



Indian Organized Retail Industry - A Perspective on Staffing

The Indian Retail Sector

The Indian retail sector was estimated to be worth USD 350 billion¹ during 2007 and is expected to grow at a compounded annual growth rate (CAGR) of 6.8% to approximate USD 427¹ billion by 2010. To underscore, in 2007, almost 97% of the Indian retail market was dominated by traditional 'kirana' or 'dad and son shops'. The country's vast geographic, cultural, and economic diversity has inadvertently facilitated traditional retail over centuries because of a strong need and preference for customized and personalized shopping requirements. Unlike some of the more developed nations, the socio-economic profile of consumers in India changes every 50-100 km leading to highly differentiated buying patterns, demand for products, price sensitivity, and responsiveness to promotion tools. As a result, changing the merchandise mix to meet local demand, standardizing and organizing retail operations across the country has its own set of challenges.

The organized retail market in India has accounted for only a small percentage - approximated 3% in 2007 - of the total domestic retail market. However, the current domestic economic buoyancy, supported by liberalized government policies and improved logistics and communications infrastructure has spurred the organized retail sector to clock 25%+ annual growth over the last few years. The current trends indicate this sector will grow by 35-40%² over the next 3-5 years accounting for 5% of total domestic retail sales by 2010. To understand this expansion, WNS has looked at some of the drivers of this growth using "PEST - Political / Economical / Social / Technical" analysis.

Political Environment

Favorable Regulatory and FDI Norms:

Retail accounts for 10% of GDP and 7% of national employment², therefore the Government is expected to take measured steps in opening up the sector to established corporate and international players. To facilitate this change, the Government has indeed continually ushered in policy changes to de-regulate the entry of foreign players in the organized retail market. As an illustration, in 1997, the Government allowed 100% foreign direct investment (FDI) with approval in Cash and Carry Operations. By 2006, they permitted 100% FDI without GOI approval. In fact, in January 2006, FDI of up to 51% was permitted in retailing single-branded products.

Political Backlash:

Several political parties particularly the ones espousing socialism have opposed the opening up of the retail sector expressing grave reservations about its impact on the traditional retail shops. This has resulted in targeted attacks on many modern retail outlets in states like Uttar Pradesh, West Bengal and Kerala, prompting the state governments there to direct the supermarkets to cease their operations.

Economic Environment

Economic Buoyancy:

The Indian economy has recorded an average of 8% GDP growth over the last three years. This momentum is expected to continue at an average of 7.6% through 2013 according to The Economist. This overall economic buoyancy has resulted in higher per capita disposable income, reflected in a stronger Consumer Confidence Index⁴, prompting

¹Source: AT Kearney's Annual Global Retail Development Index
²Centre for International and Strategic Studies, July

³Source: India's Growth: Past and Future by
Shankar Acharya

⁴Consumer Confidence Index: AC Neilson:

consumers to spend more. According to the the McKinsey Global Research Institute, aggregate domestic consumption was expected to grow in real terms from INR 17 trillion (USD 43 billion) in 2006 to INR 34 trillion (USD 86 billion) and INR 70 trillion (USD1.7 trillion) by 2015 and 2025⁵, respectively. Higher consumer spending will have a direct bearing on the growth of the retail sector.

Inflation and Interest Rate

More recently, the Indian economy is seeing inflationary pressure of late, affecting the growth prospects of the retail sector particularly the small chains. While some of the big Indian retailers are viewing high inflation as short-term trend and are going ahead with the expansion plans, retailers in general are seen to be postponing their expansion plans in view of declining demand for certain products and rising rentals.

Declining Margins of Small Retailers:

Margins of small retailers have been hit by rising inflation.

- "Vishal Megamart is facing declining margins to the extent of 5-7% compared to 5-25% on the basic food items."
- "Margins of all retailers have been affected and that includes us as well"
- **Pushpamitra Das**, Chief Executive Officer (CEO), Wadhawan Food Retail - Spinach Stores
- "If retailers keep on decreasing the prices, it may lead to protests by street vendors."
- **Sumantra Banerjee**, Managing Director, Spencer

To keep margins from declining further, these retailers are bargaining harder with their suppliers and focusing on achieving supply chain efficiencies. Big retail stores are in a position to rein in food prices in the short run by virtue of the contracts they have signed with the suppliers of essential commodities. Manufacturers have resorted to reduce the weight of their SKUs instead of raising the product prices.

- "Growth now looks quite slow and we are considering whether we should go ahead with our expansion plans as aggressively as before. Though our year-on-year profits are quite impressive, I must say there has been quite a decline in margins in some segments".
- **R C Agrawal**, Chairman and Managing Director, Vishal Retail,

Impact on Demand

Industry sources believe though demand for big ticket items like consumer durables and electronics is expected to decline, demand for apparel and lifestyle products will be less affected.

Increased focus on promotions

With the increase commodity prices, consumers are moving to stores that offer the best deal. To increase footfalls in stores, retailers have sought to focus on promotions and cross-merchandising. Some of the more advanced players are also bypassing the wholesalers by entering into agreements with suppliers directly. For example:

- Pantaloon has entered into contracts with suppliers of oil and rice mills, so that they can pass on the benefit of costs saving to its customers.
- Spencer's is focusing on cross-promotions, linking offers such as free sugar with large purchases of detergent.

Social/Demographic Environment

Demography - Young, Educated, Urban, Middle-class Population with Higher Disposable Income:

Indians today are far more educated, fashionable, knowledgeable and brand conscious compared to the past. This young population has catalyzed a shopping revolution, especially in urban India where a large populations aged between 20-34 years are boosting retail consumption by an average 12% per annum.⁶

Urban/Poor Divide:

Urbanization is expected to increase from 28.4% in 2007 to 40.8% by 2030. Income growth will be fastest in the urban areas where real average household incomes will rise from INR 166,922 (USD 4,234.4) in 2006 to INR 513,042 (USD13,014.8) by 2025, exhibiting an annual increase of 5.8%. Increase in urbanization will also lead to growth in second and third tier cities.⁸

Technology/Logistics/Supply Chain/Human Resource/Real Estate Environment

Spiraling Real Estate Costs:

Real estate costs have increased appreciably across India and higher rentals will adversely impact the retail sectors. According to industry estimates, retail space requirements will reach 150 million to 160 million square feet⁹ by 2010.

⁵McKinsey Global Research Institute: The Rise of Indian Consumer Market
Quote Sources: Economic Times, Mint

⁶The Shop: Hosted by Images Group in New Delhi, June 2006
^{7,8}McKinsey Global Research Institute: The Rise of Indian Consumer Market

⁸McKinsey Global Research Institute: The Rise of Indian Consumer Market, Images Retail (Subscription)
⁹Source: India Retail Forum, Handout (Subscription)

Poor Logistics and Infrastructure Support:

The Indian food supply chain is believed to be grossly inefficient. Inadequate logistics support like cold chain and storage facilities has led to shrinkage of wet produce. According to industry estimates, approximately INR 600 million (USD 15.20 million)¹⁰ of fresh produce is lost each year due to lack of proper storage facilities. Small players tend to outsource their logistics requirements to third party logistics (3PL) providers. Only a few large players have focused on developing in-house technology and system infrastructure to streamline supply chain activities and decrease distribution costs.

Technology in Retail Still Early Days:

Retail majors such as Reliance, Future Group and Infinity Retail have entered into contracts with IT companies like IBM, Cisco and SAP to develop solutions for the management of supply chain functions and inventory. Retailers are also investing in radio frequency identification (RFID), CCTV and antennas to reduce wet produce shrinkage and thereby gain supply chain efficiency. Though the use of technology in retail management is at a nascent stage, it will be a key growth driver during the next few years.

Talent Crunch:

The sector is embattled with an acute shortage of trained professionals, from the level of customer associates to that of visual merchandisers. This is largely due to the limited number of institutes that train retail professionals, and the high attrition rate driven by plethora of economic opportunities. The situation is likely to improve in the near future with several new institutes starting training programs in retail management.

Employment in Indian Organized Retail Sector

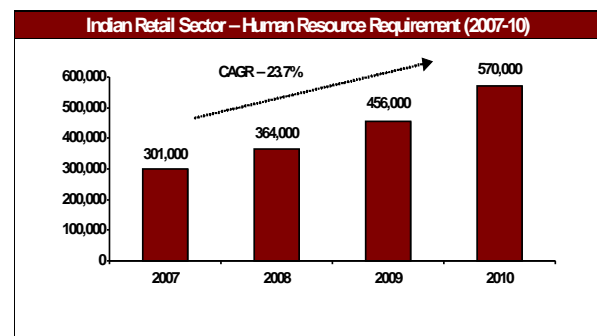
According to WNS research, the organized retail industry in India, which employed approximately 300,000 people during 2007, is expected to grow at a CAGR of 23.7% during the period 2007-2010 to reach 570,000 by 2010. Notably, the human resource requirement is expected to grow at a slower pace than the estimated sales growth of 35%+, owing to the following:

- As the industry consolidates, retailers find it difficult to operate in a labor intensive model banking on low wages. Instead, they will aim to

optimize their operations to achieve a higher selling area per employee than the current average of 240 square feet per employee

- With quality real estate becoming scarce and expensive, the average size of stores is likely to diminish. Rather, sales growth will be propelled by an increase in average ticket size in part due to inflationary market conditions and an increase in store count.

It is estimated that front-end jobs, including



Source: Management Ventures, Inc.; WNS Research & Assumptions; AT Kearney's Global Retail Development Index

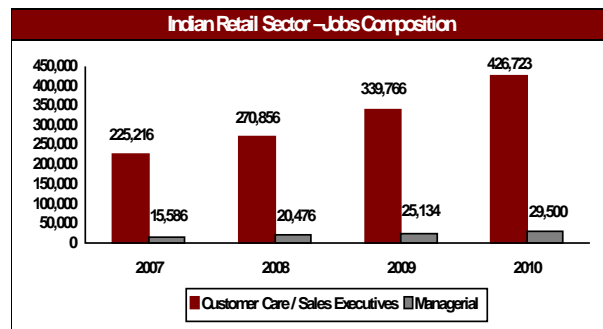


Source: National Statistics Bureau, Management Ventures, Inc.

customer service agents, store supervisors and managers, will account for 70-85% of the total human resource requirement in the retail industry. The figure will vary depending on the retail format and the category of products sold. For instance, a discounter chain like Subhiksha is likely to have a higher percentage of front-end employees than a large format store like Big Bazaar.

¹⁰ Source: India Retail Forum, Handout (Subscription)

WNS Research indicates the Indian retail industry employed some 225,000 customer service agents during 2007, as compared to 15,600 managerial staff. This number is likely to increase to 426,700 customer service agents and 29,500 managerial staff by 2010.



Source: Management Ventures, Inc.; WNS Research & Assumptions; AT Kearney's Global Retail Development Index

Level	Role	Key Skill Set	Hiring Gap
Customer care and sales executives	Front end customer handling and customer care.	<ul style="list-style-type: none"> High energy levels Good communication skills, confidence and a positive attitude Good product knowledge Ability to convince and win customers 	20%+
Store Managers	Supervise day-to-day operations of a store, manage the staff, maximise sales and improve overall profits.	<ul style="list-style-type: none"> Store operations, human resources, finance, buying, customer care, marketing, logistics, information technology, and administration 	Almost 50% - for right type of store managers
Buyers	Anticipate customer buying patterns; buy goods for the store keeping in view customer needs and the profits to be had from the business.	<ul style="list-style-type: none"> Good planning skills, an analytical mindset plus familiarity with the merchandise administration 	30% +
Retail Merchandisers	Ensure that products appear in the right store at the right time, in right quantities and within a specific budget; work closely with the buying teams	<ul style="list-style-type: none"> Strong analytical and numerical skills coupled with good inter-personal skills. A post-graduate with experience in retail is preferred 	Serious shortage 50%+

Level	Role	Key Skill Set	Hiring Gap
Visual Merchandisers	Create window and interior displays in shops and department stores; Attract more customers and maximise seasonal sales by decorating store fronts.	<ul style="list-style-type: none"> A course in designing and a creative mind are essential requisites 	Serious shortage 50%+
Product development	Should be able to visualise and create merchandise, work closely with designers and develop an end-product from a concept or a sketch.	<ul style="list-style-type: none"> A creative mind, a knack for developing marketing plans, ability to plan assortments, an eye for quality and an understanding of the finances involved 	Serious shortage 50%+
Others	Warehouse management, HR, finance, corporate customer service, operations management, logistics		People available from other sectors, but learning from other sectors cannot be easily implemented in retail

Key Challenges

Like any other high growth industry, retail is hard-pressed to source and retain the right talent. To illustrate the growing demand for talent, Reliance Retail is planning to increase its headcount from ~20,000 as of March, 2008 to 100,000 in the next 2 to 3 years.

Limits on Availability of Trainable Manpower

Lack of “retail” knowledge:

There is an acute shortage of professionals with the domain knowledge of high-end retail functions such as merchandising, store management, supply chain. Some companies have tried to bridge this gap by hiring expatriates at senior levels albeit at extremely high costs. Media reports suggest that this approach has not worked well in most cases as expatriates return to their countries or changed jobs before completing their term with the existing employer.

- “In India, most of the customers need buying assistance hence more trained staff per store”.
- **Nilesh Mazumdar**, VP, Subhiksha
- “All over the world, retail staffing tends to be very local.”
- **Ray Gaul**, Director, MVI
- “There are some pockets like Mumbai, Delhi and Bangalore to hire people with retail domain knowledge in the area of supply chain management, merchandising BUT there are not too many of them in India”.
- **Nilesh Mazumdar**, VP, Subhiksha

Lack of Awareness That Retail is a Prospective Career Option for Semi-urban Youth:

Retail is yet to resonate as a career option with the semi-urban youth in India. Like the IT Enabled Services (ITES) sector, retail requires graduates with good communication skills. In most retail jobs, knowing the vernacular language is more important than knowledge of English. While technical qualifications and skills are not a required prerequisite, a degree from a good B-school would come in handy in the retail sector. Notably, due to the lower pressure of a retail job on the aspirant, parents are seen to understand a retail job profile better than that of an ITES job.

Availability of Training

Retail as a subject is new to many universities and the standards of education in this field are still evolving. At the same time, a large part of a retailer's HR requirement may not be fulfilled by the university curriculum. For instance, retail employees are expected to be presentable and confident while facing customers and be able to handle high stress situations, especially festive or peak shopping seasons. Unlike telephonic or email interactions, there is a "human-connect" involved when servicing retail customers. Retailers need "connectors and communicators" - something that even a school drop-out can be trained on.

To create standards, the Retailers Association of India (RAI) has created professional retailing skills course at the entry level and is looking for training partners. RAI conducted the Common Admission Retail Test (CART) on a national basis in January 2008 for admission to the RAI's Postgraduate Program in Retail Management (PGPRM). The course is offered in 15 institutes that RAI has tied up with. The objective of the test is to assess

the candidate's aptitude for retail management education, including quantitative aptitude, logical reasoning and consumer comprehension.

There are also a few specialised courses emerging in the retail management sector. Some of these courses may be expensive as they cover subjects like store management, back-end operations, supply chain management, inventory management, customer service, and language training. The cost v/s immediate payoff makes them unattractive for many deserving candidates.

Retention Issue

In an industry that is expected to grow at a CAGR of 35%+, and where supply of right talent is a bottleneck, attrition is bound to be a recurring problem. Attrition becomes more pronounced due to high work pressure, lack of a defined career path, and inadequate incentives and training.

Short term solutions like repackaging benefits to employees, increasing frills without a robust long term plan to retain talent may alleviate the problems in the short term but may come back to haunt the industry in the long term.

In the course of our interviews with retail industry HR professionals, we found that the majority of people leave one retailer to join another. This is, at a minimum, helps the industry to retain talent within its precincts.

- "Make the exit of employees comfortable - after all many of them will be your future hires"
- Ray Gaul, Director, MVI

Industry Response to Skill Gap

Sourcing:

Given the huge deficit for each of the role, Retailers are trying innovative ways to recruit staff:

- Retailers are tying up with NGOs and government bodies to recruit front-line staff. These NGOs run training schools for college dropouts, to fill up entry-level jobs in the services and retail sector. For example, Spencer sources its front-end staff from NGO's such as Umeed in Ahmedabad.
- For high-end positions, retailers are actively hiring experienced people from sectors such as FMCG. However, this strategy has seen mixed results as the skill set required is not easily replicable.
- Expats are being hired for high-end retail functions, such as, merchandising, store management, and supply chain.
- Retail chains like Shopper's Stop and Fab India are hiring women for 4-6 hour shifts.

- Future Group has signed up with an HR consulting firm to hire 3,000 female professionals to work in shifts ranging from one hour to five hours a day. The hiring process has already begun in Kolkata and would subsequently move to Mumbai, Kolhapur, Pune, Delhi, Bangalore, Hyderabad, Chennai, Cochin and Ahmedabad.¹²

Training:

The retail chains are focusing on training their employees. While some firms have tied up with private training institutes to offer basic courses in retail for frontline jobs, many have set up in-house training centers where employees are trained for better interaction with the customer. The training curriculum is modified periodically based upon the feedback received from customers.

- Reliance Retail has entered into an agreement with IGNOU (Indira Gandhi National Open University) and YMCA (Young Men's Christian Association) to offer a three to six month basic courses in retail. Post training, Reliance recruits them for frontline jobs.
- Shoppers Stop has tied up City & Guilds, a British awarding body offering learners qualifications, to administer certification programmes in retail selling for its employees.
- At RPG, the new staff is required to undergo training at their in-house center 'Pragati Centre for Retail Excellence'. They have set up 13 such facilities across India, going up to 21 by end of 2008.¹²

Retention:

To address the problem of rising attrition, retailers are increasingly adopting employee-focused schemes such as sponsored educational programs, insurance and loyalty bonuses. They are also offering employees a career growth plan by tying up with professional institutes.

- Pantaloon Retail funds two-year retail-management courses at two colleges in Mumbai and will soon set up its own retail school.
- RPG Retail has devised an incentive programme wherein their staff is given bonuses not just based on performance, but also by the total sales the particular store generates.
- Trent offers a coaching programme to its employees wherein the company identifies star employees in each store and designates them as coaches responsible for the training of store staff. The programme has resulted in each store having three coaches, a customer service coach, an IT skills coach and a product knowledge coach.
- Pantaloon has tied up with Madurai Kamraj University to develop a programme that allows staff that do not have an undergraduate degree to earn a degree through distance-learning courses in retail management while working.
- Shoppers' Stop is planning to tie up with business schools like Symbiosis and Manipal Institute to offer professional degrees to its frontline staff.

The organized retail industry in India is expected to grow at a compounded annual growth rate of 35%+ between 2008-2010. This blistering growth comes along with its own set of challenges the trickiest of all being staffing. Entities experienced in Organized Retail know that the primary requirement for this industry is "hardworking, ordinary people who can team up to accomplish extraordinary things". These "ordinary people" need to be entrepreneurial, flexible, available "just in time", affordable, and knowledgeable from a domain perspective - not an easy puzzle to solve by any means! The good news is that Indian Organized Retail Industry has a strong understanding of the challenge and is trying to work out a long term solution to staffing problems.

For more information, write to us at info@wnsgs.com

¹² Source: Mint, Economic Times, Pragati Centre for Retail Excellence