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FASTER BREAKEVENS, HIGH GROWTH AND LARGE MARGINS LURE THEM TO SMALL TOWNS

Retailers hitting the country road

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Large retailers including S Kumars Nationwide, Reliance Retail, Arvind Ltd and Spencer's Retail are hitting the country road in their quest for higher margins which are dwindling in the larger but saturated urban markets.

The \$390 billion Indian retail industry, which is projected to grow at a compound annual growth rate of 8-9% over the next 4-5 years, is finding a greater comfort level operating in villages where rentals are a fifth than that of the urban areas and manpower costs much lower.

Ramesh Srinivas, national industry director (consumer markets) at KPMG Services Advisory, said, "There are number of towns where well-known retailers do not have any retail presence, reflecting a significant growth potential."

In smaller towns it will be the large-format stores that

Margin call

Around 315 hypermarkets expected to come up in smaller towns by 2011

Smaller towns are growing at 40% for retailers against metros growing at 10%

Breakevens are faster in smaller towns compared to urban centres



will rule the roost for retail giants and help them break even. Around 315 hypermarkets are expected to come up in tier I and II cities by 2011, according to a study by KPMG and industry body Assocham. Smaller towns should be on the radar of retail majors today if they plan to set up stores in these towns three years from now, the study says.

More, the Aditya Birla Group promoted retail chain which is looking for a pan-India presence in a short time, will open at least half of 33

new stores it plans to start by the end of this fiscal, in small towns.

"Smaller towns are major revenue contributors and business is growing at 40% compared to 10% in metros," Thomas Varghese, CEO, Aditya Birla Retail, said. Currently, the firm has 656 outlets across the country.

Spencer's expects smaller towns to contribute 50% of the revenue going ahead. The firm plans to roll out three hypermarkets in the next 8-10 months in tier I and II towns. Spencer's currently has 251

outlets across India.

"The break-even is much faster in smaller towns and we expect to be profitable within 12 months at the store level," Vineet Kapila, president, Spencer's Retail, said.

S Kumars Nationwide, the

textiles firm, plans to penetrate into the smaller towns through its economy brand Belmonte. Arvind Ltd derives 30% of its revenue from tier II and III cities and plans to roll out 30 stores by the end of the current fiscal.

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