

Big retailers still struggle in India

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Most Indians continue to find big retail stores more interesting as cultural phenomena than as places to do their actual shopping.



Indian media representatives stand inside the country's first ever Bharti Wal-Mart 'Best Price' Modern Wholesale cash and carry store in the village of Manawala. NARINDER NANU/AFP/Getty Images

Just a few days before Diwali, the five-day Hindu, Sikh, and Jain festival that begins on Oct. 17, Rajlaxmi Pandit knew it was time to buy some gifts for family and friends. So she hopped on the Delhi Metro for a 45-minute ride across town to the closest Big Bazaar, a big-box wannabe offering everything from saris and neckties to corn flakes and frozen chapatis. The 34-year-old homemaker spent nearly an hour sifting through piles of children's clothes, admiring watches, and trying out cell phones.

Then, without making a purchase, she hopped right back on the Metro and headed for the noisy street market in Bhogal, the working-class neighborhood where she lives with her husband and three children. There, shopkeepers called out to her by name as she made her way in and out of mom-and-pop stores clutching a list of prices from the Big Bazaar. She picked out a \$120 phone for her sister; the price was about \$5 less than at the Big Bazaar, and the shopkeeper had it delivered to her house three hours later, where her husband paid cash. "Big Bazaar was nice," says Pandit. "But I just wanted to see all the prices. I don't buy at those big shops."

As Diwali fireworks light up the Indian skies, millions of people across the country buy new appliances, clothes, and gifts for the entire family. In the days leading up to the festival, markets in Delhi have been packed with shoppers weighing gold bangles on tiny scales they brought from home, dragging annoyed children from store to store, stuffing them into sweaters too hot for the October balminess, and spending cash squirreled away for months.

Tricky laws for foreign retailers

But like Pandit, most Indians find big retailers more interesting as cultural phenomena than as places where they would actually buy anything. Indian regulations for foreign retailers are complicated; big-box stores such as Wal-Mart (WMT) or Carrefour are only allowed to partner with Indian companies in the wholesale sector, rather than selling directly to customers like Pandit. Meanwhile, single-brand retailers like Levi Strauss that primarily sell one manufacturer's products are allowed to sell directly to customers, but they must also have a joint-venture partner.

That means that for foreign-owned retailers, much of India remains out of reach. Marks & Spencer, for instance, has just 15 stores through an alliance with Reliance Industries, although

the British retailer on Oct. 13 said it plans to add another 50 outlets in India. Through a joint venture with Bharti Enterprises, Wal-Mart in May opened its first Indian store—called Best Price Modern Wholesale—in the Punjabi city of Amritsar, but it's allowed only to sell to people who register by showing tax documents that prove they own a retail outlet, often called a kirana store. The joint venture hopes to open another 15 outlets.

With the Westerners limited to such modest plans, local aspirants dominate the country's \$450 billion retail industry. Companies such as the Future Group (which owns Big Bazaar), the Reliance ADA Group (which runs the smaller Reliance Fresh grocery stores), and Vishal Retail rented millions of square feet of expensive space nationwide.

Mom and pop still rule

The market remains almost completely dominated by small corner stores, though, with chains of air-conditioned supermarkets and big-box outlets now holding less than 5% of the market, according to brokerage house Edelweiss Securities. Because they don't have much of a foothold in the country, most of these companies haven't had a chance to build up the sort of efficient supply chains that allow Western retailers to discount their wares deeply. Meanwhile, the nimble mom-and-pop stores exploit personal connections to shoppers, home delivery, easy credit, and gifts and discounts for loyal customers. "Some things are cheaper at the big stores, but if I tell my corner guy that I saw cooking oil for \$7 a kilo at Big Bazaar, he gives it to me for the same price," says Pandit.

The success of the small players—and the larger economic slowdown—have contributed to a shakeout in Indian retail. Nearly 2,000 shops have closed in the past 18 months. Subhiksha, a 1,600-store discount chain, ran out of money to pay employees or rent early this year and shut down. Spencer's Retail (no connection to Marks & Spencer) has closed down 150 of its 400 shops. Pantaloon Retail, owned by the same company that runs Big Bazaar, closed 103 of its shops countrywide. As India's largest retailer, it still has more than 1,000 shops. The Future Group is restructuring the entire company and considering selling equity to raise funds. Vishal Retail, which runs 170 discount stores, is restructuring its debt.

Winning over customers may not be as easy as winning over the government. Reliance Industries' retail chain, Reliance Fresh, had to close stores all around the country—including 12 in Uttar Pradesh, India's most populous state—in 2007 and 2008 as politically connected traders led protests against it, alleging that it ripped off farmers. That distrust continues even today, in spite of Reliance's plans to open wholesale stores for traders. "They buy commodities like spinach, potatoes, or fruit at dirt-cheap rates from the poor farmers, sell it at their Reliance Fresh stores, and mint money," Gopal Bhargava, a state minister for rural development in India's largest state, Madhya Pradesh, said on Sept. 19, according to media reports.

Indian companies have to tiptoe around state governments trying to avoid a repeat of what Reliance Fresh went through. They need to figure things out in a hurry. "Eventually, once modern retailers can get their supply chain infrastructure in place, there's a lot more in terms of price competitiveness that they can offer," says Mohan Singh, Hong Kong-based analyst for Macquarie Securities. As Indians grow richer, he adds, consumer spending will skyrocket in the next 10 years, creating an opportunity that Indian retailers must figure out how to exploit.

SRIVASTAVA, Mehul. Big retailers still struggle in India. **BusinessWeek**, New York, Oct. 16th 2009. Disponível em: <www.businessweek.com>. Acesso em: 23 out. 2009.