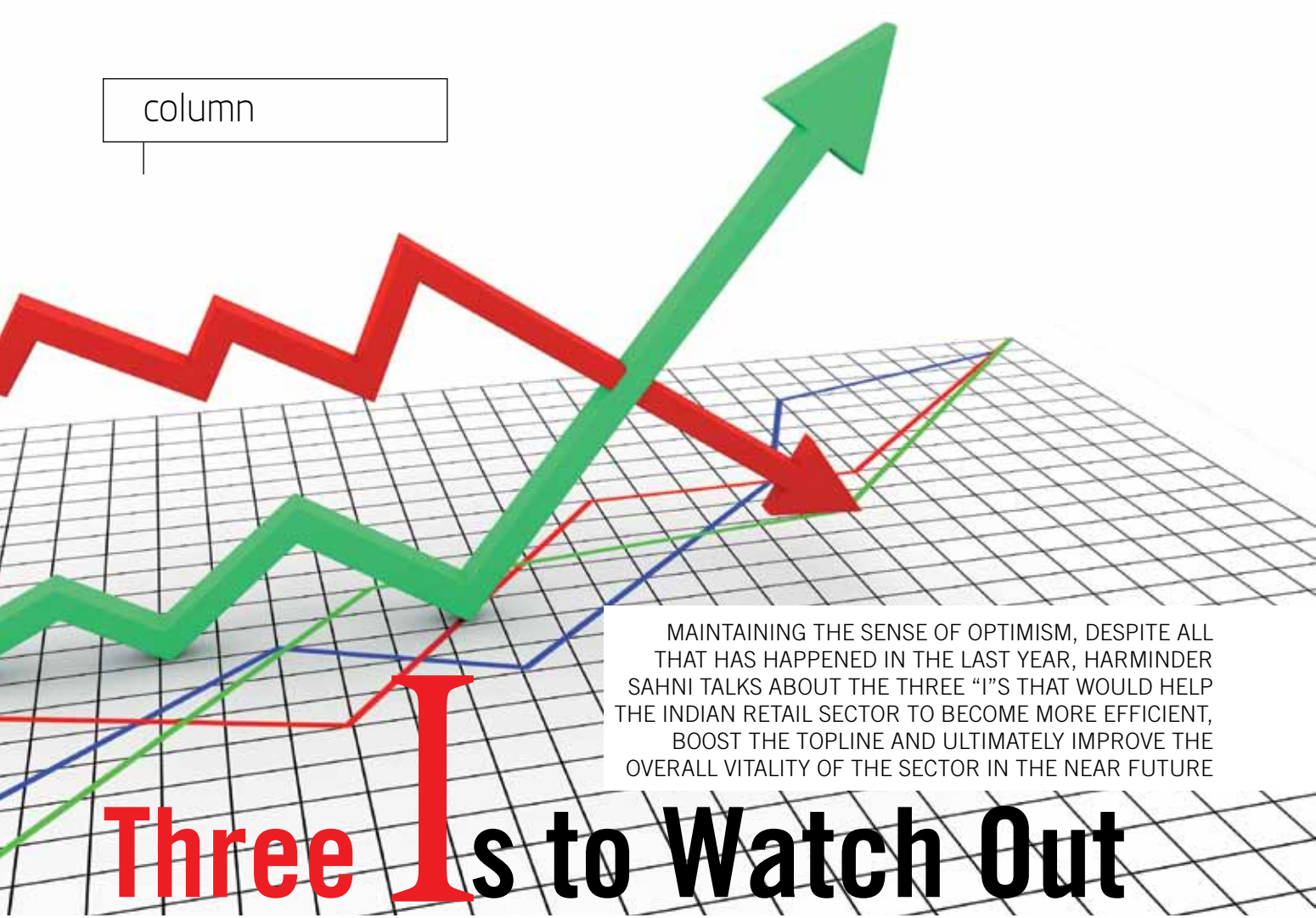


column



MAINTAINING THE SENSE OF OPTIMISM, DESPITE ALL THAT HAS HAPPENED IN THE LAST YEAR, HARMINDER SAHNI TALKS ABOUT THE THREE "I'S THAT WOULD HELP THE INDIAN RETAIL SECTOR TO BECOME MORE EFFICIENT, BOOST THE TOPLINE AND ULTIMATELY IMPROVE THE OVERALL VITALITY OF THE SECTOR IN THE NEAR FUTURE

Three I's to Watch Out for in 2013

By Harminder Sahni

→ The year 2012 though wasn't the best of the year for the economy in general and retail sector in particular, still it has thankfully ended at a much better note. With some of the policy announcements from the government and the prospect of economy recovering, the last quarter turned out to be far better than expected for most of the retailers and consumer product companies. On an average, the revenues are estimated to have grown 15 percent y-o-y in one quarter. This is no mean achievement, considering that the first nine months of the year were possibly the worst in almost a decade. So all is well that ends well. Moreover, this good performance in the last quarter has set a very nice stage for 2013, and I am quite hopeful that the worst is behind the retail industry and we should be seeing far better results in 2013 and beyond.

In this article, I would like to take the opportunity to talk about three elements that can dictate the extent of conversion of this optimism into real results on the ground. These three "I's" have kept us busy guessing, speculating and debating throughout 2012.

1. INFLATION
2. INTEREST RATE
3. INTERNATIONAL RETAILERS

While the first two - inflation and interest rate - impact the economy overall, the third one is specific to retail industry as well as to the consumer product companies. Moreover, the first two are closely inter-related; thanks to RBI whose seniors are going by the book and have managed to ignore pleas from all stakeholders of the economy including but not limited to PMO and Finance Minister to reduce the interest rates, always citing high inflation as the sole reason for their

inaction. However, it seems that finally RBI may start bringing down the interest rates from January onwards. There are a lot of bets riding on this and it is almost being taken as foregone conclusion. Now the real question is not when but how much reduction in interest rates are we going to see in the next one to two years. This has implications on the overall economy and sentiment of large investors to invest more money into new projects by borrowing cheaper fund. Those investments will lead to more job creation in those projects and also in the downstream and upstream activities. But it has a far more direct correlation with the consumer sentiment because a large number of consumers have these days taken various personal loans including home loans.

The payment of installments (EMIs) for these loans form a serious chunk of their monthly outflow and with higher interest rates these EMIs have grown fairly large and leave lesser discretionary spending money in their wallets. These millions

of households are keenly looking forward to reduction of this burden and once that happens they will be quite excited to start spending across product and service segments.

The second important "I" is the inflation and within that the food items inflation. The bill for kitchen for most Indians has risen the sharpest ever in the last four to five years and this doesn't seem to be slowing down even now. And this has led to higher costs of labour and every other item in the market and hence reduced the purchasing power of most consumers. Inflation for most retailers and brands is a double-edged sword. One side it hits the overall sales but on the other side the realisation for each unit sold goes up and helps boost the topline. However, in the long run such inflation is bad for business. While RBI might like inflation to go back to 5 percent or lower, that RBI considers acceptable, it seems that a new normal of 7 percent inflation may become the new normal. In this context of new

normal, it will be a healthy tug of war between unit sales and value sales that good companies will be able to work to their advantage.

The third "I" that will be the most interesting to watch out for is the international retailers. With parliament passing the new policy and letting FDI into the single-brand retail, I hope to see a large number of international retailers start getting aggressive about the Indian market. More than the new players, I am expecting the international retailers who have already set up shops in India to make big moves on the next one to two years. So in 2013, we may see some announcements from international retailers regarding their foray into India but the real action and investments will come from retailers who already have shops, tested their formats, build organisations and learnt from their mistakes. I also believe that we will see some of the international retailers taking inorganic route to set up and/or grow their business in India. There

are many few Indian retail businesses that have the potential to grow quite large, but it seems the current promoters may not have the capital and/or competence to fully exploit the potential. International retailers who may be impatient to leapfrog will acquire many such businesses. This will create a new set of more consumer friendly, efficient and profitable, and sustainable growing retail businesses and improve the overall vibrancy in the sector.

This equation of the three "I"s will have significant impact on retail sector and I hope that it will be more positive than negative. Also, if all goes well, these three can create a very positive environment for the so far elusive exponential growth for the Indian retail sector. Amen! ☒

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