



## **Seminar**

# **Sports Retailing in India: Opportunities, Constraints and Way Forward**

**May 11, 2010**

**New Delhi**

# **Sports Retailing in India: Opportunities, Constraints and the Way Forward**



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# Motivation behind the Study

- India is hosting international sporting events
- Retail sector in India is undergoing change
- Government is considering allowing FDI in less sensitive sectors like Sports
- High growth sector
- Growing interest among foreign sports retailers



**Italian Trade Commission Report: “*Market Research Report: Sports in India*”**



# How International Sports Markets Work?



## Key Drivers:

- Sporting events,
- Popularity of the sports/sports person

## Retailers have to do

- Product re-orientation
- Customisation
- Positioning

# Global Overview of the Sports Sector

- Lack of official data
- In most countries contribution of sports sector to GDP is less than 5% → strong inter linkages with other sectors like tourism, audio-visual, etc. → Multiplier effect
- Labour intensive sector, contributes significantly to employment – 5% of EU (2% in UK)
- Size of global market: \$284 bl. in 2008 – growing at 4% (before slowdown)
- Global market driven by sports apparel – 50% of total demand
- US is largest market for sports products – 1/3<sup>rd</sup> of global market
- Asian market is currently less than 25%
- Major exporters: China, Hong Kong, France, Italy, Germany, US
- Major importers: US, Japan, Germany, France, UK, Italy

# Global Slowdown and the Sports Sector

**Growth Rate of Global Sports Industry in 2008 (in per cent)**

	<b>Total sports</b>	<b>Sports footwear</b>	<b>Sports apparel</b>	<b>Sports equipment</b>	<b>Bicycles &amp; related accessories</b>
<b>World</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>4</b>
<b>Americas</b>	<b>-1</b>	<b>-3</b>	<b>0</b>	<b>-3</b>	<b>2</b>
<b>Europe</b>	<b>-1</b>	<b>0</b>	<b>-4</b>	<b>1</b>	<b>2</b>
<b>Middle East and Africa</b>	<b>7</b>	<b>8</b>	<b>6</b>	<b>6</b>	<b>7</b>
<b>Asia</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>6</b>

- Developed countries: negative growth
- Fastest growing markets: Middle-East, Africa and Asia
- Focus is China and India



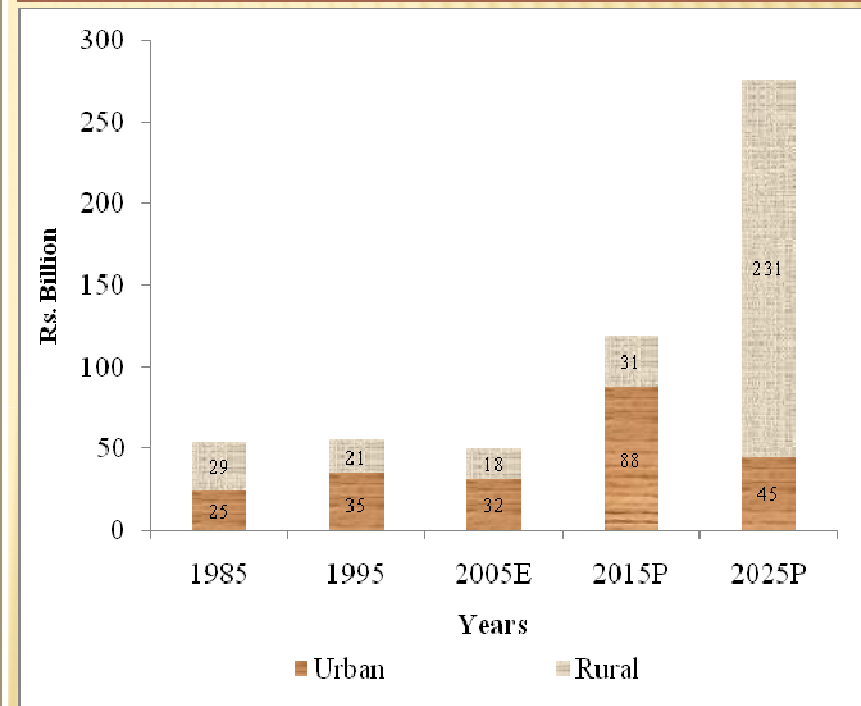
# Why India and China?

- Large unsaturated markets
- Positive and high growth of GDP
- Growing middle class and the young population
- Two countries are organising major sporting events since 2008 - increased the government and private sector focus on this sector
- Growing health and fitness awareness, brand awareness
- Sourcing by foreign retailers
- Conducive policy changes
  - ❖ India :2006 – partial FDI liberalisation in single brand retail
  - ❖ China: Post accession to WTO relaxed FDI policy

# Overview of Sport Sector in India

- Constitute 2.7% of total retail market
- Organised retail market share – 10%
- In total sports market, around 30% is organised
- Manufacturing growing at 10% -12%
- AT Kearney ranked India 1<sup>st</sup> among 30 emerging markets for sports in 2009
- Among largest sports goods manufacturers in Asia after China and Japan
- Sports retailing underwent massive change since 1995
- Sports “culture”.....?
- Consumers changing
- International sports
- Increasing private participation

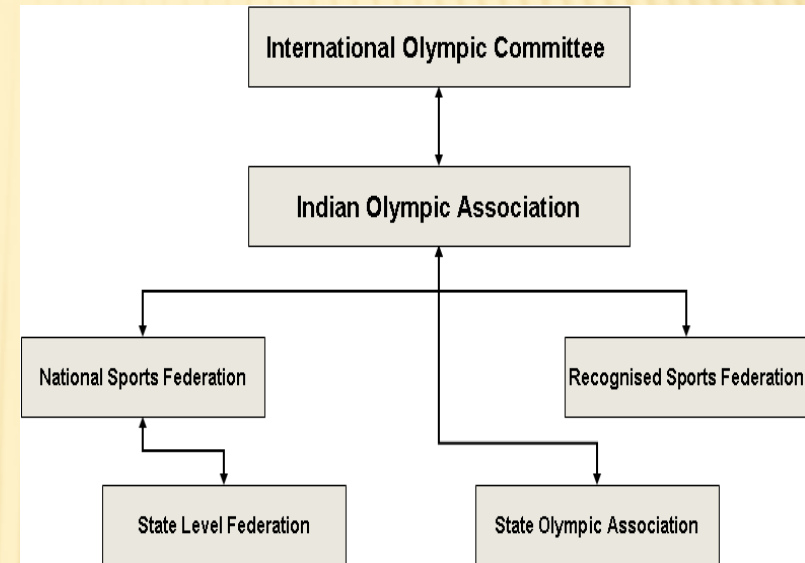
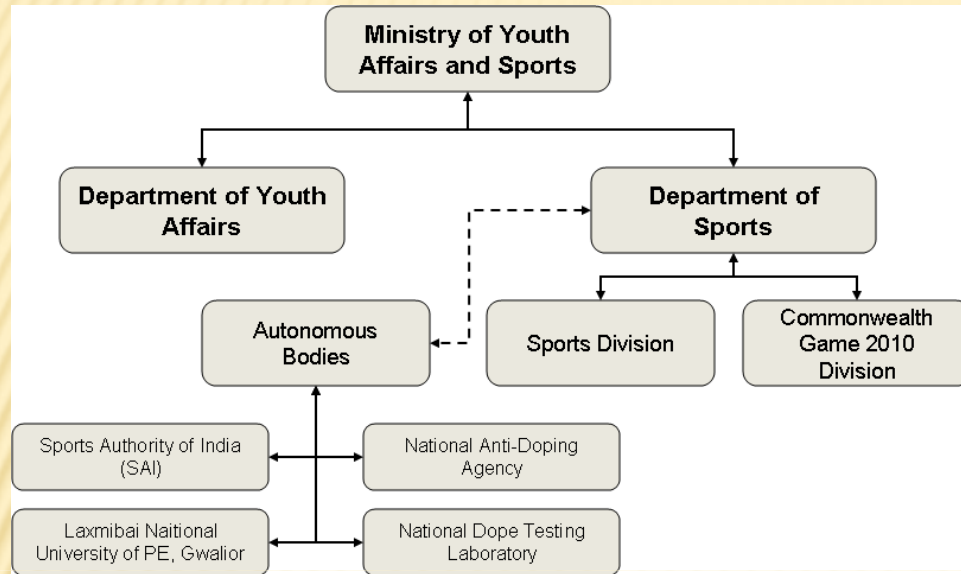
Annual Spending on Recreational Products and Services will grow at 8.9%



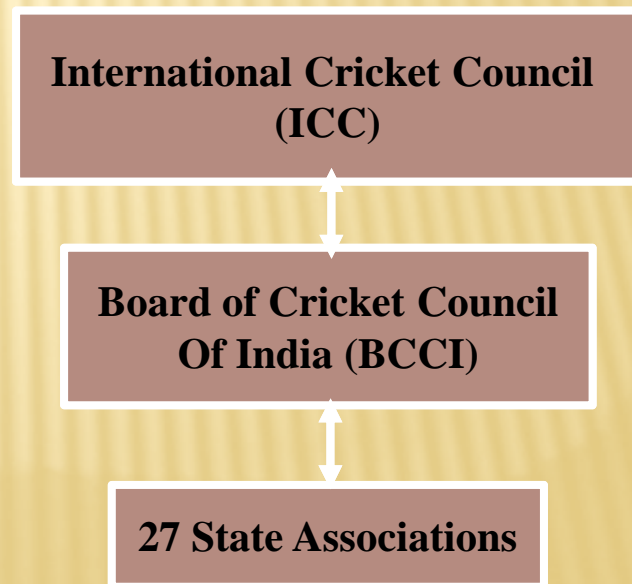
**No Studies -  
ICRIER conducted a  
survey of over 370  
stakeholders**



# Government Structure and Federations



- **State Subject**
- **Role of Ministry of Youth Affairs and Sports**
  - Development of policies
  - Creation of infrastructure
  - Training & direct funding of teams participating in international events
  - Capacity Building at grass-root level
- **Planning Commission**
  - Budget allocation to States



## Sports Policy in India

- 1982 Asian Games : received attention
- In 1984, the National Sports Policy (NSP) was announced, the Sports Authority of India was setup
- However, by 2000, no visible improvement in infrastructure and the rate of sports participation
- The 2001 National Sports Policy
- National Sports Policy, 2001 emphasized the need for *broad-basing of sports* and *achieving excellence in sports at national and international levels*
- Comprehensive Sports Policy in 2007
- Schemes
- Ministry of Human Resource Development: CCE System
- 100% FDI is allowed in sporting activities through automatic route
- FDI prohibited in betting, gambling, lottery

## Manufacturing Policy in India

- 100% FDI is allowed in manufacturing of sports products
- Focus is on exports and not on the domestic market
  - Fast track clearance by DGFT
  - Duty exemptions, technology up-gradation
  - SEZ
- State specific incentives e.g. Meerut

# Retail Policy in India

## Retail: Multiple Regulators

- FDI is not allowed in multi-brand retailing
- 100% FDI is allowed in cash and carry wholesale trading – automatic route
- Since 2006, FDI up to 51% allowed in single-brand retailing – FIPB approval
  - only single brand products would be sold
  - products should be sold under the same brand internationally
  - would only cover products which are branded during manufacturing and
  - any addition to product categories to be sold under “single brand” would require fresh approval from the government.
- FDI up to 100 per cent with FIPB approval is allowed for trading of items sourced from
  - small-scale sector
  - test marketing
  - trading of items for social sector
  - trading of hi-tech, medical and diagnostic items and
  - domestic sourcing of products for exports subject to EXIM Policy
- FDI up to 100 per cent is permitted for e-commerce activities – B2B activities
- FDI up to 100 per cent is allowed in manufacturing – wholly-owned subsidiaries can have retail outlets
- 100% FDI in franchisee and commission agent services – RBI approval



# Single-Brand Retail: An Analysis

## Benefits

Consumer can access foreign brands

International shopping experiences

Indian retailers access to global best management practices, designs and technological know how

Profit sharing

For the country, it reduces pressure from trading partners in bilateral/multilateral negotiations

## Drawbacks

Foreign partner should be original owner of the brand – no distributors or dealers


Only regular product lines of company granted permission – no experiments

Multi brand companies have to take separate permission for each brand – most foreign companies have more than one brand

No screening of Indian partner, can be a sleeping partner

# FDI not an Entry ban - Multiple Routes

- 100% FDI in whole sale cash and carry : most suitable for volume business
- Direct selling is a part of wholesale trading: Potential route for sports and fitness goods retailers
- Non-store formats like telemarketing
- Most foreign retailers enter through exclusive licensing and distribution agreements e.g. Lotto Sports Italia
- Wholly owned subsidiary through setting up manufacturing e.g. Nike, Reebok, Adidas
- Franchising is a common mode to increase retail footprints



**India ranked quite low (39<sup>th</sup>) among 67 countries in terms of the percentage of international retailers in 2008**

# Licenses and Clearances Required State/ Local Policy

Retail Outlet Specification	Trade License	VAT Registration Number	Permission from Amusement	NOC*	Fire License
Traditional retailer, shop's super built area <20,000 sq. mt., (no kitchen facility and sing TV/Music system for customers)	√	√			
Traditional retailer, shop's super built area <20,000 sq. mt., (no kitchen facility) but using TV/Music system for customers' entertainment)	√	√	√		
Traditional retailer, shop's super built area ≥20,000 sq. mt. (with kitchen facility but not using TV/Music system for customers' entertainment)	√	√		√	
Traditional retailer, shop's super built area ≥20,000 sq. mt. (with kitchen facility and using TV/Music system for customers' entertainment)	√	√	√	√	
Traditional retailer selling inflammable articles, shop's super built area <20,000 sq. Mt., not using TV/Music system for customers' entertainment	√	√			√
Traditional retailer selling inflammable articles, shop's super built area <20,000 sq. mt. using TV/Music system for customers' entertainment	√	√	√		√
Traditional retailer selling inflammable articles, shop's super built area ≥20,000 sq. Mt. using TV/Music system for customers' entertainment	√	√	√	√	√

Green Channel:  
Kolkata Municipal Corporation

Shop and Establishment Act

Zoning regulation

Sourcing regulations



# India's International Strategies: Implications for the Sports Sector

- Good ranking in recent international events: Commonwealth Youth Games 2008, 11<sup>th</sup> South Asian Games, 2010
- MOUs: Australia, Bulgaria, Argentina
- Councils (SGEPC, CLE and AEPC) collaborate with foreign countries
- **Multilateral WTO**
  - Removal of Market Access and other discriminatory trade barriers
- **India's Position**
  - Bound rates for Tariffs are higher than autonomous liberalisation
  - Proponent of services liberalisation in Doha Round, defensive sector: retail
- Uruguay Round: No commitment in Sporting and Distribution services
- Changes in UN CPC classification in coverage of some services (retail)
- Doha Round:
  - Offers in sporting services (excl lottery, gambling & betting),
  - Offers in distribution services covered commission agents' & wholesale trade services
- **Bilateral/Regional**
- India-Singapore CECA: no commitments in sporting services, covered commission agents' franchising & wholesale trade services
- India-Korea CEPA: Undertook commitments in sporting, commission agents' & wholesale trade services
- Negative listing of investment:
  - FDI is not permitted in lottery business, gambling & betting
  - FDI prohibited in retailing except single brand retailing
- Presently negotiating agreements with EU, Japan, etc. – pressure to open retail

# **Procurement: Government, Federations, Schools and Colleges**

- Government and federations: single largest purchaser - SAI is the nodal agency
- For international events, national events: mainly foreign brands - equipments specified by international organisations/ federations -mostly imported
- Beginners/trainees - mostly procure from local manufacturers
- Imported equipment requirements vary from sport to sport
- Distinct preference for lower bidders
- Schools, colleges and public academies
  - Bulk purchase – brand tie-ups , right pricing
  - Increased focus after CCE
  - Inter-school event sponsorship
  - Mumbai School Sports Association and Nike



## **Sports Goods Procurement: Key Survey Findings**

- Traditional/small retailers: not likely to work with federations – only cater to consumers
- Foreign manufacturers generally supply equipment through their Indian or Asian agents
- Sports goods imported by the government are exempt from import and other duties
- Corporate retailers work directly with government, federations
- Government approach brands like Nike and Reebok
- Sponsorships vary- events, team player
- Sponsorship of events help in creating brand awareness among consumers



# Status of Different Sports in India

- Wide range of sports are played – sponsorship, fan following, retailer's involvement differ
- One percent of population participates in sports
- Government recognised sports
- Popular sports like Cricket – treated as competitive sports large viewership, participation, sponsorship
- Individual sports – tennis, badminton, chess
- New/ niche sports – golf, motor sports, boxing
- Leisure and fitness activities – swimming, gymnasium, yoga
- Mostly entertainment and tourism related – skiing, ice skating

## **What determines participation?**

- Sports infrastructure
- Ability to pay for the facilities
- Popularity of the sports
- Government recognition
- Exposure – media, school

# Sports Retailing

- Difficult to estimate market size
- Small part of total retail – niche market
- Fast growing
- Organised sector share in total sports retailing (30%) is much higher than organised sector share in total retailing (6%)
- Sports shoes has highest share – around 60%
- Premium branded sportswear market: Rs.40-50 billion – Reebok largest player

**Survey finding:**  
**The market is**  
**expected to grow @**  
**20-25%**

## **Corporate Retail Formats :**

- Multi-brand outlets: Planet Sports
- Exclusive brand outlets
  - Franchisee outlets
  - Company-owned outlets
  - Factory outlets
- Total health and fitness retailers: VLCC
- Shop-in-shop arrangements: department stores
- Discounters
- Non-store formats

## **Traditional / Small retailers**

# Modern Retail Penetration

Bulk of the corporate retailers concentrate in large cities but established players such as Reebok and Adidas are now penetrating into Tier II and Tier III cities

## Selected Cities and Opportunity for Corporate Sports Retailing

Modern retail	Cities
Mature and Transitional	Delhi/NCR, Mumbai, Bangalore, Kolkata, Hyderabad, Chennai, Pune Ahmedabad
High-growth cities and Growing Opportunity	Chandigarh, Ludhiana, Jaipur, Lucknow, Kochi, Vadodara, Surat
New and Emerging	Indore, Amritsar, Jalandhar, Nasik, Bhubaneshwar, Agra, Coimbatore, Kanpur, Nagpur, Goa
Nascent – will take some time to grow	Jodhpur, Patna, Rajkot, Aurangabad



# Sports Retailing: Survey Finding

- Unsaturated market - Indian manufacturers work for large number of global brands, not all have retail presence in India
- Indian brands do not have an integrated presence – largely sold through traditional retailers
- Brand positioning: sports-cum-lifestyle, luxury, etc.
- Product re-orientation
- Linkages with other sectors
  - Tourism
  - Fashion
  - Audio-visual
  - Event (Reebok and IPL)
- Consumer behaviour – Price conscious
- Few fast selling products
- All products under one –roof
- Heterogeneous market – regional variations
- Primary consumers – young men
- Diversifying – women, more sports

# Corporate and Traditional Retailers : A Comparison

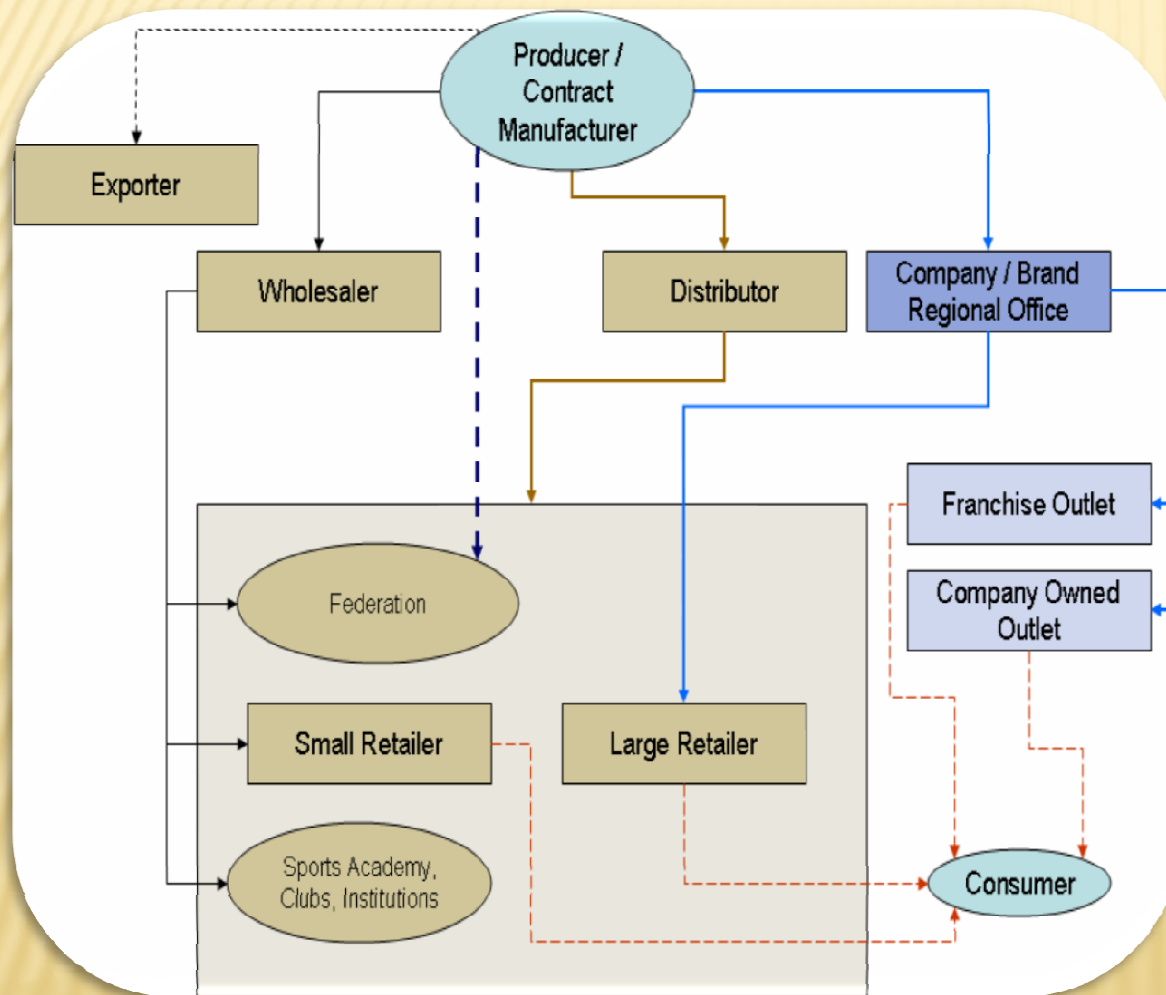
## Corporate Retailers

- Present across all segments
- More likely to sell high valued, technology oriented products
- Leased property
- High and middle income consumers
- Brand loyalty- Loyalty cards etc. to attract consumers
- High street shopping malls, better infrastructure, bar coding, IT, etc
- Only branded products

## Traditional Retailers

- Sports equipments and toys
- Own property
- Across all income groups, regular clientele – 55%, better knowledge about customers, interpersonal relationship
- Prominent shopping areas
- Branded and unbranded

# Distribution & Product Sourcing



- Fragmented distribution chain
- Corporate retailers less likely to work with wholesalers (only 10%)
- Bulk of the product is sourced domestically



# Domestic Sourcing: Manufacturers

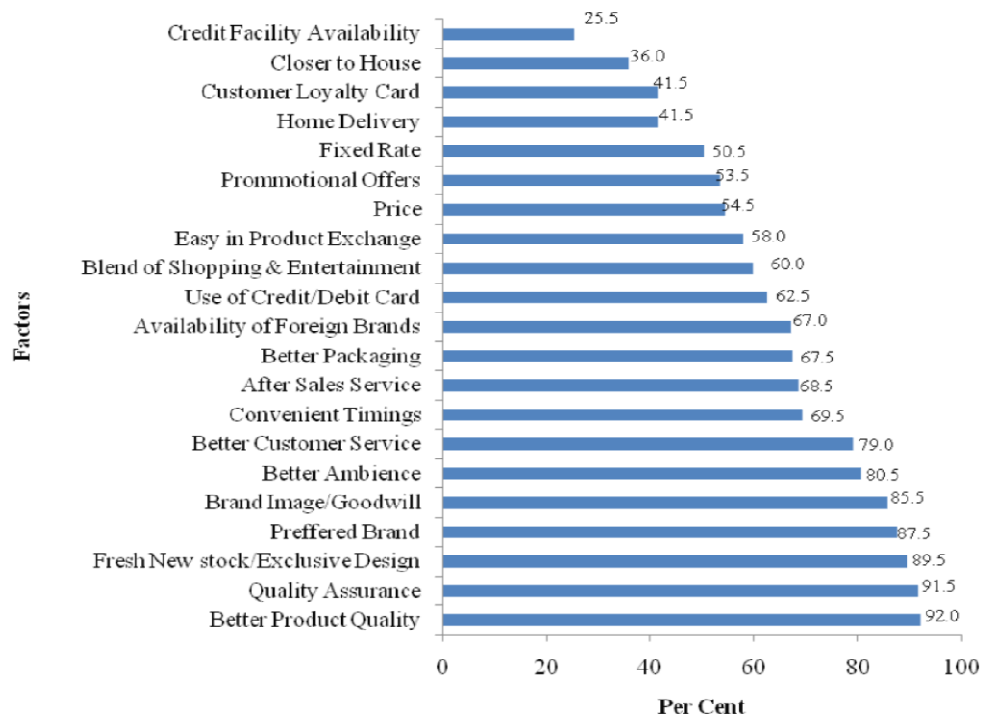
- Manufacturing hub – over 318 sports equipment
- Cluster, SEZ's, SMEs
- Largely contract manufacturing for multiple brands
- Labour intensive and export focus
- Domestic demand is increasing – from 60 % exports to 40%
- Product diversification
- Technology percolating from brands/retailers
- 76% fixed clients
- In favor of FDI in retail
  - More sourcing
  - Awareness
  - Technology
  - Saturated international market
- Retailers :
  - Fragment manufacturing
  - SME – limited technological capabilities

# Consumers and Retailing

- One percent of population buy sports goods, equivalent to 30% of Italy's population
- Survey coverage:
  - 200 high income and high middle income educated consumers
  - Representation of sports product consumers and not all consumers

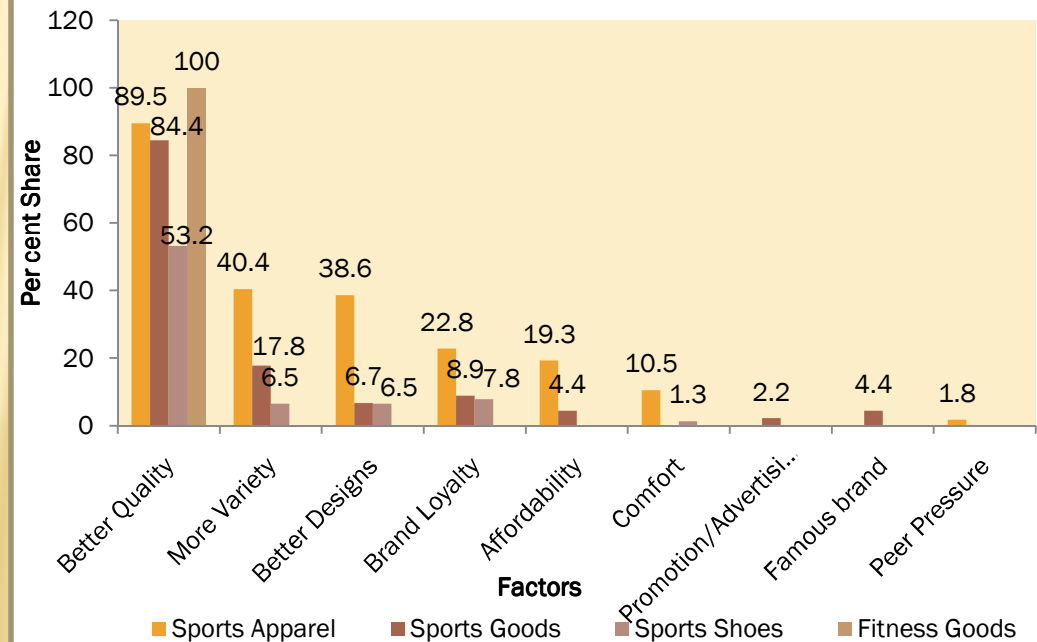
## **Findings:**

- 48.5% claimed to have bought sports products, rest may have but as lifestyle product
- 81.4% male, 45% office executives
- Most likely to buy shoes followed by apparel
- Knowledge about brands, product use limited - it takes brands around 5 years to get visibility
- Brand loyalty is low - consumers are willing to experiment
- **Where do you buy the product from?**
  - Apparel and shoes branded – corporate retailer
  - Sports goods – corporate (technology-intensive) and traditional retailer (light weights, skipping ropes)



## Factors Affecting Choice of Modern Retail Outlets

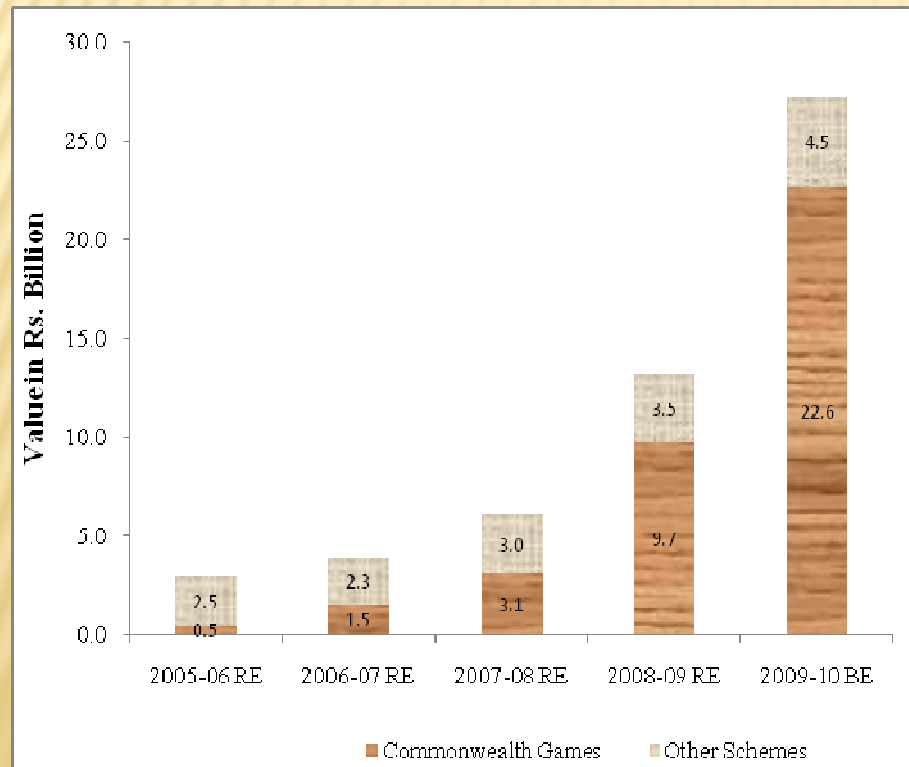
## Factors Affecting Choice of Brands





# Barriers

- Niche segment of retailing: Low level of sports participation
  - Lack of sports culture – focus on education
  - Sports is not a serious career option
  - Developing countries, low PPP, affordability
  - Shortage of infrastructure
  - Limited government investment: budget outlay for sports is less than 1 per cent of the total national budget compared to about 13 per cent for a small country like Cuba



- Lack of scientific training facilities
- Government procurement policy
  - ❖ Price the key factor
  - ❖ Transparency
- Lack of Inter-ministerial coordination and coordination between government and federation, centre and state
- Security
- State subject – left to the state government to promote

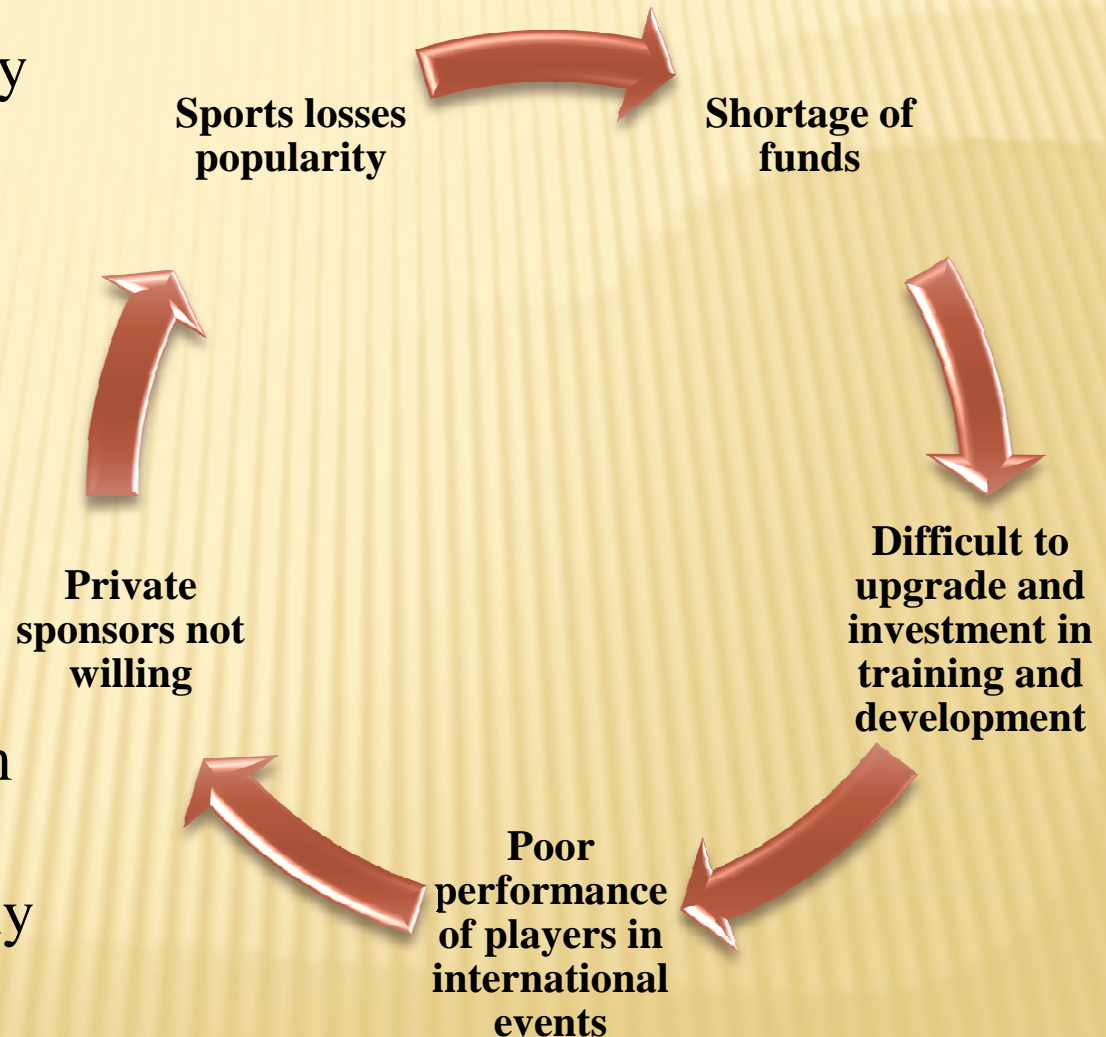
# Barriers Contd.

- **Federations**

- Unprofessional, mostly registered societies, political connections, limited control over players

- **Federations about retailers**

- Sports retailers focus too much on talent endorsement, not team or event
- Willing to sponsor only few sports



# Barriers in Retail

- Key problems of corporate and traditional retailers are same, impact may be different
  - Infrastructure – parking, electricity, warehousing
  - High real estate costs
  - Regulations – Shop and Establishment Act
  - Corporate stringent labour laws; traditional: stringent shop opening timings
- Small consumer base, low brand loyalty, limited knowledge about use and technology
- Corporate Retailers /brands: Brand positioning
- Lifestyle/casual wear versus sports, luxury versus sports
- Counterfeit product
- Limited brand availability – lack of strong India brand
- Lack of integration among export promotion councils, manufacturing sector
- Contract manufacturing – may loose control of production
- Technology intensive product have to be imported, high duties

Comparison of Nike Prices in India and the US				
Style Name	Rs. retail	US\$ equivalent	US retail	Price difference (per cent)
Air Max 360 2009	10,900	254	160	59
Air Pegasus+26	6,700	156	85	85
Citius	4,200	98	72	36
Dart VII MSL	3,500	82	55	48
Rayong	3,200	75	42	77



# Barriers in Retail Contd.

- Fragmented supply chain – high logistic costs
- Fragmented manufacturing –role of export councils
- Sporadic shortage of raw materials
- Most global retailers are multi-brand
- Single brand – sleeping partner and profit sharing
- Even if FDI in single brand is raised to 100% it will not help
- Back door entry routes
- Shortage of technology, finance, global best management practices
- Consumers want commitments – after sales services

**Is this a Sensitive Sector?**

# Some thoughts....

India is :

- Losing foreign exchange
- Losing business opportunity of clubbing sports retailing with sponsorship and events
- Losing strategic partnership for manufacturing and brand development

**Is FDI the only option?**

Restrictions	Countries
Zoning Restrictions	Japan, China, Italy, France
Nationality requirement	Austria, Czech Republic, France, Hungary, Italy, Korea, Netherlands, Malaysia (Bhumiputra), Oman (51 per cent Omani shareholding to own show room)
Economic Need Test	France
Rigid Labour Laws	Japan, Germany, China
Labelling requirements	Japan, Korea
State Monopoly	Tobacco products – Australia, France, Hungary, Italy, Spain Pharmaceutical products – Austria, Belgium, Denmark, France, Italy, the Netherlands, Spain, Sweden, the UK Sale of Alcohol – Finland, Iceland, Norway, Poland, Sweden, Turkey
Stringent Retail Regulations (Shop open timings,	France, Japan, Greece, Austria, Germany
Local employment Requirement	Nigeria, Qatar, France

# Helping the Sector to Develop

- Government policy should focus on developing sports as a business
- Focused funding, PPP
- Implement the Comprehensive Sports Policy 2007
- Autonomy for federations, have to be proactive and run as professional bodies
- Greater coordination between different government agencies
- “India” brand
- Who should regulate retail?
- “Industry status” will not solve the problem
- Model Acts – Shops and Establishment Act
- Urban planning
- Replace FDI restrictions by proper regulations
- Sports is not as sensitive as food and grocery
- Key problems of traditional retailers are infrastructure, regulations, sourcing and finance – if these are met they can face competition
- Role of the government is that of facilitator



## Some take away.....

- As India globalise, modernisation will continue
- Key question is how can the country benefit from it?
- Allow 51% FDI in multi-brand retailing in sports and other non-sensitive sector
- Streamline regulations
- International Negotiating strategies should be consistent
- Since the core problems of large and small retailers are same they should jointly push for the removal of these barriers
- Retailers/manufacturers need to
  - ❖ Know that Indian market is large but their customer base is small
  - ❖ Customise products
  - ❖ Invest in supply chain
  - ❖ Focus on systematic data/information collection
  - ❖ Choose the right partner,
  - ❖ Associate with sports

**Thank You !!!**