

Global tie-ups, private labels to be buzzwords in retail this year

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Tie-ups with international retailers and brands, emphasis on profitable growth and increased focus on private labels are set to be key trends in the Indian retail sector in 2010, say retailers and consultants Business Standard spoke to.

Though foreign direct investment in single-brand retailing and cash-and-carry ventures are allowed along with franchising and licensing pacts as of now, 2009 saw most of the foreign retailers focusing on manage the business in their home countries, where they were seeing declining sales.

"In 2010, a lot of international retailers and brands are most likely to look at India as global markets have stabilised and the Indian economy has proved to be better than most other countries. These factors give a lot of confidence for them to invest in India," said Arvind Singhal, chairman of Technopak Advisors, a business consultancy.

Wal-Mart has set up its first unit in the country and Tesco, the UK's largest retailer, is providing back-end support to Tata's hypermarket Star Bazaar, Carrefour is said to be talking Kishore Biyani's Future Group for a possible tie-up.

Industry sources said a number of international brands are also holding talks with Future Group, Reliance Retail and Spencer's Retail for tie-ups.

Devangshu Dutta, chief executive of business consultancy Third Eyesight, believes franchising and licensing agreements could be a major avenue used by overseas brands to enter the country.

"Our research shows that 45 per cent of fashion and lifestyle brands, which have entered India in the recent past, have used this route because it gives a quick entry and allows tie-ups with partners who have good real estate capabilities," Dutta says.

A profitable growth

Though retailers such as Reliance Retail, Aditya Birla Retail and Spencer's Retail closed hundreds of stores or shifted stores to economical locations in 2008 and 2009 and took various steps to cut costs, they are likely to continue to focus on profits and boosting margins in 2010.

Shoppers Stop's top management took 15 per cent salary cuts, while 300 floor-level staff were not replaced. The company shrank its office space 20 per cent and corporate office expenses by 40 per cent to cut losses.

Delhi-based Vishal Retail, which has been battling cash woes and mounting debt, relocated 25 stores in the financial year 2009 and 10 stores since April 2009. It is now planning to close 20 more and go only through the franchisee route.

"In 2010, our strategy is to increase margins, reduce costs and boost revenues. In 2009, we mostly focused on controlling costs," says Thomas Varghese, chief executive officer of Aditya Birla Retail, part of the Aditya Birla group. "We will watch the situation and open stores," Thomas adds.

"Retailers will not book properties at ridiculous rentals and look at private labels to boost margins. Growth with profitability is the main mantra in 2010," says Singhal.

Private labels to rise

Most retailers like Future Group, Spencer's Retail and Aditya Birla Retail, among others, are stepping up their private label plans to boost margins. The reason: Private labels in food and groceries carry margins of 25-35, while private labels in apparel and accessories offer more than 40 per cent margins.

Future Brands, which manages the private labels of Future Group, is expecting a turnover of Rs 750 crore in 2010 (the group's flagship Pantaloon's financial year ends on June 30), 14 per cent growth.

Private labels contribute 30 per cent of its sales in FMCG and 25 per cent in personal care products. The group is expanding its private label portfolio further. It is planning to launch its own brands in lingerie and a toothpaste brand 'Sach', according to Future Group CEO Kishore Biyani.

Aditya Birla Retail, which has more than 400 products in its private labels, plans to take its share of private labels in overall revenues from 19 per cent to 25 per cent next year.

RPG's Spencer's Retail is also planning to double the contribution of private labels and fashion to its overall revenues in the next couple of years.

Spencer's plans to launch several new private labels across categories. Under its brand 'Smart Choice', the company will launch floor cleaners, savories and chips, wines, air-freshners and cakes in the next two months. Under its 'Livin Smart' brand, the company has launched categories like quilts, handloom towels, dining accessories and, under its 'Gerat' brand, Spencer's recently launched a mixer grinder and plans to launch a DVD player soon.