

International retailer enter indian market



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INTRODUCTION

Today retail is no more restricted to just selling goods to consumer. It is world's largest private industry with the sales of US\$ 6. 6 trillion. (McKinsey Global Institute Report, 2001)Cox R and Brittain P (2004) gave the modern definition of retailing as " Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use." In UK retail sector is the second largest employer, contributes 23% in GDP and accounts for the 35% of consumer expenditure. (Cox R and Brittain P, 2004) The sector seems to be mature in UK. But there are few emerging markets in which retail sector is still in its growth phase. One of them is Retail Sector of India.

AIM AND OBJECTIVES

Aim: To determine the barriers for an international retailer like PRIMARK to enter Indian Market and to find out the suitable marketing policies depending upon the problems they might face.

Rationale: Until the fall of communism the countries in the world were divided in to two types- communists and capitalists; depending upon the economical system they had adopted. But there were few newly Independent countries which adopted the mixed type of economy. As the strength of capitalism was proved all the economies tend towards it. Still there are countries like India which are conserved in nature. Route of entering the Indian Market is still full of hurdles for any foreign investor. But the challenge is acceptable because at the end of the route there is a huge market with millions of potential consumers.

Objectives:

- Analysing the potential of Indian Retail sector, market requirements and risks involved.
- Review the policies of Indian government about Foreign Direct Investment in retail sector.
- Review how other companies have entered Indian Market. E. g. M & S, Wal-Mart, Woolworths etc.
- Review PRIMARK'S mission, vision, operation strategy and marketing policies.
- Study how PRIMARK has entered in other countries.
- Learning few appropriate strategies and marketing policies which PRIMARK can adopt to make a successful entry in India.

LITERATURE REVIEW

International Retailing: Two sets of factors can make a domestic retailer go international. First is 'push factors' which includes saturation of the domestic market, recession and planning restrictions. The other set of factor is known as 'pull factors' which is nothing but market attractiveness for the foreign retailer. It consists of falling barriers to market entry, supplier strategy, strategic alliances, emerging markets, changing consumer taste, economies of scale. But as the venture involves huge investment various strategic methods are used reduce the risk. Thus market research followed by the deciding upon entering strategy such as acquisition or joint venture etc. would be the most suitable path for any retailer. (Cox R and Brittain P, 2004)

Indian Retail Sector ' An Opportunity': The time when developed economies are facing recession, two countries are balancing world economic growth, one of them is India. India's GDP growth was 9.4% in 2007. According to McKinsey report there are 12 m retail outlets in India. Most of them are small and unorganised, but contributes 6% in GDP. (McKinsey Global Institute Report, 2001) The Indian Organised and Modern Retail Market is only 9% of total retail industry, which too low compared to western world (65% in USA) as well as other Asian countries. (Appendix 1) Thus the sector as such is underdeveloped. India's Favourable demography, availability of the disposable income with young generation and stability due to vibrant democracy are other advantages for any foreign investors. (Country Profile 2007 India) Report by McKinsey also suggests if the government become a bit liberal and bureaucracy is reduced then the productivity of retail sector would increase by two and half times (250%) and would create 8 million jobs. (McKinsey Global Institute Report, 2001) Market potential can be further back up by study of Kearney A. T. (2006) about Global Retail Development Index.

Understanding Indian Consumer: India is a huge country with varied consumer pool. Supporting to the view Ramamurthy K and Naikare A (2007) from Synovate Business consulting says, " The Indian market shows differences in consumer behaviour from one region to another in terms of usage, preference, brands, tastes etc." Advocating to the point Mr. Biyani simplify it as,

“ Indian Consumers, unlike people elsewhere, demand ideas and solutions that are uniquely Indian.” – Mr. Kishore Biyani (CEO, Future Group and Managing Director of Pantaloon Retail, India)

Thus any international retailer planning to enter the Indian market would have to consider the same for planning the marketing strategies. Indian modern retailers are attracting only one stratum of people, which includes educated urban Indians, but those which are having the lower purchasing power especially people from sectors such as plumbing, carpentry etc. are often neglected. On January 26, 2006 Big Bazaar announced a ‘ Lowest Price Day’ to attract the later segment. (Biyani K, 2007) So it means there is a ‘ GAP’ in the retail segment which is attractive and can be exploited. The dissertation would evaluate the suitability of marketing strategies, product range etc. for retailer to enter India.

Indian Government Policies for Foreign Investor: Foreign company intended to do business in India can follow one of the three routes as explained by Titus and Co., Advocates (2007)

1. Open A liaison office
2. Set up a branch office
3. Incorporate a company

If the company wish to set up its own permanent unit in India then it has to follow the third path. But then depending on the sector company can have Wholly Owned Subsidiary (WOS) or Joint Venture (JV). (Titus and Co., Advocates 2007)

India has not completely opened the retail sector for foreign investors and the liberalisation is proceeding gradually. Till 2006 the only route for FDI in retails was Franchisee. Government then allowed 51% FDI in single brand retailing. (Country Profile 2007 India) But the retail distribution is still forbidden. (Appendix 2) Along with these ownership policies, India is ranked higher in putting barriers such as discriminatory procedures, tariffs and regulatory barriers on Foreign Investment. The other hurdle for entering Indian market is various barriers to entrepreneurship. Though India has reduced the legal barriers such as getting license or permit it has not reduced the administrative burdens on new entrepreneur. (OECD Economic Survey India, p. 91, 92)

For investing in single brand retail sector an investor has to take an approval from SIA (Secretariat for Industrial Assistance), the Department of Industrial Policy and Promotion, the Ministry of Commerce and Industry, New Delhi. (Titus and Co., Advocates, 2007) The dissertation would study the regulations of Indian Government for foreign retailer.

Entry of Foreign Retailers in India: Retail market potential of India has lured many foreign investors to enter Indian market by various means. The dissertation will analyse the strategies used by them to enter India.

- Wal-Mart entered wholesale business in India through joint venture with Bharti Enterprises. Bharti-Wal-Mart is panning to open many cash and carry shops by 2015. (The Economist, August 9, 2007)
- Auchan International SA from France is having regional purchasing and liaison office in India.

- Cargill India Pvt. Ltd. well known USA based company have launched NatureFresh brand of Atta (wheat flour), refined oil, salt, branded rice etc.
- Mc Donald's Restaurant has joint venture with Cannaught Plaza Restaurants Pvt. Ltd. to operate in Delhi, Jaipur and Mathura region. (Source: Foreign Companies In India Yearbook 2007)
- Dairy Farm International Holding Ltd. of Hong Kong along with Food World Supermarkets Ltd. (India) in a joint venture has opened 89 retail shops in India.
- Procter and Gamble Hygiene and Healthcare Ltd. (USA) have launched consumer and health care products in India. In the project 35% investment is from Indian Share holders and 65% is from Procter and Gamble Company and Procter and Gamble Home Products Ltd.
- Marks and Spencer c/o Planet Sports Pvt. Ltd. is having 14 retail outlets and distribution network in Delhi, Mumbai, Haidrabad, Jaipur, and Pune etc. in India. (Source: Foreign Companies In India Yearbook 2007)
- Marks and Spencer has re-entered Indian Retail Market together with Reliance Industries (India). In a joint venture Marks and Spencer is having 51% ownership. Duo is planning to open 50 shops in near future. (Hall J, April 19, 2008)

Failure: There are few examples of failure as well. Few organisations have withdrawn their interest in entering Indian market. E. g. Carrefour and Tesco went out of the negotiation for joint venture in India. Starbucks after getting to disapprovals from the Government of India pull out two proposals for franchise. Metro (German Retailer) enter wholesale business in India but

since then it has engaged in solving the dispute with state government of Karnataka as state law does not allow Metro to sell agricultural products. (The Economist, August 9, 2007) The dissertation would make an attempt to investigate the reasons behind those failures.

Review of PRIMARK: 'Associated British Food' the parent company of PRIMARK opened its first value clothing store in Dublin in 1969. Since then it has opened 177 stores in Ireland (trade with brand name Penneys), Spain and UK. (www.primark.co.uk) The retailer targets the age group 0 to 35 and especially women customers by providing good quality fashionable cloths at reasonable price. The retail chain basically became popular because of its value for money price. The major strategies of the company involve, Bulk production, Simple to produce designs and Production of only popular sizes. (Atherton J, 2008) The company also deals directly with the producer and there is no intermediate in between and thus avoid huge overhead costs. PRIMARK also does not spend much on advertisements and believes 'Word of Mouth' is the most effective way of advertising. PRIMARK became the member of Ethical Trading Initiative in October 2006 along with the Marks and Spencer, Nike, Gap and Levis. (Staff Induction Handbook, Primark).

The PRIMARK is currently operating in Ireland, UK, and Spain. It is expanding internationally and further planning to move in to Portugal and Germany. PRIMARK is selling the similar stock in all countries. It is not favourable for any organisation if they had to change a lot while going international. According to Gavin George from Ernst and Young, " Emerging markets offer exciting growth prospects, while many European markets have high

spending, but relatively weak competition. Primark will be in an interesting place in Germany because while there is an extensive value clothing proposition there are not so many fashion-oriented players.” (McAllister D, 2008) The compatibility of PRIMARK with Indian Consumer and Government would be analysed to find out the appropriate way for entering India.

RESEARCH DESIGN AND METHODOLOGY

Research design is the general plan to conduct the research. Saunders et. al. (2007) compares it with onion. The first layer of an onion is deciding upon the Philosophy of research, then the approach, strategy and at the core of an onion lie the data collection and data analysis.

Research Philosophy : The research philosophy adopted by the researcher defines the further path he would follow. The problem stated as a topic in this piece of research proposal is practical and related to realities. Thus it adopts the ‘ functionalist paradigm’. According to Burrell and Morgan (1979: 26) “ It is often problem-oriented approach, concerned to provide practical solutions to practical problems” (Cited in Saunders et. al. 2007) This paradigm has two dimension as objectivism and regulation. Objectivism is one of the aspects of Ontology philosophy. But this research would rather proceed with Pragmatism approach, which means the research can follow the philosophy of epistemology as well as ontology. (Saunders et. al., 2007, pp. 101-113)

Research Approach: The second layer of a research ‘ onion’ is research approach. This research would use an inductive approach for research which is much more appropriate for answering this sort of questions. Inductive

approach gives the necessary flexibility for choosing the research methodology depending upon the research question. (Saunders et. al., 2007, pp. 119)

Purpose: The purpose of this research is more of exploratory study and a bit of explanatory study. It would explain the constraints in entering Indian market and how other foreign investors have entered the market. Depending on that it would make an attempt to explore the policies PRIMARK should embrace to enter Indian market successfully. (Saunders et. al., 2007, pp. 133)

Strategy: As Robson (2002: 178) defines the case study research as “ a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence.” (Cited in Saunders et. al. 2007, p139) The case study research would be the strategy of choice for this research.

DATA COLLECTION METHOD

For the philosophy, approach and strategy opted for this dissertation the most suitable method of data collection would be the qualitative method. (Saunders et. al., 2007) The data would be collected by ‘ in-depth interview’ of the people from various sectors related to retail business. The main advantage of the method as stated by Burgess (1982: 107) is, “... it is the opportunity for the researcher to probe deeply to uncover new clue, open up new dimensions of a problem and secure vivid, accurate inclusive accounts that are based on personal experience.” (Cited by Smith et. al. 2008) The principle source would be the Management of PRIMARK. As the researcher is

working with PRIMARK Hammersmith, London; Access to the Store Manager Mrs. Katarina Taggard has been negotiated. Though she has agreed to help with the dissertation, the permission from the Head Office, Reading, UK; is yet to receive. The another person to be interviewed is Mr. Ashdin Doctor, A Market Research Analyst, Retail Sector Mumbai, India. The formal approval has been negotiated with him. The questionnaire would be sent to him through e-mail. The questionnaire would be sent to Eva George, China and India Business Development Officer, London and Anita Nandi, City Representative, Mumbai. (Leaflet, City Business Library) In a mean time other important retailers from India are being contacted for the same purpose.

ANALYSIS AND PRESENTATION OF DATA

The data gathered from the qualitative method would be analysed by using the ' Grounded Analysis' method of analysing qualitative data. The data would be read and understood well and then it would be linked with the theory or the secondary data. The whole data would be presented in the form of charts, tables and graphs following the critical analysis.

SECONDARY DATA

The information collected by some body else is regarded as secondary data. The proper utilisation of secondary data depends on analysing and interpreting skills of the researcher. (Smith et. al. 2008) The secondary data would be collected from the books and journal articles regarding the retail sector of India. The information about the country profile and statistics about India would be accessed from following official web sites,

- [www. cia. gov/cia/publications/facebook](http://www.cia.gov/cia/publications/facebook)
- [www. rbi. org. in](http://www.rbi.org.in)
- [www. statisticsofindia. com](http://www.statisticsofindia.com)
- [www. finmin. nic. in](http://www.finmin.nic.in)

(Leaflet, City Business Library)

CONCLUSION

The dissertation aims to analyse the problems international retailer might encounter while entering the Indian market. Eventually it is expected to answer following things;

- Attractiveness and market growth of one of the segments of Indian market which is not yet entirely exploited.
- All available paths to enter India and the most suitable one for PRIMARK, e. g. Joint Venture.
- Choice of marketing policies to be employed. E. g. target group, state-wise choice of clothing, buying occasions and price range etc.
- Factors to be taken care of and hitches to be aware of while doing business in India. e. g. currency fluctuations, unstable areas, political will and taxation laws in different states etc.

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