

Capturing the uncertainties of retail development: The case of emerging markets

Authors

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Abstract

This paper aims to better understand how retail development in emerging markets might occur by carrying out a detailed analysis of Indian retailing and then applying the results to a wider range of emerging markets. The goal is to identify potential patterns of future retail development in emerging economies. The scenarios approach was considered an appropriate methodology for investigating developing economies as it accepts structural uncertainty with multiple interpretations and multiple futures. In fact for retailing, there are countless ‘right’ answers, endless combinations of business models and infinite permutations of key themes and approaches. Conceptualising the evolution of different retail formats taking the scenarios approach is therefore a prudent choice of methodology, especially in wanting to avoid the dangers of over formalising the format development process within the retail context in emerging markets. Four possible visions for retail development in India, each with their own benefits and costs: a *Kirana Kingdom*, *Sanskriti Planets*, *Sasta World* or *Mishrit Universe* were developed from the primary research conducted and then tested in the context of other emerging markets. A combination of regulatory intervention and the changing cultural disposition of consumers on account of changing socio economic conditions play a significant role in the development of retailing in emerging markets. The significant role of the politics of retailing in emerging markets has also been highlighted in this paper. Retail development in emerging markets can therefore be aligned more closely to combination theory where the consumer-regulation configuration plays a significant role in how retail evolves and develops in these markets.

Keywords: *emerging markets, scenarios, retail regulations, consumer*

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Introduction

The pattern of future retail development in emerging markets is uncertain and yet is crucial to the continued development of those economies. This paper aims to better understand how such markets might develop by carrying out a detailed analysis of Indian retailing and then applying the results to a wider range of emerging markets. The goal is to identify potential patterns of future retail development in emerging economies. Economic turbulence in the global economy and its worldwide impact on retailing is not a new and unique phenomenon. The resultant retail change has not occurred overnight and the transition has not been dramatic either – Evans 2011 summarises that *‘modern retailing is the accumulation of incremental steps over time. The state of retailing at any given point in time is not only dependent on the cyclical nature of the overall economy in a country or region, but also on specific factors endemic to retailing’*. That retailing is not revolutionary, but evolutionary has been demonstrated widely in the retailing literature (Evans, 2011; Reynolds et al, 1997; Jackson 1996; Evans 1991; Shapiro and Doody, 1968). In appreciating this inherent nature of retail businesses, Evans (2011) points out that *‘...we should not be surprised or distressed when certain types of retailing fall into disfavour and others emerge to replace them. Rather, we need to see how and why specific retail institutions and practices have evolved and where they are headed ...and adapt strategies accordingly’*. This alludes to the significance of studying the historical development of retailing in a country or region as there is a need to understand and learn from the history and evolution of retailing institutions and practices – that the ‘past is a prologue to the future’ has been highlighted in the literature (Evans 2011; Findlay and Sparks, 2002; Reinhart and Rogoff, 2009). The significance in studying the past in order to capture the probable future of retailing also has ramifications for grasping the uncertainties that the current turbulent global environment poses for retailing in mature and emerging markets. Review of the history of retail evolution and development in the existing mature markets reveals that uncertainties plagued the business environment in the 1970s (global economic downturn). However, there has been a lack of systematic studies in retailing which provided the basis for drawing generalisations about retail decision making in good and bad times. Existing theoretical models have been developed, applied, criticised and refined to capture the nuances of retail development, retail change and international retail strategies but the context of this research has usually been western mature markets (the US and Western Europe). Academic interest in emerging markets has been on the rise since the early 1990s and with the backdrop of successive global slowdowns. The literature cites parallels between the current context of retailing in emerging markets with the environmental context of the western markets during the 1970s and 1980s (Bates, 1976; Davidson and Rodgers 1981). Moreover, if one were to take into account that modern retailing is an accumulation of incremental steps over time then retail theories such as the retail life cycle, the wheel of retailing, the scrambled merchandising/retail accordion all remain as valid and useful in the study of retailing in emerging markets as they are for mature markets. However, as modern retailing

institutions and practices move toward greater global acceptance, the need to identify the opportunities in emerging markets and gain insights into the role of smaller (but dominant) retailers in these markets becomes an imperative (Evans 2011). Lenoartowicz and Balasubramaniun (2009) noted from their analysis of the operational business model of smaller retailers that an understanding of the smaller retail formats in emerging markets is fundamental to contemporary academic retail research. Global retailers will not only compete with them in the future but market entry strategies would need to account for the competitive advantage the small stores have in terms of light infrastructural requirements, personalised relationships with consumers, understanding of the local demographics and flexible distribution models.

Opportunities in these countries would not just vary by region but could also vary within regions and the multidimensionality of these variations would also need to be captured in the study of emerging markets (Evans, 2011).

Retail change theories

The direction and reasons for change in retail structures at local, regional or national levels have been one of the most recurrent themes for retail research with the focus being primarily on mature western markets. The emphasis has been to study and identify the patterns of change and expansion of retail institutions without much appreciation of the broader and different contexts (Pioch and Schmidt 2000; Roth and Klein, 1993). The existing work on retail change is primarily deductive in approach with minimal reliance on historical data, empirical work and is largely been based on the particular circumstances of companies (Brown 1988, Savitt 1988, 1989).

The universality of theories of retail change have been questioned for several reasons – the universality of the ‘wheel of retailing’ has been questioned on the grounds that it was developed in the context of US retailing and other culturally different contexts. The causality implicit in the ‘wheel of retailing’ whereby retail institutions commencing as low cost, cut price, narrow margin operations evolve into high-cost, conservative, top heavy organisations assumes that the demand for the products and services offered by retailers naturally follow a similar pattern (Dreesman 1968, Goldman 1975, 1978, Bartels 1981, Pioch and Schmidt 2000). Other cyclical theories such as the retail life cycle and retail accordion have been criticised on account of being limited to the remit of inter-institutional strife without any consideration for broader environmental issues such as culture and demand structures (Rosenbloom 1981, Poynor 1986, Mc Goldrick 1990, Pioch and Schmidt 2000).

Conflict theories of retail change also ignore the broader environment as they focus primarily on change as the outcome of inter- and intra-institutional strife (Pioch and Schmidt 2000). Organisational change is seen as the function of dialectical theory where retail evolution follows patterns of thesis,

anti-thesis and synthesis (Gist 1968) i.e. one form of organisational orthodoxy replaces another, the new one then initiates a new round of change. Dawson (1970) proposed the four stage model of institutional change where shock and defensive retreat are followed by acknowledgement and adaptation, which then initiate crisis and conflict at a later stage. In all these theories, the influence of the broader environment is seen as external to the organisational context and Savitt (1989) pertinently points out that the dynamic interplay between retailers and the environment has been largely ignored in the literature. Another glaring omission in the cyclical and conflict theories is the absence of consumption activities and the impact that consumer behaviour may have on retail activity. Existing literature on consumption activity often assumes that the consumer is passive and easily manipulated and completely disregards the consumers' ability to interact with and influence organisational strategy (Piocch and Schmidt, 2000). Bourdieu (1989) argues that change in retail structures needs to consider that the active and knowledgeable consumer has to be an integral part of the retail change process. Combination theory has sought to address some of these problems and academics have proposed cycle- environment concepts (Kaynak, 1979; Wadinambiaratchi, 1972); cycle-conflict configuration Regan (1964) Hollander (1970) Izraeli (1973); environmental-conflict proposition of Guiltinan (1974) and McNair and May (1976).

Piocch and Schmidt (2000) have attempted to capture the significant role which cultures of consumption play in retail change. Within cultural realms, 'legitimate' tastes are defined and very often are used as social demarcations for class and standing in society. With economic development and rising levels of income, the so called lower status groups begin to emulate or usurp the tastes of higher income groups which then causes the latter to respond by adopting new tastes which re establish them and maintain the original distance (Featherstone, 1991). As a result, elite goods get massified (Peterson and DiMaggio, 1975) and popular goods get anesthetised. In this context, consumers of all classes become increasingly active, critical and creative people (Campbell, 1995). This also holds true in the case of emerging markets where modernity is seen as a mark of development and new identities are created with the symbolic world of consumption rather than through a direct relationship with the material world (cited in Miller et al, 1998).

Isaacs et al (2010) in their study of fresh food markets in Thailand have highlighted how the modern supermarkets, in order to win local preferences attempt to refashion their service ethos and specialised nature of their products. In this context of co-existence of different formats, Holt and Amilien (2007) suggest that markets and consumers inhabit orders of worth which play off the conventions of 'dedicated- specialisation' and 'generic standardisation' and markets oscillate across a spectrum that spans 'involvement' to hyper-reality. This is also very true for emerging markets where the cultures of consumption are changing rapidly and are resulting in the coexistence of retail formats and a trajectory of development which is different from the patterns of retail development that occurred in

the Western markets. Isaacs et al (2010) in their research on fresh food markets in Thailand seek to identify how the intermingling and appropriation of conventions enable the co-existence of contradictory formats.

In the case of India which is at the cusp of liberalising the entire retail sector, the relevance of consumer behaviour is manifold. Consumer demand has increased in India owing to the economic growth. This has led to more choice of products, and the traditional over-the-counter service is under pressure from time-pressed consumers, who favour a faster self-service format. There is uncertainty as to whether consumers will abandon old ways of shopping, add new ones to a spectrum with various known inherent advantages and disadvantages, or induce innovation in the retail formats available (Srinivas, 2008). The challenge to retail development is exacerbated by the fact that the Indian market is multifaceted and multi-cultured, where tradition and modernity exist in parallel, poverty and affluence exist alongside one another, and socio-demographics continue to experience a rapid shift (Halpete and Iyer, 2008). Dithering on the part of the government to liberalise the sector has also left the sector as a whole in a state of flux and uncertainty.

Whether or not India will liberalise the sector and whether India has the ability to develop like other emerging markets continues to be questioned. This paper seeks to answer some of these basic yet fundamental questions about Indian retail development specifically and retail development in emerging markets in general.

- Will retail modernization in emerging markets inevitably kill off traditional retail formats, as has been in the West, or will India's retail development follow a different path?
- Will retail modernization result in efficient retailing, enabled by economies of scale and efficient use of technology with modern infrastructure in such markets?

Methodology - The scenarios approach in retail research

The scenario methodology in retail research was advocated to provide an alternative approach to study the competitive dynamics of retail formats that had reached the more advanced stages of the life cycle (Valentin, 1991). To survive in turbulent times, retailers would have to do more than just respond to changing competitive conditions – they would have to try to anticipate them. Erstwhile retail studies based territorial expansion and penetration decisions on saturation indices. Though saturation indices provide relevant information, numerous studies suggest they are too simplistic (Hirschman, 1978; Ingene, 1984). Saturation indices do not capture the complexities underlying local market demand and supply structures and can therefore be misleading. Porter (1980) recommends in this context, that firms with incipient competitive groups and industries could construct scenarios to help them envision the evolution of the competitive environment, and in turn, help them formulate

and implement appropriate and timely courses of action. The scenario based approach was initially used to develop territorial retailing strategy considering the demand characteristics of the market and the technological characteristics of innovative formats vis a vis those of established systems of retail supply (Valentin, 1991). Scenario work was also done on the long term future of the retail industry in Europe in 1993 by the Oxford Institute of Retail Management (OXIRM). Here the objective was to identify how a single European regulatory framework that would interlink multiple corporate players would shape the future of European retailing. The scenario approach was considered appropriate in this study of change in the retail environment triggered off by changes in the economic, social, political and competitive environment.

The scenarios approach is therefore an appropriate methodology for investigating developing economies as it accepts structural uncertainty with multiple interpretations and multiple futures. More specifically, for this study on retail format evolution in a developing economy, the scenarios approach is particularly appropriate as there is no ‘magic bullet’ Rayport (1999), or no one ‘correct’ business model for retailing. In fact for retailing, there are countless ‘right’ answers, endless combinations of business models and infinite permutations of key themes and approaches. Conceptualising the evolution of different retail formats taking the scenarios approach is therefore a prudent choice of methodology, especially in wanting to avoid the dangers of over formalising the format development process within the Indian retail context. Reynolds et al (2007) have pointed out that winning formats emerge from an opportunistic and incremental process, sometimes based more on intuition rather than rational analysis. This further justifies the choice of scenario building as an appropriate method to conceptualise retail format development in India. As the scenarios developed were deliberated upon in international conference workshops the process naturally lent itself to peer-review. The inbuilt mechanism of ‘strategic conversation’ integral to the scenario building process provides triangulation and increasing the validity of possibilities, strengthening the end result of research undertaking this methodology.

The methodological emphasis of most of the published work in Indian retailing is qualitative and descriptive focusing on an overview of the changing retail scene in India (Srivastava, 2008) and the emergence of modern Indian retailing Sengupta (2008). An analysis of Walmart’s future in India (Halepete and Iyer, 2008). Sinha and Kar, 2007 has also provided a useful summary of the various formats that have emerged in India over the years. The paper by Sinha and Kar (2007) also make some pertinent observations about the challenges ahead for Indian retailing. More recently, there has been more emphasis on studying various aspects of Indian consumer behaviour using quantitative methods. These focus on the impact of ethnocentrism on product preference (Kumar et al 2011) and a psychographic segmentation of the youth in India (Narang 2010). These are useful for gaining insights into how the second largest populous country is evolving into a consumer market.

An objective of this paper is to extend the existing literature on Indian retailing by giving it a theoretical underpinning and contributing to the academic literature on retail development in India in the future. It is an opportunity to grasp the nuances of retail format evolution in the Indian context which has been in rapid transformation over the last decade. The changing economy, the rising middle class, attempts by policy makers to deregulate the economy and the initial retail mania of the early 2000s followed by the trough during the global recession have all brought Indian retailing to a crucial point. The significance of the interplay between consumer behaviour, policy makers and retailers in shaping the future of Indian retailing and the wider society should not be ignored. The research is therefore undertaken to explore and inform how the synergy between policy making and retail format innovation could shape Indian retailing in the future.

Workshops with retail practitioners in India were used to develop the scenarios. Involving the key stakeholders of Indian retail development was integral to the knowledge building exercise as the knowledge we are seeking to develop cannot be in isolation of these stakeholders. The underlying assumptions are those of the school of critical realists (Sayer, 1992) for whom the production of knowledge is a social process, and the conditions and social relations of the production of the knowledge influence its content. Accordingly, having the actors partake in the co-production of the future of Indian retailing is integral to the knowledge building exercise and not just mere stakeholder engagement. The philosophy underpinning this paper is that of the 'relativist' school (Hudson and Ozanne, 1988) where the appropriateness of a research approach depends upon the research purpose. As scenarios inherently take future uncertainties into account, it is an appropriate research mode to capture multifarious and dynamic uncertain aspects of Indian retail development.

This research was undertaken in 4 phases between February 2009 and April 2012.

Nine key respondent interviews were carried out to identify the driving forces of Indian retailing., The key respondent interviews are significant as the interviewees were chosen on the basis of their specialised knowledge on the retail and policy aspects of Indian retailing. According to Jankowicz (1995), key respondent interviews are especially useful in defining the essential characteristics of some issue by drawing upon the personal experience and understanding of the people involved. The first set of scenarios for Indian retail format development were then created, based on the data collected during the interviews and an analysis of the secondary research. To triangulate the findings from the first stage, a scenario workshop was conducted in August 2010 with over 20 international retail practitioners and academics. This took advantage of the collective expertise and enabled a debate of some of the issues surrounding retail development in India. The second stage also gave the researchers an opportunity to share their initial findings and seek critical insights into the scenarios that had been developed in the first stage. The third stage entailing focus group workshops across

three regions in India were designed with the view of iterating the scenarios developed after phases 1&2. The participants comprised over 60 Indian retailers and policy makers who deliberated and debated the driving forces and critical uncertainties of retail development in India. This iterative process enabled further triangulation of the data and the development of internally consistent and reliable set of scenarios.

In the final phase, the qualitative Indian retail scenarios are triangulated with quantitative data which is then compared to similar quantitative data from other emerging markets.

Findings

Fundamentally, two major uncertainties currently impact the Indian retail sector: consumer behaviour and retail policy focus. The significant impact these two issues might have on Indian retailing together with the levels of uncertainty around their nature, timing and implementation suggest that retailers and policy makers need to understand how the combined influence of these uncertainties will shape the landscape of Indian retailing.

The economic and political debate around Foreign Direct Investment (FDI) in retailing has been widely discussed and is a complex issue. However, at a more fundamental level, the key point is whether Indian retail policy will be focused indigenously or will exogenous influences enable more acceptable development of the sector. There are arguments for and against both. Indigenous retail development so far has seen the rise of successful domestic Indian retail chains. With their finer understanding of the nuances of Indian consumers, they have penetrated Tier 1 and 2 cities successfully. Domestic retailers and global and domestic FMCG players have developed innovative business partnerships to capitalise on each others' strengths to penetrate the rural markets and thereby opened up opportunities for themselves in terms of access to mass markets. Indian retailers have set up supply chain solutions to improve the distribution network. On the face of it, retail policy can be seen to be geared towards encouraging and motivating the existing indigenous Indian retail companies. However, home grown retailers can also fall prey more easily to Acts that have since lost their relevance and may thwart or arrest the retailer's progress. Reliance Retail's inability to source directly from farmers who stood to gain from the better prices they were being offered by the company is one such example. Political pressure and internal corruption are also potential impediments to the sustainable and continued growth of indigenous modern retailing. If retail development was opened up to exogenous influences by way of liberalisation, including opening up the economy fully to FDI, the foremost advantage to the sector is argued to be the construction of modern infrastructure to make the distribution and supply chain network complementary to modern, large scale, retail businesses. It is argued that inefficiencies in terms of waste would be alleviated. International retailers would also bring with them international brand reputations that include corporate social responsibilities. Foreign retailers with their international reputations would have

stronger incentives to implement such business principles in the Indian retail sector thereby setting standards that could challenge national retailers. It is argued that consumers stand to gain from higher standards of goods and services. Consequently, the entire sector might benefit as a whole and Indian retailers might gain from the competitive pressures of international retailers. This may provide for a wider social inclusion of otherwise excluded groups. Potential pitfalls of relying on exogenous influences is the domination by foreign retailers leading to the marginalisation of weaker home grown retail chains, middlemen and loss of the creativity and variety with which indigenous retailers currently meet the needs of consumers. Propositions around the partial opening up of retail to FDI in big cities would minimise some of the impact (good and bad) from internationally experienced retailers, assuming the Indian market remains attractive to outside investment. On the one hand, there is the question of whether or not the Indian market is seen as a viable opportunity. On the other hand, there is the question of whether the intentions account for a mutually beneficial business agenda by way of wider socio-economic ramifications that international retailers would impact. The above pros and cons of indigenous and exogenous retail policy focus and their respective impact and influence on Indian retailing make them one of the critical uncertain driving forces of future Indian retailing.

The second critical uncertainty stems from the socio-demographic trends and the overall impact they have on consumer behaviour. What appears certain about the socio-demographic trends is that the demand for products and services will continue to rise for the foreseeable future. For urban, wealthy consumers, this reflects changing lifestyles and aspirations and a potential move away from the traditional norms of Indian living. For the rural poor, the nature of aspirations tend to be more fundamental, for example, towards reliable healthcare, education, safe drinking water and improved sanitation. For prosperous urban consumers, these are more likely to be considered basic utilitarian requirements. The connotation of hedonic or aspirational and basic or utilitarian needs would be extremely relevant in such a context and vary on a case by case basis. This will make consumer behaviour even more unpredictable and uncertain over the next few years. Understanding the myriad of circumstances that shapes the behaviour of this hugely eclectic mix of consumers therefore creates substantial uncertainties around consumer behaviour in the near future.

Combining the extremes of these two critical uncertainties results in the creation of four thought provoking scenarios for the future of Indian retailing. These parameters are as follows:

Utilitarian consumer behaviour – Consumer retail requirements are primarily limited to the fulfilment of basic everyday necessities. This may be a reflection of a consumer base dominated by relatively new middle income consumers for whom the basic needs of modern day, urban living are still a novelty.

Hedonic consumer behaviour – Consumer retail environment is dominated by aspirational consumers who have considerable disposable income. The pleasures associated with the process of shopping gain prominence and the experience component becomes an integral element in defining a satisfactory shopping outcome.

Indigenous retail policy focus – Retail growth and development is completely inward looking, government policies are geared towards incentivising Indian retailers and international players are excluded.

Exogenous retail policy focus – Retail growth and development is freely open to international investment and expertise. National and international retailers are competing on the same platform and the most innovative and efficient retailers hold the key to success.

The scenarios that emerge on combining the above parameters are summarised in Figure 1 and explained in the following section, where they are described in their extreme form, and analysed in relation to the dominant retail formats, their location, size and channel. The implications of these for pricing, logistics and distribution networks are discussed with an identification of the key indicators that point towards the advent of each scenario. Of course, no one extreme scenario will completely dominate, especially in such a large and complex country like India, but one scenario in a moderated form is likely to emerge as typical.

Figure 1: The scenario framework



Table 1: Indian retail scenarios in detail

UTILITARIAN CONSUMER BEHAVIOUR

INDIGENOUS RETAIL POLICY FOCUS

EXOGENOUS RETAIL POLICY FOCUS

<p>KIRANA KINGDOM (Kirana is the local traditional market stall) Small local retailers dominate</p> <p><u>FORMATS/LOCATION/SIZE/CHANNELS</u> Local markets Stalls Independent stores</p> <p><u>PRODUCT CHOICE</u> Local, plus branded product</p> <p><u>PRICING</u> Low</p> <p><u>LOGISTICS</u> Fragmented</p> <p><u>KEY INDICATORS</u> Fragmented local urban development of infrastructure – low urbanisation Low disposable income</p>	<p>SASTA WORLD (Sasta means discount.) International retailers dominate</p> <p><u>FORMATS/LOCATION/SIZE</u> International hypermarket chains International hard discounters chains International wholesaler operations</p> <p><u>PRODUCT CHOICE</u> High private label, plus global branded product</p> <p><u>PRICING</u> Low</p> <p><u>LOGISTICS</u> Highly vertically integrated</p> <p><u>KEY INDICATORS</u> National infrastructure development including integration into the primary international networks High urbanisation High levels of employment but relatively low disposable income</p>
<p>SANSKRITI PLANETS (Sanskriti reflects local cultures.) Large regional retailers dominate</p> <p><u>FORMATS/LOCATION/SIZE/CHANNELS</u> Regional large store chains Entrepreneurial small stores Local boutiques</p> <p><u>PRODUCT CHOICE</u> Regional, plus branded product</p> <p><u>PRICING</u> Wide range of pricing from low to high</p> <p><u>LOGISTICS</u> Fragmented, though maybe integrated regionally</p> <p><u>KEY INDICATORS</u> State-led regional development of infrastructure Fragmented, regional urbanisation Significant middle class with disposable income Credit facilities available to select groups</p>	<p>MISHRIT UNIVERSE (Mishrit implies mixing up.) Mix of local, national & international retailers</p> <p><u>FORMATS/LOCATION/SIZE/CHANNELS</u> Convenience stores Departmental stores Luxury stores</p> <p><u>PRODUCT CHOICE</u> Mix of private label , Indian and global brands</p> <p><u>PRICING</u> Wide range of pricing though generally on the high side</p> <p><u>LOGISTICS</u> Mix of integrated and fragmented</p> <p><u>KEY INDICATORS</u> Coordinated national and state infrastructure development including international linkages High urbanisation High disposable income in general Credit facilities widely available</p>

HEDONIC CONSUMER BEHAVIOUR

Implications of the scenarios for retailing in India

The Indian retail market currently lies within the ‘Kirana Kingdom’ scenario and partially within ‘Sanskriti Planets’. 95% of retailing in India is confined to traditional mom and pop stores and open markets and bazaars. Kirana Kingdom caters to the utilitarian needs of majority of Indian consumers and is dominated by local kirana stores which support the livelihood of millions of Indians across urban, semi urban and rural India. The Sanskriti Planet scenario arises across the various Indian states

as regional retailers cater to regional needs. The ability of these retailers to cater to vast cultural diversities of consumers across regions and tailor products and services completely to the local/regional tastes and preferences helps them thrive alongside the local small retailers. Hedonic and utilitarian consumer needs are sufficiently satiated in these scenarios. While regulations allowing foreign investment exist in India, these are limited to single branded products which are isolated from those sectors of retailing requiring more elaborate supply chain and distribution networks. Other regulations which impact retailing are zoning regulations (which are implemented by the local Municipal Authorities in every city), competition regulations, locational and environmental regulations which are formulated by the central government. The implementation of regulations are controlled by local state governments and the efficiency or lack thereof with which they are implemented also determine the extent to which retail development will occur in the various cities (See Appendix I for varying levels of city competitiveness and infrastructure in India).

These two scenarios suggest that retail agglomeration of organised and traditional retailing exists in India despite the domination of traditional retailing. In both of these primarily indigenous retail scenarios, most of the infrastructure development is decentralised and local and regional networks play an influential role in managing the supply chain.

Testing the relevance of the retail scenarios in other emerging and mature markets

In the absence of data measuring the exogenous and indigenous nature of regulations or hedonic and utilitarian behaviour in India (or any other emerging or mature economies) proxy variables were used to plot different countries along the scenarios developed in this research to give an indication of where countries might be in these retail scenarios. Personal Disposable Income for the five years 1990, 1995, 2000, 2005 and 2010 [at Price Purchase Parity (PPP) in billion dollars] data from the Euromonitor database was taken to indicate the propensity for hedonic and utilitarian behaviour. The assumption here was that as personal disposable income increases, the propensity for consumers to engage in hedonic behaviour would also increase (Witt, 2010; Wang et al, 2000).

In mapping the status of regulations in countries, data (for the years 1990, 1995, 2000, 2005 and 2010) used to rank regulations in different countries in the Economic Freedom Index (2012) report was used. The components of this index measured conditions like the domestic credit market, labour market regulations and regulation of business activities including bureaucratic and administrative costs, all of which are seen as impacting the economic freedom in the business environment of any market.

Based on these datasets, India seems to have been straddling the borders of Kirana Kingdom and Sasta World during the 5 years plotted in Figure 2. The vertical rise in the graph is attributed to the

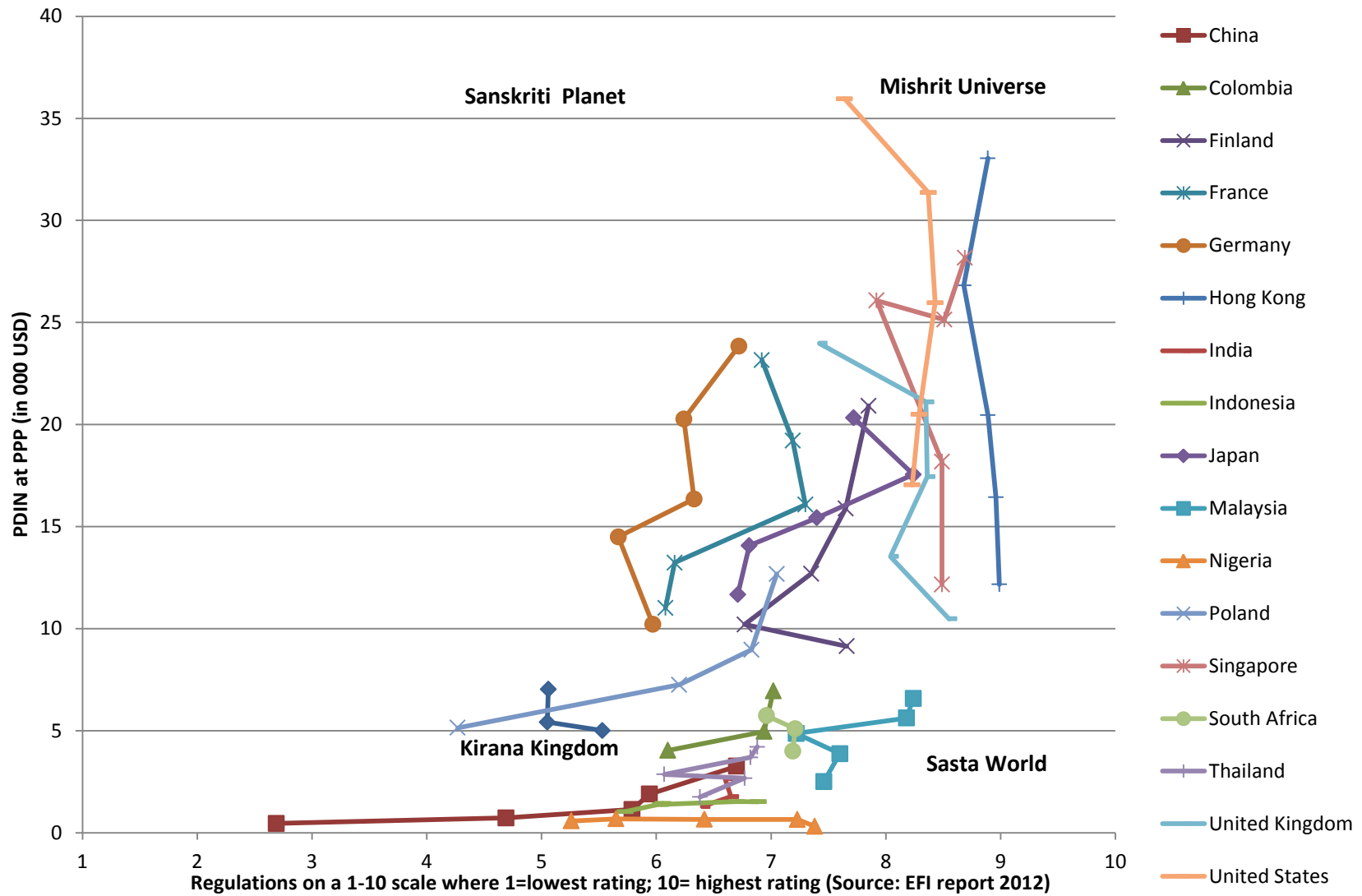
growing disposable income of Indians from \$1.27 billion in the year 2000 to \$2.83 bn in 2011. However, a marginal improvement in the regulation ranking from 6.4 to 6.6 is also indicative of the limiting characteristic of regulations which have constrained the business environment. Further analysis of the subcomponents comprising regulations suggests that whilst regulations around credit markets and labour markets became more pro business in the years 1995- 2011 (average score of 6.9 on a 1-10 scale where '1' was the lowest rating and '10' the highest rating), the administrative, bureaucratic and licensing costs for businesses continued to be burdensome and regressive (the average score for these being about 5.6 on the 1-10 scale. Coupled with this are issues around bribes and favouritism (average score of 4.4 on a '1-7' score where 1=Common; 7=Never occurs). Cumbersome bureaucratic costs, licensing costs and administrative costs and high levels of bribery and favoritism in the system have confined India's progress from Kirana Kingdom. The slight movement in the direction of Sasta World could be attributed to the improvement in retail related infrastructure in pockets which are primarily pioneered by the domestic retail groups like the Futures group for example. By and large, the retail environment, until 2011 and undoubtedly in the near future will continue to straddle the Kirana Kingdon/Sasta World scenario unless a major shift occurred in terms of regulatory intervention, rectifying and simplifying the regulatory structure and incorporating institutional bodies which would enable a more formalised and professionalised retail sector. The introduction of FDI in retailing will only be the first step in any retail and retail related transformation as implementation will require further regulatory intervention at local and national levels, especially in a vast country like India. The current FDI proposition for multi-brand retailing gives the states the final power to decide whether or not to allow FDI into their respective states. If this were indeed to be the case, one could foresee all the four scenarios occurring in India simultaneously. Internal regulations however, would continue to be the hindrance (the intensity would vary across states) and foreign retailers would also find it challenging to work their way around these regulations.

Plotting the proxy data on the chart for other countries suggests two distinct groups for emerging markets and mature markets. Like in the case of India, majority of the emerging markets, namely, China, Thailand, Malaysia, Indonesia, South Africa, Colombia and Nigeria are all straddling the borders of Kirana Kingdom and Sasta World (See Figure 2). Malaysia is more distinctively in the Sasta World scenario whereas Brazil continues to be firmly placed in Kirana Kingdom. The average score for regulations in these markets was 6.8. In comparison, the mature developed markets in the chart, occupy more of the Mishrti Universe scenario with majority of them having progressed upwards from a Sasta world scenario in 1990. However, some of these countries like Germany, Finland and France continue to straddle the borders of Mishrit Universe and Sanskriti Planet. As expected, the considerably higher disposable income in the developed markets suggests that consumerism is considerably higher in these markets than emerging markets. By virtue of consumer demand, these developed markets are placed in the Sanskriti Planet and Mishrit Universe scenarios.

Clearly, regulations in all these markets barring Germany, France and Finland enable an efficient business environment. Compared to emerging markets, the average score for regulations in these markets, as per EFI 2012 report, was 8.07. Germany, France and Finland scored 7.16 on average in the regulations component despite having much higher demand emanating from higher personal disposable income as compared to the emerging markets.

If one were to compare emerging markets in the chart from the demand perspective, undoubtedly, their vertical progress into the future could be assured owing to the optimistic projections on rising personal disposable income. One could attribute this to the overall economic growth in these countries. However, the introduction and more importantly, the implementation of regulatory reforms is far more complex and reliant primarily on the political governance structure in these economies. In the sphere of retail modernisation and development, the issue is primarily around protecting traditional retailers while encouraging retail development using foreign investments. Lessons from developed markets suggest that at its inception retail modernisation was seen as ‘social problem’ in these markets. The confrontations in these markets (cases from the US for example) arose from the assumption that the invasion of highly rationalised global capital would hurt the local economies and local communities (Halebsky, 2004). Similar issues plagued the emerging markets (Malaysia, Thailand, Indonesia, India, China, Brazil, South Africa) but in most cases, barring India, the retail sector was liberalised and reformed with the influx of foreign capital and restructuring of regulations to enable co-existence of traditional and modern retailing. Unlike in developed markets where, over the years traditional retailers have become a minority, in the emerging markets a dual retail structure seems to be more prevalent. This is partially to do with the consumer culture in these emerging markets, which continues to patronise traditional retailing for all the advantages it bestows compared to modern retailing. More importantly though, public policy around retailing is seeking to address the inherent conflicts in the retail system (modern retailing vs poor infrastructure, convenience of shopping in open markets vs hygienic shopping, economies of scale vs time costs of bureaucracy/licensing/administration) and thereby creating regulations which create opportunities for traditional and modern retailers to survive (For an example of different formats prevalent in countries, see Appendix 2 for percentage break up of grocery sale by formats).

**Scenarios with PDIN and Regulations
1990/1995/2000/2005/2010**



Discussion

Our findings in relation to retail development in emerging markets and the resultant scenarios highlights the significant role that regulations play in the evolution of the retail landscape in emerging markets. The characteristic feature of the scenarios developed for Indian retailing and then tested in the context of other emerging and mature markets highlights the co-existence of retail formats in emerging markets. The retail system in emerging markets is characterised by a variety of retail formats across different urban and rural locations, with varying levels of efficiency and fulfilling a wide variety of consumer needs.

In the case of emerging markets the fulfilment of consumer demand for products and services are a combination of global and local economic trends, changing socio demographic patterns and resultant shifts in cultural trends. These influences over the years have given rise to an aspirational class of Indian consumers as well as those in other emerging markets. Data on personal disposable income per head from the Economist Intelligence Unit suggests that over the years there will be a steady rise in Personal Disposable Income (PDI) for consumers in emerging markets (See Appendix 3). Rising aspirations suggests that there will be an increase in hedonic shopping. However, where increasing modernity exists in parallel with traditionalism, where poverty and affluence exist side by side, the movement along the consumer behaviour spectrum will be balanced towards utilitarianism but hedonic behaviour would also be on the rise (as a reflection of aspirations), giving rise to more dynamism on the consumer behaviour spectrum. The combination of changing aspirations and existing traditionalism therefore creates opportunities for a number of retail formats to evolve over a period of time.

In seeking to address the inherent contradictions in the retail system, regulators too devise policies which enable the co-existence and sustenance of otherwise contradictory formats and business models. These regulations are not just limited to regulations around foreign direct investment, but regulations pertaining to the smoother functioning of the retail industry as a whole with a view to making it more professional and structured. The findings from this research highlight that emerging markets often struggle to rectify the inherent inefficiencies in these regulations and bureaucratic and administrative costs hamper their development (Economic Freedom of the World: 2012 Annual Report). So the potential efficiencies to be had from foreign direct investment are tempered due to other systemic inefficiencies in the regulatory institutions.

A more pertinent point in the case of emerging markets, especially vis a vis retail modernisation and regulations is to do with the politics around retailing. Retail modernisation has and continues to be a very politically sensitive issue debated in most emerging markets (Reardon and Hopkins, 2006).

While the economic rationale of liberalising the sector to rescue failing markets has triggered retail modernisation in some emerging markets like Thailand, Malaysia and India regulators have found themselves in a quandary over the future of traditional retailers in their countries. Economic rationale has demanded liberalisation, political rationale has demanded caution. Regulators have had to make a choice between the pursuit of credit claiming from retail sector liberalisation or blame-avoidance from the possible demise of traditional retailing. Whether a development actually provides tangible benefits becomes relatively unimportant in such cases, what gains predominance is whether the use of policies provides politicians with something they can claim credit for (Wolman and Spitzley, 1996). The debate on FDI in India was and continues to be driven by the agenda of state level politicians and it also reflects the challenges of initiating reforms in an increasingly fragmented multi party democracy like India. As summarised by Kapur (2007):

“The process of economic reforms in has been strongly shaped by two singular transformations in Indian politics: Political instability (as measured by the frequency of turnover of governments) and political fragmentation (as measured by the effective number of parties and the vote share of the largest party). The result has been coalition governments with frequent turnover both at the centre and state levels.....coalitions find it more difficult to implement coherent economic policies and more energy is dissipated in managing the coalition itself, appeasing factions and partners, than in actually governing”.

The current retail liberalisation debate has also fallen victim to similar coalition politics resulting in what has been termed ‘policy paralysis’ in India. Moreover, as observed by Kapur (2007), the Indian state is better at activities distant from its citizens than those where it must interact with citizens directly like in public services such as sanitation, public transportation, rural services and utilities. This is especially attributable to the inefficiencies at the level of sub national governments. Retail is a people’s business and affects the masses, it is according to Akbar (2012) ‘a multifaceted industry held together by a people-centric axis’. The rise of powerful special interest groups like the middle men in the supply chain (Middlemen are a core constituency of the opposing BJP party in India – Livemint, 2012) are a prime reason for the retail policy paralysis in India.

At best therefore, and as has been seen in some emerging markets like Malaysia, Thailand and Indonesia, in emerging markets, the politics of retailing have given rise to a new convention of competition which has sustained the contradictory yet competitive co-existence of multiple retail formats. The nature of consumer behaviour rooted in traditions and customs have also sustained the dual model of retailing in emerging markets.

Implications for retail development theory

There are ramifications of these findings for the wheel theory of retailing – they reiterate that while the wheel of retailing has some relevance to the evolution of retailing institutions in high-level

economies, the same cannot be said of the developing world (Bucklin, 1979; Brown, 1995). Retailers in emerging markets have to deal with inherent inefficiencies of the regulatory system to develop their business, irrespective of whether there is foreign investment. Regulatory authorities come under political pressure to protect the interests of smaller domestic retailers. Consumer demand also creates a need for modern and traditional retailing. A combination of all these factors necessitate the co-existence of both big box retailing and small scale retailing, foreign and domestic, modern and traditional.

Instead of trading up in terms of size to realise efficiencies of scale, trading up in emerging markets is more about trading up standards of quality, especially for the traditional retailers, their scale of operations notwithstanding. Large retail stores find themselves under regulatory impediments to trade down in terms of size, choice of location and opening hours to be more appealing to local customers. Regulatory conventions are framed in emerging markets to create a competitive environment for both traditional and modern retailers- all this provided political bodies can strike the appropriate balance in credit-claiming and blame-avoidance through their policy formulation and implementation. This inadvertently gives rise to a scenario where there is more convergence and resemblance between old and new as has been seen in the case of some of these markets. Hence a hybrid model of retail development, which is more evolutionary as compared to the cyclical or conflict theory of retail development maybe more appropriate to understand retail development in emerging markets. One therefore needs to concede that a dual model of retailing might prevail in the future, especially in emerging markets as opposed to the western model of big box retailing.

A combination of regulatory intervention and the changing cultural disposition of consumers on account of changing socio economic conditions play a significant role in the development of retailing in emerging markets. Retail development in emerging markets can therefore be aligned more closely to combination theory where the consumer-regulation configuration plays a significant role in how retail evolves and develops in these markets. This adds to the list of the combination of concepts that academics (Kaynak, 1979 and Wadinambiaratchi, 1972; Regan, 1964, Sampson and Tigert, 1994) have proposed to explain retail development. The politics of retailing also ensures that retail development policies are not always likely to emerge from rational, systematic weighing of costs and benefits – but driven to a large extent by decision rules emanating from the political actors.

Conclusion

Retail change theories over the years have primarily been developed in the context of Western markets where efficiency, location and territorial aspects of retail development have emerged as key drivers of change where retail format development occurs in a wheel like or cyclical direction with

one format developing after another. Studies of retail development in emerging markets has suggested that in fact retail formats co exist alongside one another in these markets. Isaacs et al (2010) have highlighted how traditional retailers in Thailand renewed their local importance through a combination of convention appropriation from global supermarkets while continuing with support for local conventions which reflected how the social, embodied human level judgements circumvented the standards associated with more mainstream exchange contexts.

This paper sought to adopt the scenario method of researching how Indian retailing would evolve in the future in order to explore and capture if and how such co existence of formats would occur in Indian retail development. The findings highlight the significance of regulatory intervention in enabling such co-existence and sustenance of otherwise contradictory formats and business models in India as well as other emerging markets. On comparing the scenarios developed for Indian retailing with projected economic data on retail development in other emerging Asian countries such as Malaysia, Thailand, Indonesia and Brazil, a pattern of retail development could be detected that highlighted how the right mix of inclusive, restrictive and collaborative regulations could create opportunities for retailers to satiate changing consumer aspirations in more innovative ways. The scenarios for Indian retail development existed in some shape or form in other emerging markets and are the result of deliberate regulatory intervention to balance rising consumer aspirations while protecting the interests of traditional retailers and increasing their competitiveness.

Existing retail development theory focuses largely on the role of location and scale in determining retail development. This paper identifies the combined role of regulatory intervention and consumer behaviour suggesting that in emerging markets the politics of retail development can result in multiple retail scenarios with the onus being on the establishment to determine the trajectory of retail growth in those countries. The scenario method with its inbuilt mechanism of relating seemingly unrelated variables enabled the researchers to conceptualise retail development in an innovative way. The resultant framework of scenarios which also lent itself to verification with the retail developmental trajectory of other emerging markets provides a new way to conceptualise retail development in emerging markets. This provides further evidence that 21st century retailing in Asia will unfold according to different historical and social narratives compared to the West in the 20th century.

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Appendix 1: City competitiveness and infrastructure in India (Source: Jones Lang LaSalle Meghraj)

City-State/Territory	City Competitiveness		Infrastructure	
	Infrastructure/ connectivity	Human Capital	Air Passenger 000s & 2006	Power-Quality & Cost
Delhi, DELHI	A	A	20,443	D
Bangalore, KARNATAKA	B	A	8,125	C
Mumbai, MAHARASHTRA	A	A	22,249	B
Chennai, TAMIL NADU	A	B	8,974	B
Hyderabad, ANDHRA PRADESH	B	B	5,750	A
Kolkata, WEST BENGAL	C	B	5,993	B
Pune, MAHARASHTRA	C	B	1,574	C
Chandigarh, PUNJAB	B	C	155	A
Jaipur, PUNJAB	D	E	791	D
Lucknow, UTTAR PRADESH	E	D	613	C
Ludhiana, PUNJAB	C	D	NONE	D
Ahmedabad, GUJARAT	D	D	2,491	E
Goa, GOA	E	C	2,212	B
Indore, MADHYA PRADESH	E	C	358	B
Nagpur, MAHARASHTRA	C	D	663	A
Nashik, MAHARASHTRA	E	D	NONE	C
Surat, GUJARAT	C	E	NONE	B
Vadodara, GUJARAT	D	D	404	D
Bhubaneshwar, ODISHA	D	E	350	C
Coimbatore, TAMIL NADU	C	C	867	B
Kochi, KERALA	B	C	2363	D
Mangalore, KARNATAKA	C	E	482	C
Mysore, KARNATAKA	D	E	NONE	E
Thiruvananthapuram, KERALA	B	C	1781	D
Vijaywada, ANDHRA PRADESH	D	E	NONE	C
Vizag, ANDHRA PRADESH	C	C	331	D

Each city has been graded from 'A' to 'E' with 'A' denoting the highest or most favourable conditions and 'E' denoting the lowest or least favourable conditions. The grades have been based on current activity and do not measure potential future activity or performance.

Appendix 2: Percentage breakup of grocery sales by formats across countries in the year 2010. Source:

	TRADITIONAL FORMATS		MODERN FORMATS				TRADITIONAL FORMATS		MODERN FORMATS			
	Local markets/stalls	Independent stores	International hypermarkets	International discounters	International wholesalers	Large regional stores	Entrepreneurial Small stores	Local boutiques	Convenience stores	Depart-Mental store	Luxury stores	Super-markets
HongKong	22%	3.65%	13%	0.10%	-	-	9%	-	1.16%	-	-	45%
Singapore	13.17%	7.34%	10%	-	-	-	-	-	7.91%	-	-	50%
China	31%	9%	13.5%	-	-	-	-	-	1.16%	-	-	44.71%
India	28%	68.93%	1.08%	-	-	-	-	-	0.13%	-	-	0.85%
Indonesia	54.96%	30.26%	3.57%						4.25%			5.70%
Japan	16%	8.51%	-	-	-	-	-	-	29.49%	-	-	45.36%
Thailand	52%	7.43%	15.04%	-	-	-	-	-	13.15%	-	-	8.27%
Brazil	16%	33%	21.91%	2.86%	-	-	-	-	0.21%	-	-	24%
Colombia	18.8%	54.9%	12.8%	0.35%	-	-	-	-	0.05%	-	-	12.51%
Finland	10%	0.72%	30.32%	4.11%	-	-	-	-	24.99%	-	-	28.39%
France	8.30%	3.28%	42.01%	8.32%	0.99%	-	-	-	2.96%	-	-	33.12%
Germany	6.46%	5.63%	19.41%	34.61%	-	-	-	-	0.30%	-	-	27.41%
Nigeria	20%	75.37%	-	-	-	-	-	-	-	-	-	1.51%
Poland	10%	26.35%	18.34%	16.03%	-	-	-	-	12.08%	-	-	15.06%
United Kingdom	7.17%	4.64%	45%	3.29%	-	-	-	-	13.83%	2.92%	10.80%	-
United States	7.64%	8.40%	28.90%	2.22%	-	-	-	-	2.16%	-	-	35.92%

Appendix 3: Forecast for Personal Disposable Income per head in USD up to 2016 – Source Economist Intelligence Unit, 2013

Country/Region	Currency	2013	2014	2015	2016
Brazil	\$	7,490.00	7,970.00	8,450.00	9,000.00
China	\$	3,130.00	3,610.00	4,140.00	4,720.00
Colombia	\$	5,850.00	6,170.00	6,530.00	6,940.00
Finland	\$	27,680.00	28,260.00	28,580.00	30,190.00
France	\$	27,930.00	28,090.00	27,820.00	28,300.00
Germany	\$	27,840.00	28,240.00	28,120.00	28,760.00
Hong Kong	\$	26,250.00	27,330.00	28,780.00	30,160.00
India	\$	1,270.00	1,450.00	1,640.00	1,850.00
Indonesia	\$	1,180.00	1,310.00	1,500.00	1,690.00
Japan	\$	24,870.00	24,880.00	24,950.00	25,110.00
Malaysia	\$	4,700.00	5,060.00	5,540.00	5,910.00
Nigeria	\$	203.00	208.00	211.00	215.00
Poland	\$	9,040.00	9,440.00	9,870.00	10,830.00
Singapore	\$	25,320.00	27,290.00	29,170.00	31,460.00
Thailand	\$	2,860.00	3,030.00	3,220.00	3,450.00
United Kingdom	\$	25,250.00	25,410.00	26,840.00	26,670.00
United States of America	\$	39,300.00	40,650.00	41,930.00	43,290.00
Vietnam	\$	692.00	759.00	811.00	851.00