

The way MBOs vs EBOs in India are faring?

The Retail Industry in India has grown from around USD 290 Bn in the year 2005 to approximately USD 430 Bn in 2010. Key drivers of growth have been rapid urbanization, increasing middle class, double income families, increased exposure to fashion owing to higher awareness through media, internet etc. The size of the organized **Retail** industry is USD 21 Bn. At this figure, the organized retail forms approximately 5% of the total merchandise retail in India. The organized retail industry comprises formats such as EBO's, large department stores such as Lifestyle, Shoppers stop, and MBO's or Multi Brand outlets and then the traditional format of regular mom and pop stores.

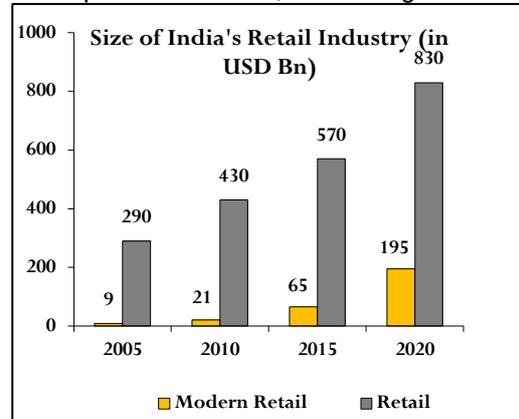


Exhibit 1: Size of India's Retail Industry

Exclusive Business outlet or EBO's have traditionally been the building blocks for brands. EBO's offer the brand potential for complete display of the offering and also provide specific services related to the brand. The brand value proposition is clearly translated and experienced by consumers within the EBO format. Branded stores usually find presence in either malls or on the high streets, largely experience led prominent shopping places

Internationally, as also in India, brands have often used EBOs as an essential tool for brand salience and typically do not spend on ATL advertising activities. The EBO's have been used for communicating the brands image and offering. Retailers have used visual merchandizing as a tool to best present the product offering as well as fashion cycles while keeping in mind the shopping experience that the consumers seek.

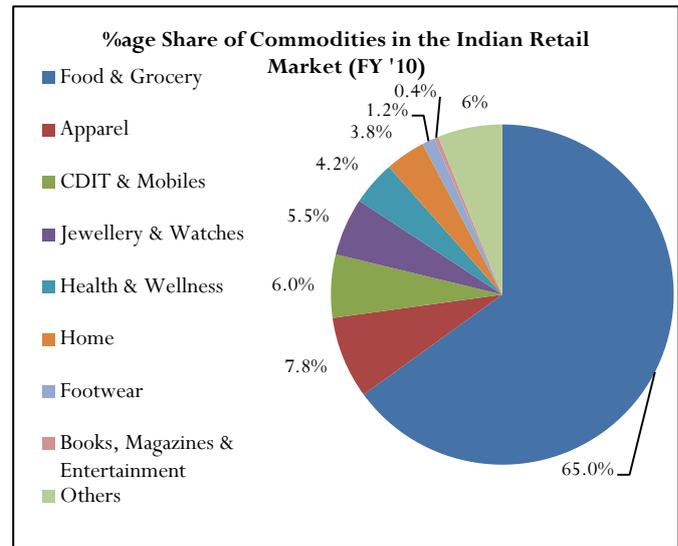
Pre 2008, EBO was the preferred mode of retail business entry. Most retailers took this route for retail foray to exhibit brands in these exclusive formats across new malls or the high streets. The real estate drivers saw the potential far too soon and the prices sky rocketed for these places. The early entrants were happy to leverage this opportunity, whilst the new entrants came under tremendous pressure of rising rental costs of the brick and mortar format.

Higher rentals started denting the overall profitability of the businesses, which were also going through pressures due to increase in raw material pricing, additional taxes levied on branded apparel and inflationary effects. All these combined factors led to reduced sales across formats.

Some of the retailers who treaded this path are now realigning the size vs location strategies across formats. Retailers are now penetrating tier 2 and tier 3 cities, where the rentals were still low and have been able to ride the tide of high aspiration of the large population base in these cities. Thus, retailers

are foraying into smaller cities with the EBO format along with commensurate store sizes for viability concerns.

MBO's on the other hand were typically a more traditional way of growth of retail in India. As kids, we often frequented shops selling multiple varieties of home furnishings, furniture and consumer durables. These were shops where consumers normally seek advice from the retailer on what to buy as the consumer was still evolving and the trust factor with the retailer played an important factor for growth within these stores. Emergent examples of the MBO format can also be drawn from luxury segment, where a group of luxury brands can be brought together to offer a better choice to the consumer for example Kimaya. This is typically happened to leverage the



strengths of the designers who on their own would have found it difficult to scale up independent exclusive stores.

Exhibit 2: Share of Commodities in the Indian Retail Market

The third format – which is the large department store, presented the greater choice to the consumer under one roof. The large format store typically has a large number of brands together in each category. Wherever there is a gap in the positioning, the retailers have tried to add private label, primarily to give a wider choice to the consumer across the price positioning. While these have been successful to provide choice to the consumer, ensuring a good shopping environment, it fails on certain parameters. Since the retailer caters to a large number of brands, it is largely left to the brands to decide the product mix in a particular store. In most cases any single brand never gets enough space to offer the complete range it could otherwise have offered in an EBO. At the same time, there are times when the depth is not available for the products being offered.

Private label forms an interesting part in this scenario. In most cases private labels become enablers for both department stores to gain higher profitability. They also help the department stores to scale up the operations to locations where the brand is not too interested to reach to begin with. These also give opportunity to an existing brand to test waters in a new market or to a new brand to understand the consumer preference and fine tune the offering before plunging into the more expensive – brick and motor route.

In times to come, another format that is expected to do well is E-tailing. This will arise out of the huge demand for physical infrastructure to support the economic growth of India. In the near future, there will be an extreme case of non-availability of real estate to reach out to current and new consumers in current and emerging new geographies. Adding to that, the rising cost of all critical expense line items (rentals, store man-power, energy) and the high cost of reaching out to smaller cities, we have ample reason to forecast a substantial growth of e-tailing very soon. E-tailing will help in addressing the

physical infrastructure challenges, easy penetration to smaller towns and villages and will also help in offering products in lower price.

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