

Customer lifetime value: Global retail perspective

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Indian retail industry: overview

An analysis by a recent A.T. Kearney report suggests that the Indian retail market has the largest growth potential in comparison to international retail markets. India's impressive 8% GDP growth and positive demographic trend over the last twelve months has led to change in consumer spending due to entry of small-mid-large sized retailers who are either international or home grown retail big branded chains. It is expected that in the next few years, the growing middle class (which constitutes of over 30-35% of the Indian population) in particular will provide impetus for retailing in the years to come. As things stand today, approximately 300 million people have an annual household income of at least US\$ 2,000, where 58 million people have an annual household income of more than US\$ 4,400. As per the report, it is also expected that the average purchasing power per family will increase considerably, particularly in the towns and cities.

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India, with a retail turnover of around US\$ 250 billion, is already considered to be one of the world's tenth largest retail markets, this statistic is equivalent to about 50% of the total private expenditure on consumption and around a third of the total Indian GDP. The share of Indian retailing is estimated to increase in the total number of employees from 8% to 10%. A.T. Kearney forecasts an annual growth in turnover of at least 10% over the next few years. It is important that this is taken into account with respect to the overall economic growth with respect to all retail sectors that will benefit from this upswing. However, there are serious differences in the growth rates of the various retail sectors. There is an important message in this, i.e. for the growing middle classes, the character of shopping will become more important, i.e. retailing and lifestyle will become more closely linked and shopping for the basic needs will fall in relative importance. It is estimated that approximately 45% of consumer expenses are still incurred on groceries and clothing, therefore leading to more consumer interface.

With the expected inflow in foreign direct investment into the Indian retail sector, the number and formats of retail stores across various planned and under construction malls and across various high streets are bound to increase. However, one of the main challenges for Indian mall developers will be finding an interesting mix of tenants along with ensuring that the consumer remains loyal to the mall and to the retailer in the mall. The entry of more international retailers would ease the risk of vacant mall space, which is an important criteria for the success of any mall. Because of the anticipated shifts in consumer demand to convenience and luxury goods, the entry of foreign retailers would increase development of malls and hypermarkets. Infrastructure is one of the key elements of successful real estate growth and development therefore needs to be adequate investment in improving the current infrastructure situation in India. This is important not only for major cities but also for some Tier II and Tier III cities. However, I do not believe that India has an oversupply of retail or mall space.

Customer lifetime value

In general, Indian retailing offers enormous potential. However, the growth rate of retail sales is expected to increase due to the government's recent Foreign Direct Investment policy for foreign retailers, which has allowed 51% Foreign Direct Investment in retail. There are some restrictions on this policy however, as it only allows single format retailers to enter India. Although this is a positive step towards globalization of retailing in India, it still needs some relaxation to enable large format multi brand retailers to enter the country. With the entry of foreign branded retailers in India, the Indian retailing industry is bound to see tremendous improvisation and improvement in consumer behavior, product offerings,

retail formats, eventually leading to increase in spending. An ideal way to describe this new retail development in India will help in developing consumer relationships and loyalty programs creating consumer lifetime value, which would effectively set trends for all future retail formats and experiences in India.

For the success of any shopping mall and retail outfit it is important that the retailers continuously “think outside the box” to attract consumers in order to increase their spending in their stores/malls. This is particularly important to understand in order to anticipate change in consumer behavior and spending patterns to be able to develop future trends. Internationally there are several retail consulting firms that specialise in such kind of retail activities. Typically malls and retailers conduct various research and surveys either in-house or through various research agencies to understand consumer behavior and spending patterns regarding their stores and formats in order to improve their offerings, merchandise and product mix. All these are then tabulated, recorded and then analysed at a micro level to enable and ensure success of the retail formats and learn by consumer feedback. Large firms such as Liberty International (U.K.), Simon Property Group (U.S.A.), General Growth Properties (U.S.A.) are leaders and trend setters in creating and increasing consumer lifetime value for their retailer tenants. Typically these mall operators conduct comprehensive feedback and surveys across their developments in conjunction with the resident retailers to maintain their uniqueness, leadership and market dominance internationally. Malls owned, managed and operated by these large international development firms have seen tremendous growth and increase in footfalls due to understanding the customer's needs and being able to think global, act local with creative thinking, regular feedback and various consumer loyalty programs.

Finally, in order to be able to understand this customer value, it is important to keep innovating with new ideas, thinking outside the box, lead by setting examples, which can be achieved based on valuable customer feedback. Retailers across the world rightfully agree that in such a large service industry of retail it is important to treat the customer as a king in order to maintain a customer for lifetime. ■

