

GOVERNMENT'S RELAXATION OF FDI IN RETAIL INDUSTRY OF INDIA POSES A SERIOUS THREAT TO THE MODERN RETAILERS OF THE COUNTRY. IN ORDER TO STAY IN THE MARKET, A CERTAINLY GOOD STRATEGY IF NOT BETTER FOR THEM IS TO FIGURE OUT SMALLER MARKETS BEFORE THESE TOO ARE OPENED TO MULTINATIONAL RETAILERS



OPPORTUNITY

# A Case of Aggressive Expansion Beyond Million Plus Cities

By Harminder Sahni

→ The last few days have been quite eventful for the organised retail industry. Be it final clearance to Ikea from DIPP to set up stores, or H&M seniors' visit to India to finalise their entry, or Noel Tata's meeting with Ministry along with Tesco Chief, it seems finally we are going to see some serious FDI coming into the organised retail industry of India. This flurry of activity, in spite of the highly restrictive FDI policy, is a clear endorsement of potential of Indian retail market and also of the keenness of international majors to have a share of this large and growing pie. However, my focus in this article is not about the inevitable arrival of all international retailers but on what impact it will have on the domestic organised retailers.

In another article last year, I had mentioned that real threat from FDI in retail would be for the organised retailers in the country, much more than for the unorganised or traditional retailers. Government of India has made various provisions to control the impact of international retailers on traditional and small retailers, through restraining them from entering cities

below million people population. However, there is nothing to save Indian modern retailers from the direct onslaught of international retailers as most of the Indian organised retailers are hugely focussed on these same million plus cities. In fact, many retailers such as Shoppers Stop or Westside don't have presence even in all these million plus cities. Thus, such retailers are under serious threat from the aggressive developments on the international retailers front.

However, I believe that the policy of restricting international retailers to million plus cities has a tremendous opportunity for Indian retailers to capture the market in the cities beyond these. It is hard to predict when the government will change the policy to let international retailers to go into smaller cities, but one can safely assume that it won't be doing so in a hurry. It could be anywhere between 8 and 10 years before this subject even comes up for discussion. Hence, this is an excellent time window for Indian organised retailers to expand into these markets. It may be a far better strategy as compared to getting into head-on competition with experienced

international retailers with much deeper pockets. If you look at the US retail history, even Walmart did the same to reach a certain size before getting into competitive wars with already established retailers such as Sear's and Target.

While considering a strategy to focus on the comparatively smaller markets, the retailers need to take few fundamentals in consideration. One of the most important aspects is that the overall market size may be smaller in such cities but the per capita consumption levels are not that low. In addition, the aspiration levels are much higher due to exposure through media but lack of actual availability of products and merchandise. The service level expectations in smaller markets are much higher as people are used to being treated well by the traditional retailers in their towns. The staffing levels and the training standards need to set keeping that in mind. Another mistake many retailers often make is that they shrink the size of the store when going to smaller markets and this mostly is not perceived well by the consumers in these markets. Hence, the retailer needs to find the

balance between the size and market potential keeping such sensitivities in mind. Last but not the least, such markets demand a far higher level of customization of merchandise mix as compared to larger markets that are

and rural markets surrounding these cities and those can be fed indirectly from stores in such markets.

While what works in top 40 cities may or may not work in the relatively smaller cities, it can be assumed with

common characteristics that can be seen across smaller and bigger towns amongst consumers of similar income class.

While most of the major modern retailers in the country are going to the smaller markets, I urge that they need to give special focus to these markets and not consider these as an extension of the larger markets. I would go to the extent of suggesting that if to free some resources even if it requires vacating some of the bigger markets that too should be done. These markets are where real middle India lives and in large numbers that are growing with increasing migration from rural India and with increasing industrialisation and road connectivity, this is where the real growth is. ❑



**THE POLICY OF RESTRICTING INTERNATIONAL RETAILERS TO MILLION PLUS CITIES HAS A TREMENDOUS OPPORTUNITY FOR INDIAN RETAILERS TO CAPTURE THE MARKET IN THE CITIES BEYOND THESE**

somewhat homogeneous in nature. Thus, the retailers need to study the market far more closely before deciding on the final merchandise offer and should be open to localise it as per the demand of a particular market.

If one is willing to look beyond million plus cities, there are more than 250 cities that offer as much potential as these top 40 cities. Also, these cities are feeder markets for the semi-urban

certain amount of surety that what works in smaller markets will certainly work in bigger markets. The reason being the nature of urban poor and middle class is fairly homogeneous in most markets due to the migration from smaller towns to bigger towns as well as the direct connect such population has with people back home. Price sensitivity, frequency and volume of purchases, attitude towards replacement of items, etc. are fairly

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