

India and the competitive advantage of its retail industry



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PART A

A. 1 INTRODUCTION TO RETAIL INDUSTRY [Source: Economic times 2010]

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment [source: Appendix-A]. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success yet because of the huge competition. The India Retail Industry is gradually inching its way towards becoming the next boom industry.

A. 2 INTRODUCTION TO B&Q

B&Q is a British retailer of DIY and home improvement tools and supplies. B&Q was founded in 1969 and is the largest DIY retailer in Europe, the largest in China and the third largest in the world, It is a subsidiary of the retail group Kingfisher plc, which is listed on the London Stock Exchange. The store was originally called Block & Quayle, but this was soon shortened to B&Q. This first store soon spawned others across the UK; by 1979 there were 26. By this time, the first of the co-founders had left the business: Block left in 1976 and Quayle in 1982.

PART-B

COMPETITIVE ADVANTAGE OF INDIA

B. 1 PORTERS DIAMOND

Michael E. Porter in his book the competitive advantage of nations argued that nations create competitive advantage over each other and that some

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nations are more competitive than others. He explained this in the diamond framework. PORTER, M. 1990 cited in JOHNSON, G. 2005.

Governments

Factor Conditions

Demand conditions

Firm Strategy, Structure and Rivalry

Related and supporting Industries

Source: – Michael E. Porter “ The competitive advantage of nations” cited in JOHNSON, G. 2005.

Michael Porter in his book the competitive advantage of nations talks about ways and means to identify the advantages of a nation. Porter’s diamond considers four major factors which are the factor conditions, demand conditions, firm Strategy structure and related industries of countries to understand the competitive advantage of a nation. This basically helps B&Q understand the advantage of the Indian market in the retail industry.

To analyze in which way India has a competitive advantage the four factors below are looked into in detail.

Source: appendix AB. 1. 1 FACTOR CONDITIONS

These conditions are country specific and cannot be duplicated easily. This helps give the country a competitive advantage. These factors are not inherited but naturally created by the country. A study on these conditions will help in the identification of the advantage in the Factor conditions.

1] Huge population advantage which proves that the country will has a high level of human resources.

2] High number English graduates. India also has an added advantage of large pool of ever increasing technical graduates.

3] India has the 2nd largest English speaking population in the world.

4] Low infrastructural facilities.

5] India has a very strong banking sector.

Significance to B&Q

Source: appendix A

The factor conditions are very much in favor for B&Q to set up its operation in India. The huge population is very advantageous as it will create much employment opportunities in every area possibly required for B&Q. “

Thousands of thousands of employees... are being hired in a really short space of time”, <http://news.bbc.co.uk/2/hi/business/5409252.stm>.....

These conditions also show a very favorable technical support. The strong banking sectors will b a tremendous support to the company.

B. 1. 2 DEMAND FACTOR

If the demand of the consumers in the country is high then the competition between the firms to come up with innovative ideas will be high. This improves the competitive factors within the country. Studying the Demand factor will help us understand the nature of home demand in India and how a

business should set its priorities in accordance to the country. This is a very curtail analysis for a business to undertake before they enter into any country.

1] The Indian economy has a dominant service sector.

2] In India, the manufacture and retail sector is growing very fast. But when compared to the service sector it failed to an extent with regards to its percentage share in the total GDP.

Significance to B&Q

The government is very supportive to the service sector in India however it does not put down its support to the retail sector at al. The fast growing retail sector will give B&Q a huge competition which will end up creating gates for innovative ideas to keep up give the competition. All these factors will lead to the betterment of the company.

Source: appendix A

B. 1. 3 RELATED AND SUPPORTING INDUSTRIES

This is a very important component of porter's diamond which will help improve innovativeness and technology transfer across industries.

1] India has a very well developed IT sector in support of many existing and new entrant businesses.

2] The related industries help provide a round the clock advantage. This is an added advantage to the retail industry.

Significance to B&Q

Source: appendix A

The IT sector is well developed creating a good support for B&Q for carrying out its operations in India. A strong support from the related and supporting industries will definitely help in the strong functioning of the company.

B. 1. 4 FIRM STRATEGY, STRUCTURE AND RIVALRY

This again is one of the most important components of the diamond it helps to understand the availability of suppliers and ancillary industries that are internationally competitive. This component also helps determine the attractiveness of the industry.

1] The Indian economic strategy is to give more preference to the manufacture a retail sector as their contribution to the GDP is very high but not as much compared to the service sector.

2] The pre existing dominance of the retail and manufacturing sector from a long time has increased the levels of competition in that sector.

3] Dominance of the private sector.

Significance to B&Q

A very strong reason for B&Q to set up its operations in India is that the government gives a lot of preference to the retail sector. The predominant existence of the private sector is adding in support to its operations starting in India hence also opening room for more innovation.

Source: appendix A**B. 1. 5 GOVERNMENT**

Looking at the different governments the Indian government is very supportive toward the retail sector. The Chinese government is proactive in developing industries through direct intervention on the other hand the Indian government acts as a catalyst in supporting industries by providing the necessary environment for firms to grow. This actually shows that the government in India is much favorable.

B. 2 CONCLUSION OF PORTER'S DIAMOND

All these factors show a major dominance of the service sector in India however the retail sector is also very promising as it has a really good support from the Indian government. All these four factors and the government conditions prove that India has the competitive advantage when it comes down to the retail sector hence it is suggestible for B&Q to set up in India.

PART- C**DETAILED ANALYSIS OF INDIA****C. 1 PEST ANALYSIS**

Source: appendix A

Porter's diamond helped us have a clear understanding that there is a very good scope for B&Q to start its operations in India further in addition to this a pest analysis is conducted to understand and come to a conclusion of what can prove what additional factors would be beneficial for the company to operate in India and what could be the possible challenges for the company <https://assignbuster.com/india-and-the-competitive-advantage-of-its-retail-industry/>

to operate in India. " Pest analysis shows some of the macro environmental influences that might affect the organization" JOHNSON, G. 2005.

POLITICAL FACTORS

Change in the taxation policy may affect the company.

A change in government may affect the policies related to the industry.

India has one of the largest democracies in the world which proves that it has a stable government.

Source: appendix A

Dominant private sector; increasing withdrawal of government from business.

ECONOMICAL FACTORS

Low significant investment in infrastructure development.

Robust banking sector-Capital markets

Source: appendix A

SOCIAL FACTORS

Huge population advantage with one of the largest producers of English speaking graduates.

Skilled work force at a cheaper cost.

Social corporate responsibility will have to be change for a company entering in India.

India also has an added advantage of large pool of ever increasing technical graduates

Source: appendix A

TECHNOLOGICAL FACTORS

Power related issues can be a major hindrance.

IT infrastructure is well developed only in certain major cities (which could be a support for B&Q).

Flexibility in deploying new technology.

Source: appendix A

After taking into consideration the detailed study from the pest analysis and also from the diamond analysis we can narrow down the attractiveness, benefits, and risks and challenges the company might face in India below.

C. 2 ATTRACTIVENESS, RISKS, CHALLENGES AND DIFFICULTIES

RISKS AND POSSIBLE DIFFICULTES THE COMPANY MIGHT FACE.

There might be difficulties in rural retailing leading for the company as the products and price range seam more relevant to the higher middle class people and above.

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Retail today has changed from selling a product or a service to selling a hope. This is one of the biggest challenges to stand up to the customers' expectations all the time.

B&Q also has to keep in mind the initial capital and other finances cause many companies starting its operations have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them.

There will be a challenge of receivables if the products are not being accepted or rather standing up to the expectations of the new customers.

Brand building and marketing will be major challenges as the company is brand new in the Indian market.

Unexpected costs may arise because of the failure to analyze service and cost initially and also cause of the poor selection of the process of organizing work.

ATTRACTIVENESS, BENEFITS AND OPPORTUNITIES

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment.

The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market.

The cause of competition will help the company to give room to innovation hence giving B&Q the competitive edge.

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India has cost efficient cheap and talented labor when compared hence giving the company better opportunities.

The establishment of the company will give rise to a lot of employment opportunities which India will need as it has a huge population.

PART-D

CONCLUSION

D. 1RECOMMENDATIONS

Since there might be difficulties in rural retailing it is advisable for the company to actually start up its operations in some of the major cities.

Regular innovations in the products as the customers do have a very high expectation.

Since marketing of the new brand may be an issue the company might actually get in touch with a third party local advertising and marketing company to promote the name of the brand.

The use of modern management techniques, backed with seemingly unlimited financial resources will help cut down the unexpected costs.

Initially to gain sales the company can concentrate on the domestic market which helps create tremendous opportunity and hope for diversification, in turn de-risking the export heavy business.

The retail industry is facing a severe shortage of talented professionals, especially at the middle-management level. Hence giving proper training will help the company have a step ahead in the competition

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D. 2 CROSS CULTURAL MANAGEMENT

According to Lakomski, G. 2005. “ Culture is generally seen as a problem when emphases are placed on cross cultural differences.” In his book he says that problems on culture should be resolved as this may lead to a major downturn in the performance of a company. India is fast becoming one of the most important development centers for the retail industry. At the same time, India’s rapidly expanding middle class represents a promising new market. The entry of a foreign company into a new country can give rise to cross cultural issues. . Miscommunications due to language barriers, diverging visions, and different negotiation and management styles can lead to a loss or failure of the operations of B&Q in India. B&Q will have to take into consideration that these factors may have a huge impact on the performance of the company. Hence for the company to avoid all these problems in management it is very crucial for them to understand that culture plays an important role and hence their management techniques, management styles and management paradigm all have to be favorable in consideration towards the management culture of the operating country which in this case would be India.

PART-E

APPENDIX – A

Economic Superpowers:

The Race between China and India

Written By Swzta Chhaochharia, ICFAI Research Center, Kolkata

Ever since the process of globalisation and liberalisation started in the beginning of the 90's, the whole world was agog over the rise of China and India in the international economy. Both were the fastest growing economies – China at a spectacular 9% plus and India at slightly less, around 8-9%. Jointly, they accounted for 20% of the global economy based on purchasing power parity. Analysts worldwide had referred the rise of the two nationals as giants shaking off their “ socialist slumber,” “ caged tigers unshackled” and so on.

Rapid economic growth, globalisation, business ties and mounting political collaboration have pushed China to first place among the nations. China was the second highest investor in research and development after the United States in 2006. On the other hand, after the liberalisation, globalisation and privatisation wave in 1991, India had become an attractive business destination for investors all over the world. The joint potential of these two Asian giants was referred to as ‘ Chindia’.

Ancient Pillars

India

India and China had a lot of economic history behind them. India had the world's oldest and most sophisticated civilization, the Indus valley civilization, dating back to 2800 BC and 1800 BC. Thereafter under different dynasties the country had reach to global economic heights. According to Angus Maddison, an economic historian, India was the largest economy in the 1st century and 11th century, with a 32. 9% share of the world GDP in the 1st century and 28. 9% in 1000 CE. During the Mughal period (1526 –

1857), India was the second largest economy, only behind China. India's GDP in 1550 was 40% that of China, but the share grew to 90% in 1675.

Thereafter, till the British invasion, the country remained the second largest economy, followed by France.

The British ruled over India from 1765 to 1947. During that time, the country had a traditional agriculture based economy along with a dominant subsistence sector based on primitive technology. But India had the world's largest textile industry. With the establishment of British rule the drain of Indian wealth began. While the western economies (mainly Europe) were moving towards industrial revolution, India was in a technological blind alley, having made no serious scientific progress for centuries. In their two century rule the British obtained political supremacy and used the Indian economy according to their own needs. By the time the British left India, it was one of the poorest countries in the world, suffered from frequent famines, low life expectancies, pervasive malnutrition and illiteracy. This made India to move to the fourth place, while China became the largest economy followed by USA and UK. Thereafter, economic power in the world gradually shifted leaving India behind. (Exhibit I).

Exhibit I

Global Powers

Period

Counts ranked in decreasing order of Global Economic

Superiority

1625-1650

China, India, France

1650-1675

China, India, France

1675-1700

India, China, France

1700='725

China, India, France

1725-1750

China, India, France

1750- 775

China, India, France

1775-182-

China, India, France

1825-1650

China, UK, India

‘, 0-1875

China, USA, UK, India

1875-1900

USA, China, UK, Germany, India

1900-1925

USA, UK, China, France, Germany, India and the USSR

1925-1950

USA, USSR, UK, China, France, Germany and India

Compiled by the authors from (a) “ Economic History of India”, http://en.wikipedia.org/wiki/Economic_history_of_India, (b)

Haig Bryan, “ Review of ‘ The World Economy: Historical Statistics,’ by Angus Maddison” Economic Record, volume 81, 2005

India became independent in 1947. After that, the country opted for planned economic development. The thrust was shifted from agriculture to heavy industries. The period from 1950 to 1980 was referred to as socialist experimentation, during which the economic policies were socially oriented and controlled by the state. The average economic growth rate of the country was 3.5%. (Exhibit II). In this period (1950-1980), industry grew by 4.5% on average, compared with an annual average of 3.0% for agriculture.” The economy witnessed a slowdown in the 1960s. Inefficient

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agricultural system, too much centrally controlled industrial sector, war with China (1962), war with Pakistan (1965 and 1971), droughts (1965-1966, 1971-1972), currency devaluation (1966) and oil shocks (1973-1974), all contributed to economic stagnation.

Exhibit II

Indian GDP growth rate

Year

Source: “ Indian Economy Overview”, <http://www.economywatch.com/indianeconomy/indian-economy-overview.html>

Starting from the late nineteen eighties and the beginning of the 1990s, the Indian policy makers realized that the state controlled economy was not able to produce desired results. It was decided that an economic policy should be formulated based on liberalization, globalisation and privatization. From 1980-1981 to 2003, economic growth of India averaged around 5.7%. Per capita income was growing at 3.6% annually, which was more than double the growth rate of 1.3% before 1980. On the demand side, private consumption increased to 4.7% per annum from 3.2% before the 1990s. Export growth reached to 9.5% from 3.8% in the socialist experimentation phase. Investment growth remained almost the same at 6.3% relative to 6.1% before 1980s. However, private fixed investment grew up to 8.5% from 3.6% in the socialist phase. However, the initial rise in demand in the beginning of the 1990s resulted in a subsequent supply side revolution with

lot of investment in capacity augmentation. This had led to stagnation during the late 1990s, once this demand evaporated.

The Indian economy experienced a GDP growth of 9% during 2005-06 which increased to 9.4% during 2006-07. The Indian economy was projected to be about 60% the size of the US economy by 2025, the transformation into a tri-polar economy was estimated to be complete by 2035. Moreover, the Indian economy was smaller than the US economy, but larger than that of Western Europe. India, which was the fourth largest economy in terms of purchasing power parity, was expected to overtake Japan and become the third major economic power by 2020.

China

China was the largest economy on earth for most of the time in the world history. It was the second largest economy in the world after USA in 2006 in terms of purchasing power parity with a GDP of \$10.21 trillion. The economic development of China pre-dated that of India. The earliest Chinese pottery dated back to the 9000 BC. Chinese agriculture was tracked back to 7000 BC. The Xia dynasty (2200-1750 BCE) was China's earliest Dynasty. Thereafter, the economy continued to grow during the Shang dynasty (1766-1122 BC) and the Zhou dynasty (1122-256 BC) and many other dynasties (Exhibit III). China remained the largest economy in the world till 1875.

Exhibit III

Historical Chronology of China

1500 BC

Earliest written records.

Zhou dynasty.

1100-221 BC

206 BC-221AD

Han Dynasty established. Civil service developed. Expansion of the Empire to Caspian Sea.

Paper and ink invented. Contact with the Romans.

221

Collapse of Han Dynasty. Age of confusion. North invaded by Tartars and China divided. Buddhism

618

introduced. Tartar invaders gradually absorbed. Population 53 million.

Tang Dynasty established. Reunited Empire.

1127

Song Dynasty Loses North China to nomad invasion.

1290

Song dynasty conquered by Mongols. Destruction and depopulation especially in the North.

1368

Expulsion of the Mongols. start of Ming Dynasty.

1644

Ming Dynasty falls and Manzhous establish Qing dynasty.

1842

Opium war (with Britain) lost. Treaty of Nanjing cedes Hong Kong to Britain.

Russia moves into

1858

Chinese territories in the North.

War with Britain and Franca. Occupation of Beijing.

1894-5

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War with Japan.

1900

Failed Boxer Rebellion against foreign involvement in China.

1911

Revolution breaks out. The monarchy is abolished. A period of instability and warlordism ensues.

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1'919

The student-based-May 4th movement leads protests against foreign control over Chinese affairs.

1921

The Communist Party of China (CCP) is formed.

1923

With help from the Soviet Union Sun Yat Sen sets up Kuomintang (KMT).

Nationalist government in Guanzhou

?:

1925

Student protests in Shanghai. Protesters killed by international police.

1927

KMT army under Chiang Kai-Shek sets up KMT government in Nanjing.

Communist-inspired rural revolt across South

1929-1935

-1935

Extermination campaigns by Chiang against Communists. Blockade of Jianxi

Soviet (Mao's Communist stronghold) Long March to break out of blockade.

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1937

Japan invades China. KMT and Communists retreat into interior in the face of Japanese superiority of arms, control of sea and air. CCP guerrilla resistance prompts brutal retaliation by Japanese. Increasing areas under CP control.

1945

Japanese surrender. China left divided between KMT in the South and East and Communists in the North.

1946

Civil war breaks out.

Source: Lunn Jon et al., " A Political and Economic Introduction to China",
www.parliament.uk/commons/lib/research/rp2006/rp06.036.pdf, June 19th
2006

Between 1368 and 1800 China's economy expanded enormously. The key growth drivers as opined by most of the analysts was the steady compounding growth in China's population. Although agriculture, industry and trade increased during this time, the benefit was because of the rising population which resulted in a stagnated per capita income. During the rule of the Song dynasty (1127-1368), the country developed the world's most productive agricultural system. However, in 1368, the Mongol's expulsion

devastated many parts of the country. China regained its stability during the rule of the Ming Dynasty (1368-1644).

During the period (1300 – 1900), the agrarian economy developed significantly. New varieties of rice maize, peanuts, sweet and white potatoes and tobacco were introduced into the country from the outside world. Apart from food crops and tobacco, cotton was also introduced into China. Government assistance in the form of tax breaks, insurance, and other incentives, all joined with modern agricultural techniques to increase productivity.

The establishment of The Grand Canal in 1411 increased inter-regional trade within China. Different regions began to specialize in products in which they had comparative advantage. Increased commercialization and organizational changes helped the country to expand and organize its banking industry. However, the demand for copper, iron and silver exceeded domestic supply. More and more land was brought under cotton cultivation which resulted in a shortage of wood, fuel and grazing land. The resources needed to substitute the vast labour force and increasing per capita productivity were often not available. The vast cheap labour force of China often substituted their labour for capital goods. According to analysts, the scarcity of raw materials contrasted with its vast pool of cheap labour and was the major obstacle for the country's qualitative development.

After the collapse of the Qing dynasty in 1911, civil war broke out (Annexure I), which lasted till 1949. The country then adopted a socialist heavy industry development strategy, which was known as the “ Big Push” strategy. Rapid

industrialization was the priority. Consumption was reduced. All those developments were under the state control. The Private Sector was suppressed. Foreign investments were wiped out. Mao Zedong initiated an ambitious project called The ' Great Leap Forward' (Annexure II) in 1958. This project kept the agriculture and industry as priority sector for development. Mao believed that both agriculture and industry had to grow in order to allow the other to grow, During this period, the Chinese economy initially grew but later plummeted. For example, the iron production in 1958 increased by 45% but later decreased in 1961. The ' Great Leap Forward' was criticised by numerous analysts all over the world as it resulted in a struggling China faced with famine, poor agriculture and weak economy. Later, Mao started the Cultural Revolution in 1966. However, this campaign was also criticized all over the world and came to end in 1976 with Mao's death.

Since the 1970s, the Chinese economy has gradually transformed from a soviet-type centrally planned economy to a market-oriented economy. The private sector was encouraged. The economic reforms that started in China in the 1970s had helped to reduce the poverty rate down from 53% in 1981 to 8% in 2001. Government's control of the economy was brought down to one third and was restricted to utilities, heavy industries and energy resources. Since the 1970s, the country was one of the fastest growing nations with an average annual GDP growth rate of above 10% (Exhibit V).

Exhibit V

People's Republic of China's Nominal GDP 1952 to 2005

Source: "Economy of the People's Republic of China", [http://en.wikipedia.org/wiki/Economy_of the People`/*27s Republic of China](http://en.wikipedia.org/wiki/Economy_of_the_People's_Republic_of_China)

Economic Reforms in China and India

India

Economic reform started in India in 1991 when the country faced a balance of payment crisis. The foreign exchange reserve fell to \$975 million, which was not enough to pay for two weeks of imports. Since the reform period, the Indian economy had sustained an annual average growth rate of over 6%. Export growth was negative and the foreign investors shut their door to India. Industrial growth was negative (-1.6%) and inflation was 16%. GDP growth during this period was less than 1%.

The external sector was the main concern of the reforms undertaken. The exchange rate system was changed from a discretionary, basket pegged system to a market determined exchange rate system. Import licensing for capital goods, raw materials and intermediaries was abolished. Custom duties were reduced from 300% in 1991 to 30% in 2006. The artificially high exchange rates that discouraged exports were revised and as a result, the export growth rose. Foreign investment ceilings in many industries were increased to 51% of equity. Foreign participation in Indian equity market was encouraged through GDRs and ADRs which were floated by Indian companies.

In the case of Industry the requirements for obtaining licenses were abolished except for a few industries which were concerned with locational or environmental considerations. Private participation was allowed in power, telecoms, mining and airlines. In the capital market, firms were allowed to price their own equity. Earlier, this was controlled by the Office of The Controller of capital Issues. The mutual fund operators and Indian firms were allowed to raise funds from offshore markets. Private players were also allowed in the insurance sector. In the banking sector considerable autonomy in operation was allowed. Interest rates were de-regulated and foreign equity holding was encouraged. In the infrastructure sector, the major reforms were the establishment of The Telecomm Authority of India, the National Highway development projects and the private airlines/airports. The fruits of the reforms were apparent from the performance of the external sector in the first half of the 1990s. Exports grew by 20% in 1993-94 much greater than the levels of the 1980s. During 1994-96 the industrial sector performed particularly well with annual growth of about 10%. This sound economic growth of the 1990s made India the sixth fastest growing country in the world. (Exhibit VI)

Exhibit VI

Growth trends for Medium and Large Countries

GDP

Per Capita GDP

Country

Growth

Rank

Growth

Rank

China

10. 1

1

8. 8

1

Korea (rep)

7. 7

2

6. 6

2

Thailand

7. 1

3

5. 7

3

Singapore

6. 9

4

5. 1

4

Ireland

5. 3

10

4. 9

5

India

6. 0

6

4. 1

6

Vietnam

6. 2

5

4. 1

7

Chile

5. 6

9

4. 0

8

Indonesia

5. 7

8

3. 9

9

Hong Kong

5. 3

11

3. 7

10

Malaysia

6. 0

7

3. 5

11

Source: Acharya Shankar et al. " Indian Economic Growth, 1950-2000".

Openlib. org/home/ila/PDFDOCS/Shankar2002_gdn. pdf, July 29th 2003.

However, the spurt in economic revival was short lived as the reform measures lost their momentum after the mid 1990s because of the Asian crisis of 1997-8, and trade restrictions followed by the nuclear test (1998). This was closely followed by the oil price rise of 1999-2000. Industrial production therefore slowed as exports dropped to