

'FDI in retail is like the genie uncorked'

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An Indian model Big Bazaar is an example of a modern retail format that keeps Indian needs in mind. *Business Line*

Prof Nitin Sanghavi says the time is ripe as Indian retailers have evolved

Nitin Sanghavi believes FDI in retail is a genie that has been let out of a bottle and can't be put back in. The professor of retail marketing and strategy at Manchester Business School and Distinguished professor of Retail Management, who will also manage the new Centre for Excellence in retail management at the Great Lakes Institute of Management, Chennai, believes the Indian retailer is entirely capable of taking on the challenge of retail biggies if they come in. He says huge investments are needed in Indian retail and FDI will come in in some form or the other eventually.

Prior to his academic career, Sanghavi worked with major retail organisations in the US, Europe, India and West Asia and was a visiting professor at Harvard Business School. He is also a director on the boards of several companies including Shoppers Stop and Hyper City. At the launch of the new Centre in Chennai, Sanghavi spoke to cat.a.lyst on the Indian retail scene. Excerpts:

Is there a case for an Indian retailing model? Do you think there's a case for a hybrid model?

When I looked at the earliest expansion of retailing about seven years ago it looked like we were going to copy the West left right and centre. Fortunately, common sense prevailed. Lessons have been learnt, some at considerable financial cost. To me, we are going hybrid. I think in metros we are going to look at an online-offline combination. We have innovated many new ways of fulfilling customer needs with small changes.

We have still not conquered the buying and merchandising idea, stock management is still an issue. But, I think we are good at picking up the best we find, adapting and Indianising it.

How have Indian retailers adapted the model?

Some of the best examples I see are how we have started home delivery using 'tuktuks' (autos), which probably costs pennies while in the West we had invested in big vehicles to deliver, which added to costs, and then finally we looked at outsourcing. And what I find interesting is how Indian retail has changed the rules of the game. For example, in the West you see hypermarkets are over a 100,000 sq. ft, whereas in India it would be 40,000 sq. ft.

There is a view that India will remain a country of many markets and there will be a retail model for each of these markets that will evolve. Your view?

The Indian market is like the American one in some ways. Everybody says America is a homogeneous market and so many retailers have found to their cost that there is nothing like one market at all. Each state is different. Also, north California is as different from mid-California as is the south. So many people who have gone there have learnt at their expense how different it is.

But I thought the US market was dominated by ‘Walmartisation’?

Even Walmart has learnt that everything is not the same in America. When it went into California or even the East Coast it had to change so many things. I think in India the whole canvas is full of micromarkets, languages, customs, rules and regulations. Any retailer who manages to have an all-India presence should master that whole thing about which bit works where. In Shoppers Stop you would think that our stores in Chennai and Kolkata or Mumbai and Delhi are the same. It might look the same but many things are different, even the way we have to manage processes in the store have to be adapted, even the staff recruited are different. To me it’s very interesting that we will have our own model that is pragmatic, flexible but robust at the same time that can take care of this whole thing, because I can’t see India becoming one homogeneous market for years to come.

While Indian organised retail has been growing, not many have seen profitable growth?

I raised this point a few years ago, where I used to question this growth. Yes, growth is always good, but you may have much bad growth as well and nobody talks about profitable growth, profits are hardly mentioned. It’s more on the lines of how many more stores do you have, what is your store growth and so on.

Has that realisation dawned?

Slowly, I think what’s now happening in the business and economic situation has really galvanised thinking, to review the model. People are now going right to the basics and coming back with the fundamentals of business that have been messed up and overlooked. So, there will be some casualties and a fair amount of consolidation but that is fine, in any growing market it happens.

Do you see retailers growing profitably? Has Shoppers Stop come back on track?

Yes, Shoppers Stop has come back, Big Bazaar is going through a major revision but it will, like Shoppers Stop, come back in a leaner, fitter and more appropriate way, where it will be positioned, targeted and executed correctly.

Execution ... that’s key in retail, right?

Yes, you see retail is detail and detail is people, processes, systems and all the small things that matter. But, people don’t have the time, they just look at the bigger things. But retail is a craft, sometimes it gets boring and tough but you have to really get down to the task.

To look at a larger policy issue, the BJP is talking about opposing multi-brand retail FDI if it comes to power, so will that halt the Indian retail growth story?

I think what’s going to happen is we will look at various ways of getting around that so there may be tie-ups where the man in the front says they are not going to change anything but at the back end they may change many things. That’s easier to come through. I think FDI has to come, the genie is out of the bottle and you can’t put it back in. Large hypermarkets will have an adverse impact on inefficient retailers anywhere.

Around 10 to 12 years ago, I wrote a paper for the government. Yes, at that time I had said not to let in foreign retailers because it would have killed local industry like it did in many growing countries. Our retailers would never get the chance to develop and evolve to the level we are at today. It was the right thing to do.

But, we have matured and we are strong and agile. And, we need huge investment in retail. Reliance, and perhaps Birlas, can do it because they are capable of it.

Big companies will need to invest in the supply and distribution chain creating the efficiency that we need in the business right now. So to me, FDI should project the transfer of knowledge, the expertise and the investment we need.