

7-30-2009

## Doing Business in India

Yong June Kim

Joon Hwan Lee

Follow this and additional works at: <https://amj.kma.re.kr/journal>



Part of the [Marketing Commons](#)

### Recommended Citation

Kim, Yong June and Lee, Joon Hwan (2009) "Doing Business in India," *Asia Marketing Journal*: Vol. 11 : Iss. 2 , Article 2.

Available at: <https://doi.org/10.53728/2765-6500.1234>

This Article is brought to you for free and open access by Asia Marketing Journal. It has been accepted for inclusion in Asia Marketing Journal by an authorized editor of Asia Marketing Journal.

# Doing Business in India: The Lotte Mart Case

Kim, Yong June\*  
Lee, Joon Hwan\*\*

In December 5, 2006, "The Economic Times", India's the most famous economy daily newspaper, reported Korea Lotte Mart is planning to enter into India's market. Lotte group, marking number 7<sup>th</sup> in Korea's list of conglomerates, established VRIC(Vietnam, Russia, India, China)'s strategy. This strategy is targeted to enter into emerging markets such as Vietnam, Russia, India, China and etc. As of 2007, Lotte Group aggressively is placing its subsidiaries such as Lotte Department Store in Russia and China, Lotte Mart in Vietnam and China and Lotte Confectionery in China and India, into emerging markets.

From this case, Based on the assumption of Lotte Mart's India market entry scenario, this study considers various decision-making factors such as market attractiveness evaluation, timing of entry, entry mode, location, scale, positioning, operation strategy, and others, while developing an overseas market entry strategy. This case study also provides India's distribution market environment that Korean companies can utilize when entering into the Indian market in the near future.

Key words: Lotte Mart, India, Retail Market, Entry Strategy

## I. Introduction

### 1.1 E-Mart: The Winner of the Game

On 22 May 2006, after struggling for eight years, Wal-Mart announced that it was withdrawing from the highly competitive Korean market and was selling its 14 stores to Shinsegae for

USD882 million. It was only a month after the French major discount store retailer Carrefour in Korea had been sold to the Korean company Eland. As the two world leading retailers with more than 10 years of history declared defeat in the Korean retail market, E-Mart, a subsidiary of the Korean conglomerate company Shinsegae, stepped up as the number one discount store chain. E-Mart increased its number of stores

---

\* Professor, Asia MBA, Sungkyunkwan University, Seoul, Korea(kimyj@skku.edu)

\*\* Research Associate, Technology & Industry Dept., Samsung Economic Research Institute, Seoul, Korea  
(joonhwan0311.lee@samsung.com)

from 79 to 97 and consequently became the owner of more stores than Lotte Mart's 45 stores and Home Plus's 42 stores combined. Its revenue also far exceeded those of the two competitors combined, reaching about USD9 billion.

E-Mart's dominance will not be easily defeated, as the market has already matured. Every district has a discount store, and there is no more room left for discount stores to be built and scale up. In contrast to Wal-Mart and Carrefour which operated in their usual Western way, E-Mart enjoyed its success by studying Korean consumer behavior carefully and customizing the stores accordingly. It was also quick in investing its capital up front, securing the best location for people to shop and gaining the economy of scale.

## 1.2 Lotte Mart: A Fresh New Start

Lotte Group, founded by Korean Shin Kyuk-ho, began its business first in Japan. In 1967, based on the success in Japan, the founder established the group's first affiliate, Lotte Confectionery, in Korea. As of 2007, Lotte Group Korea's revenue was USD26.6 billion, and its profit was USD2.2 billion, owning 41 subsidiaries and ranking 7th in Korea's list of conglomerates. Among the subsidiaries, Lotte Mart, established in 1998, tried to make up for the late entry by opening 16 stores in three years and building a state-of-the-art infrastructure

including a transportation system. Currently, it carries 45 stores and owns 20 percent of the market share. However, it cannot overcome the barriers set by the first mover E-Mart, maintaining the number two position in the market share with its revenue of USD3.3 billion. In the early 1990s, due to its complacency as the number one company, Lotte Group overlooked the potential of a discount retail market and consequently passed the first mover chance to Shinsegae, who quickly jumped at the opportunity by opening E-Mart stores. After the Asian financial crisis struck Korea, consumers who became more price-sensitive quickly turned their shopping carts to discount stores, and Lotte Group, finally realizing the market potential, joined the discount store battle in 1998. With its excellent local adaptation strategy of catering the Western concept of discount stores to Korean consumers' taste, Lotte Group's Lotte Mart marked a 20 percent growth year by year, but it was too late to take over E-Mart. E-Mart had already secured the best locations and acquired the economy of scale, which Lotte Mart could not overcome. As such, Lotte Mart has been lagging behind E-Mart as number two in the market share, now even risking its leader position as Korea's number one retail/wholesale distribution conglomerate to Shinsegae.

As the Korean market left no more room to grow, Lotte Group decided to venture outside the country. It announced its entry to the emerging market (e.g., Vietnam, Russia, India,

and China) armed with its ability to best format and execute customization catering to consumers' needs - an ability that has been harnessed and honed since the founding of the Lotte Group. It would fully exploit its strength of localization in a developing country. Realizing that not being the first mover in Korea brought permanent damage in becoming the leader in the market, Lotte Mart wanted to act fast to enter the emerging market and expand its presence beyond the domestic arena to maintain its top retail/wholesale distributorship.

### 1.3 Lotte Mart goes to India

"Wal-Mart will not get a respite from its Korean nightmare just yet. Discount store chain Lotte Mart, which played a role in elbowing out Wal-Mart from South Korea, is chasing the world's largest retailer all the way to India. Lotte Mart is planning its India strategy and has set up an office in Delhi to study the domestic market. The third largest Korean discount store chain, which gave Wal-Mart a tough fight in Korea, was in the race to acquire Wal-Mart stores in the country. It eventually lost out to its rival and the leading retail player in the country, Shinsegae. Early this year, Wal-Mart announced its decision to sell its 16 stores in Korea to Shinsegae for USD882 million after posting reasonable losses.

While Wal-Mart has already decided on the franchisee model in the absence of regulations permitting 100% FDI in retail in India, the Seoul-based Lotte is scouting for an Indian franchisee partner to set up its discount store. Initially, the company would look at entering malls and subsequently get into stand-alone formats, according to sources."<sup>1)</sup>

Lotte Mart has considered entering the Indian market for the following reasons. First, India is the last untouched oasis for retail. India today is estimated to have a potential USD280 billion retail market, of which 97 percent consists of mom and pop stores rather than big retailers. The consumption of the Indian middle class is constantly rising, and the government is said to announce the deregulation of the retail market in the very near future. Therefore, first mover entry to the Indian market will bring significant rewards to retail distributors. Second, Lotte has strong confidence in its ability to localize. Lotte is the first distributor in Korea to ever enter Vietnam in 2005 and waited to open the first store in Ho Chi Minh in 2008. Lotte applied its customization knowledge in Vietnam as well, merchandising local products and operating the store based on the findings from market research on consumer buying behavior. Lotte aims to find the best practices from various offices in Asia to create an aggregated business model that is applicable

---

1) The Economic Times(Dec 5, 2006), "*Arch rival Lotte Mart may chase Wal-Mart in India*", India

in Asian countries.

Third, Korean companies share a history of success in entering the Indian market through various industries. As of 2006, according to a Korea Eximbank research, over 90 percent of Korean companies that are doing business in India are enjoying profit. For example, Hyundai Motors gains 20 percent growth every year since it entered the Vietnam market. Such data signal that Korean companies in general tend to adapt well to the Indian market, understanding what the consumers need and want. With these reasons, Lotte sees the opportunity to make a presence in India.

## II. Indian Market Industry Analysis

### 2.1 Customer Analysis

As customers of discount stores are individuals rather than entities, the buying power is relatively weak. Most consumers are used to the traditional marketplace, are price-sensitive, and have low income. However, the rapid growth of the middle class and their level of consumption are gradually catching up to affect the consumption trend in India. Middle class households with an average yearly income of Rs 45,000 and up were estimated to increase from 49 million in 2001 to 80 million in 2007. Their lifestyle is also shifting more towards the

Western and modern way, consequently accepting new ways to shop as well. Specifically, 37 percent of the households with a yearly average income of over Rs 22,000 live in 12 major cities, and their income level is rising very fast and comprises the core customer target for the new retail channel. Among the city dwellers, it was found that the higher the income level is, the higher their preference for new retail channels over traditional marketplaces. India's average age is 24, which is rather younger than that of other countries, and such a large group of young consumers implies that when they become the main spenders, the demand overall will increase and boost the economic dynamics. In other words, a consistent population growth of 1.6 percent, the increase of the middle class sector, and an average GDP growth of 7 percent will all work in favor of encouraging more consumption, which will fuel the growth of new retail outlets and their evolution in infrastructure. Indian consumers' Westernized and modernized buying behavior, the exposure to new brands through new channels, and aggressive expansion of new channels will create more consumer awareness and preference towards the new retail outlets. Therefore, the future of discount stores looks promising.

Once Lotte Mart enters India as a discount store chain, the main consumer target would be the upper-middle class in urban areas whose income and consumption levels are rising quickly. They accept and enjoy the Western

and modern way of lifestyle and will thus have little if at all resistance against the shopping culture that the discount stores offer. Such consumer target is one of the most attractive factors in India's retail market. To appeal to the main customer segment, an in-depth analysis is required to study where and what to enter the market, which is one of Lotte's core competencies. Lotte Mart also has to decide how it wants the customers to perceive the new format of shopping in a discount store and the brand itself.

## 2.2 Competitor Analysis

### 2.2.1 Local retail chain

There are 1.2 million retail stores nationwide in India, which is one of the highest retail densities in the world. Among these stores, the traditional mom and pop retail format takes an overwhelming 97 percent. The rest, modern retail formats, consists of department stores (0.14%), discount stores (0.1%), and supermarkets (0.2%). However, as the economic growth is expected to continue, these modern retail channels will also grow at a fast rate. The modern formats such as department stores, discount stores, supermarkets, and convenience stores took shape just in time for the rise in

income and consumption, and they are growing at a fast rate around big cities where the middle class is concentrated. Compared with the retail market in India today, which is growing at 5 percent a year, these modern formats are showing a rapid growth of 25 to 30 percent every year, varying slightly by product category. Specifically, discount stores are getting much attention than ever before these days. The two major ones, Big Bazaar<sup>2)</sup> and Spencer's,<sup>3)</sup> together take up a whopping 88.5 percent, and they are both planning a fast expansion in scale by 2010.

Furthermore, new local competitors are entering the discount store business as well. Recently, Reliance Industries Limited (RIL),<sup>4)</sup> one of the two biggest corporations in India, announced that it will invest USD5.6 billion over the next five years until 2011 in building 6,000 discount stores in 784 cities nationwide. It already began its move by bringing in 300 professionals from Wal-Mart and Carrefour for their market expertise, and in October 2006, it partially opened grocery departments in selected cities to gather market feedback. Aditya Birla Group also announced its USD1.3 billion investment in the retail business, and Future Group, a top Indian retailer, decided to expand its retail business from its existing apparel and grocery. Raheja Group is getting ready to enter the

---

2) [www.bigbazaar.com](http://www.bigbazaar.com)

3) [www.spencersretail.com](http://www.spencersretail.com)

4) [www.tata.com/trent](http://www.tata.com/trent)

market by venturing with a foreign company and increasing the geographical scale of its stores. With many big Indian corporations having an eye on the retail business, especially on discount stores, fierce competition is expected in the near future. Therefore, it seems that the players in discount stores are now competing to get the best location, which will soon phase into price competition, followed by competition by differentiation.

## 2.2.2 Global retail chain

The world's biggest retail chain, Wal-Mart, recently announced its USD100 million joint venture plans with India's biggest telecom, Bharti. Bharti will open hundreds of stores, and then Wal-Mart will take over the operation of the stores. In addition, global retail chains such as Tesco and Costco are preparing their entry into the Indian market, and Carrefour has decided to franchise the brand.<sup>5)</sup> There are also the global retail channels that have already set foot in India's market. Germany's Metro and South Africa's Shoprite Checkers took the Wholesale Cash and Carry way and are serving the retailers. Metro is the first one to invest 100 percent in wholesale and opened two outlet stores in Bangalore in 2003. The customers of Metro are mostly retailers and commercial businesses such as hotel, corporations, hospitals,

and IT companies. Currently, 2 percent of Metro's revenue comes from retail, and it has been the subject of massive criticism, which Metro has refuted by responding that they are only the victim of Indian law with an ambiguous definition of retail. Overall, the global distributors already in India are not retailers by definition but rather a twisted version of the retailers operating under many legal restrictions. However, when India opens up the retail market to foreign companies, current global distributors will waste no time in expanding or at least shifting their business from wholesale to retail and trying to win the market share.

## III. Building up India Strategy

Based on the analysis of Lotte Mart's competitive advantage and India's industry, it can be said that the success of Lotte Mart India depends on the optimal decision of the following:

### 1. Timing of Entry - First mover versus Follower

Should Lotte Mart wait until deregulation, or should it enter right away by another form of business model? If the latter, which business model should Lotte Mart pursue?

---

5) CII(Confederation India Industry) and FICCI(Federation of Indian Chambers of Commerce and Industry)

## 2. Positioning

What format should Lotte Mart take? Should it go at par with Indian conventional products, or should it focus on the mid-high price of high/luxury price?

## 3. Location and scale

Which location is optimal for the success of Lotte Mart India? How big should it start?

## 4. Operation Strategy

Which should be localized, and which should be left as is?

## 3.1 Timing of Entry

The Indian government is positively considering to fully lift the legal barriers to foreign companies hoping to increase employment opportunities and boost national economy. In January 2006, the Indian government revised its regulation partially, allowing up to 51 percent foreign direct investment (FDI) in single-brand retail stores. Since then, single-brand retailers such as Nike and Gucci have established stores nationwide in India. However, multi-brand retailers such as Wal-Mart and Carrefour are still restricted from market entry. For Lotte, these are some options to enter India: 1) wait until deregulation and enter as a retail chain; 2) enter first as wholesale channel and wait for deregulation; and 3) engage in a joint

venture. The challenge in timing of entry is choosing between the two options: 1) to move in as fast as possible to get first mover advantage, and 2) to move after deregulation and differentiate.

### 3.1.1 Enter before deregulation

Considering that India's discount store market is at the beginning phase, and the overall consumption growth is steadily increasing, a fast entry will earn Lotte Mart the first mover advantage. However, the advantage will come with the unwanted but undeniable baggage such as the need to initiate building distribution infrastructure, deal with the furious shop owners who oppose the deregulation, and educate the consumers about discount store shopping as a new culture. Therefore, this option can cause difficulty in deriving revenues.

### 3.1.2 Enter after deregulation

If Lotte Mart decides to enter after the deregulation, and it so happens that at that point in time, the consumption in India explodes and many competitors jump in to get a piece of the pie, then there is a possibility that Lotte Mart will suffer greatly. Good locations lost to first movers, fierce competition, and pressure to differentiate will all work against Lotte Mart. Therefore, it seems wise to enter the Indian market after the market has grown considerably

so that there is enough to share to everyone and for Lotte to take the time to learn the market dynamics. However, the downside to such a scenario is that, in the meantime, the competitors who have rushed into the market will already have reached the economy of scale, which is exactly how Lotte Mart lost its lead to E-Mart in Korea. The economy of scale is a very important factor in the discount store business that cannot be ignored. Therefore, Lotte Mart will have to reach the equivalent economy of scale in a short period of time in order to compete. However, catching up is not so easy once you lose the momentum. Acquiring an already existing chain would be the solution that would require great amount of capital upfront. Another problem is that all the good locations are already taken by the competitors if Lotte Mart goes in late. In India, like Korea, the middle class who are the core customers of discount stores are mostly populated in big cities. Thus, the competition between the players is like musical chairs of who gets the best location first out of a few in the cities. Moreover, Lotte Mart's recently executed global strategy has been focused on moving into an untapped market before any other discount chain goes in, so a late strategy is not aligned with Lotte Mart's recent strategic move. Finally, if Lotte Mart takes time in entering the Indian market, global mega chains such as Wal-Mart and Carrefour will have secured the customers with the brand name, which will only put pressure

on Lotte Mart to be differentiated from them to lure the customers back.

Based on the comparison between the two options above and considering Lotte's current financial capability and strategic direction, it is advised to enter the Indian market before the deregulation takes place. Of course, the issues linked to a fast entry such as lack of infrastructure, opposition by the owners of small shops and stalls, and low consumer awareness of discount stores should not go unnoticed. These are the problems that any of the retailers would face during the entry into a newly formed market. Lotte Mart will easily overcome the difficulties through advanced infrastructure knowledge and relatively less resistance from the community compared with what Western chain stores receive. Fast growth in customer size and income will create a bigger retail market, in which all retail outlets, both old and new, can coexist.

How then should Lotte Mart enter before the deregulation? It should also take into account that the deregulation will be implemented beyond 2009 due to political talks. What then could the best option be that can provide the best way for Lotte Mart to enter and expect a seamless transition to discount retail chain afterwards? Lotte has the following options: 1) franchise, 2) wholesale, and 3) joint venture.

#### 1) Franchise

Franchise is what single-brand retailers such as Nike and Lacoste is operating under. To get

approval for the franchise opportunity, consent is obtained from the Reserve Bank of India (RBI), which usually requires a capital investment, an operating office, or IT support. Given that Lotte Mart has a low global awareness, it does not seem likely to find with ease local Indian brands that would pay a price as high as the franchise fee. Furthermore, franchising does not make direct investment easy and will slow down the process when the market opens up. Therefore, franchising is not a realistic option.

## 2) Wholesale

Global mega retailer chains currently doing business in India chose this option. Germany's Metro and South Africa's Shoprite Checkers have already established their presence as a wholesaler, and other companies are said to be considering this option as well. Wholesaling can bring in 100 percent FDI even from the beginning. It is also the option that allows a quick reaction to resume retailer position and be among the first movers.

## 3) Joint Venture

In this option, a foreign retailer and an Indian partner create synergy by working together. The global retailer will offer its capital, technology, and know-how in this option. In return, the Indian partner will provide the foreign retailer with local operation know-show and other relevant knowledge. McDonald's and Reebok have taken this path. Getting an

insider-knowledge of the Indian market allows a soft landing. In terms of exiting a joint venture in time for the deregulation, it seems that a joint venture with a non-retailer or vendor other than the one with a retailer is a more suitable option. A joint venture with a non-retailer allows the global retailer to have control over the decision-making process concerning joint venture relations and building the Lotte brand in India.

Among the three options stated above, a joint venture seems to be the best option. Setting aside the franchise option due to the aforementioned limitations, a joint venture has more strengths than the wholesale option. Shifting the business from wholesale to retail is a big transition that involves much work. It would need a complete makeover for stores, or in the worst case, a change in location if the warehouse used for wholesaling is not a desirable location for a discount store. However, going retail with the joint venture partner eliminates such complexities. In addition, a joint venture with a vendor speeds up the process of establishing the distribution network upon which Lotte Mart can implement its high-tech distribution system.

Therefore, Lotte should consider a fast entry by forming a joint venture with a vendor with a plan to increase its share to 100 percent.

## 3.2 Positioning

### 3.2.1 Pricing

Lotte should initially start with a mid- to high-price positioning and ultimately aim for the diversity of product category, a store floor twice as large as that of department stores, and an excellent in-door display as its differentiating factors. The options for positioning regarding Lotte Mart can boil down to three: 1) an existing discount store format with low- to mid-pricing, 2) the middle ground between a low pricing discount store and a high pricing department store, and 3) a high pricing department store. The third option can easily be discarded, as it goes against the idea of a discount store. Between the other two options, the first option lacks differentiation compared with the existing department stores and discount stores. In India, department stores and discount stores carry a limited variety of products at low- to mid-prices. The reason is that, on the demand side, the average income level is still low, and consumers cannot afford to buy high-priced products. On the supply side, not many Indian companies produce high-priced products. Thus, most of the high quality and high-priced products available in India are imported, and quantity is limited. Imported brands prefer to operate a direct store in a shopping mall rather than to be associated with a low-quality department store. If Lotte

Mart takes on the same format as the local discount store with similar pricing, imported brands will choose not to sell their products at Lotte Mart, as it will be considered as degrading to their product image. As such, Lotte Mart, like other competitors, will only have a limited selection on display and have no competitive advantage over the other competitors. On the other hand, if Lotte Mart chooses the second option and decides to set the pricing slightly higher than those of the other competitors and offer a wide variety of products of higher quality, it will serve the unmet needs of the middle to upper class. Superior supply chain infrastructure based on Lotte Mart's experience will lower the cost, and the saved cost will be invested into better customer service and in-store ambiance, which are also the strong assets of Lotte Mart.

### 3.2.2 Floor size

Floor size should be bigger to be differentiated from the competitors. Currently, India's average store size is 36,000 sq. ft., about one-third the size of an average Lotte Mart in Korea. When the new retail outlets were being built in India, insufficient capital flow and the uncertainty of the possible increase in number of consumers played a role. However, now that it is more certain that the government will eventually fully open up the retail sector and consequently the consumption level will rise, the current

store scale will need to be ready to respond to the exploding demand. It will have to accommodate the increased number of consumers and thus plan for larger stores and provide a wide selection of products. The airy and inviting interior will introduce to the customers a new shopping experience and serves as a competitive advantage against other competitors. Moreover, Lotte Mart, known for its aggressive investment style, should maintain such status and promise consistency to the customers.

### 3.2.3 Location

In terms of location, urban areas are ideal, where the target segment is concentrated. Specifically, the low penetration of motor transportation in India emphasizes the importance of securing high-traffic commercial districts. Multiplexes serving as landmarks in big cities such as Mumbai and Delhi and the low-rise new shopping malls in the main shopping districts should be ideal candidates for Lotte Mart locations. Another issue to take into account in determining the location is to decide between aggressive expansion and gradual expansion. Assuming that the new retail channels grow at the current rate and that there is one department store for every 700,000 people and one discount store for every 500,000 people, the number of stores will reach its limit in the cities by 2015. In this aspect, aggressive expansion seems to make sense to retain profitable commercial

districts, build infrastructure, and raise brand awareness. However, a fast expansion will allow no time for Lotte Mart to study the market in detail to best exercise its strength in localizing the stores and will cause considerable capital constraint having to invest upfront. Furthermore, Lotte Mart is exposed to a negative profit risk if the demand does not catch up with the supply. With gradual expansion, Lotte Mart will have ample time to gather the best practices and learn from the first test stores to better design the stores that cater more to the Indian customers' buying behaviors. Therefore, of the two options, gradual expansion seems preferable. The strategy behind Lotte Mart's expansion aims for a first mover advantage based on localization, which means that localization should not be sacrificed for first-mover advantage.

### 3.3 Operation Strategy

Operation strategy is an integral part in Lotte Mart's entry to India. As mentioned earlier, the assets that Lotte Mart possesses are its localization ability, top-notch supply chain system, and excellent relationship building with vendors. As Lotte Mart is facing a set of supply chains in India that is very different from that in Korea and a whole new group of vendors, it will take time before Lotte Mart can utilize its strength in the supply chain and relationship building. Therefore, it is important for Lotte Mart to focus first on the localization

to stand out from the rest of the competitors once it enters India. To this end, this part analyzes and determines what should be localized and what should be kept the Lotte way following the critical factors in the value chain.

### 3.3.1 Interior

The interior is a critical factor, as it should embody an inviting and comfortable environment. It is also one of Lotte's core competencies to understand what consumers want and to take appropriate action. The rising number of middle and upper class who are the main target segments of discount stores is learning to realize that shopping is a form of entertainment. Moreover, the average age of these consumers is declining. These factors are quite similar to those of Korea's customer profile; thus, it would be wise to apply what Lotte has tried in Korean stores and then improve it step by step depending on the local response. The customers will appreciate the attractive interior and facilities more than the Western warehouse-style interior.

### 3.3.2 IT management

Lotte Mart owns Korea's top distribution system based on the leading IT and boasts it as a differentiation against other competitors. However, India is also a country well known for its strength in IT. The new retail outlets that are currently rising are arming themselves

with outstanding IT management in operations to make it their competitive advantage. Their IT systems integrate processes and allow central sourcing, which contributes to cost advantage. Therefore, for Lotte, there is not much to get from it. Instead, it will be best to localize and adapt to the local IT system to fully utilize the local IT human resource with minimum risk.

### 3.3.3 Merchandising

Merchandising is the part that needs to maximize Lotte's know-how. India's local outlets lack the diversity in the selection of products; thus, Lotte will outshine them with its merchandising power to gather a wide selection of products. Therefore, merchandising needs to be accompanied by a big-scale store floor and sustain a premium brand image and sourcing ability. To provide a variety of products at low cost, a private label is inevitable. However, according to CII-McKinsey report, "Retailing in India, The Emerging Revolution," vendors of food produce, women's apparel, fast food, liquor, and pharmaceuticals need to be upgraded. However, vendors of electronics, dry goods, men's apparel, furniture/appliances, sportswear, music, and books have evolved since the naissance of discount stores and other new forms of retail. Nevertheless, local vendors are still premature and inexperienced.

Currently, in new retail channels, private label products only take less than 20 percent,

thus Lotte's direction towards a private label will widen the difference in cost saving between Lotte Mart and the competitors. Furthermore, sourcing will help develop local small businesses and consequently enhance the image of Lotte Mart as a company that cares for the community.

### 3.3.4 Distribution

As already mentioned in the paper, distribution is one of Lotte Mart's strengths. However, India's different nature in distribution and underdeveloped transportation such as railroads and highways hinder Lotte Mart from fully exploiting its competency in distribution. If Lotte persists to build a distribution system that is as fast and accurate as the one they have in Korea, then it will be a great advantage for Lotte Mart India. Lotte Mart Korea now has a "one-day two shipment" policy and an automatic POS system, which greatly contribute to the making of Lotte as a leading discount store chain. Implementation of such a system in India will definitely help, as the product category will center on food, which also is the case in Korea. The over-the-top distribution system will provide freshness for the produce and on-time delivery. As the stores will be mostly concentrated in big cities, the system will aid in finding the most efficient delivery route and increasing efficiency and productivity. Therefore, it is strongly recommended that Lotte apply its distribution system in India.

### 3.3.5 Human Resource

Human resource is the part where Lotte's human capital management expertise and India's culture need to be incorporated together in harmony. Lotte Mart's renowned customer service stems from its core value to best serve the customers and its voracious training of its employees. In India, customer service is yet in the developing stage, in which companies try to satisfy the customers but do not know exactly how. For example, parking space is offered but designed in such a way that it causes inconvenience, and too much security around the building upsets the customers. Therefore, Lotte can fully utilize its expertise in customer service and employee training to stand out from the rest of the competitors. However, not understanding the culture and the mindset of the Indians and strictly instilling the Korean way of serving customers can work against the customers. Hence, Lotte should always keep in mind to understand the similarities and differences between India and Korea and then accommodate the existing methods.

### 3.3.6 Indoor Display

Indoor display is not a competency of the new Indian retail outlets compared with that of Lotte Mart. There is also little difference in the display format among the outlets that already exist. Therefore, Lotte can easily

outperform the competition in this area by applying its knowledge when it initially enters the market. At first, the display would be somewhat close to the Korean way, but over time revisions would be necessary based on the feedback and research results from the customers who have experienced shopping in the stores. Lotte's understanding of indoor display is rooted from the Korean culture. India and Korea share some cultural similarities as neighboring Asian countries. Compared with the Westernized display, Lotte's way of making indoor displays will appeal more to the customers. Therefore, Lotte has a good chance of outperforming the others by introducing its own way of display mechanism, and owing to its fast adaptability, by quickly revising it according to consumer reaction.

### 3.3.7 Advertising and Marketing

India's new retail channels are still discovering the best ways to communicate to the customers through the newspaper and interact through consumer research, and at the same time determine how to differentiate themselves in that area. Lotte Mart has already experimented on almost every possible way of advertising and marketing through their long history of retail in Korea. Its advertising and marketing tools can be applied in selecting competent agencies and deciding the best choices. Corporate advertisements and sponsorships will raise the

awareness of the brand, and directing the commercials and advertisement according to local tastes will help Lotte have a good standing with the Indian consumers.

## IV. Conclusion

For Lotte Mart, India is no doubt the land of opportunity and also the land of adventure full of risks and dangers. There are issues on government regulation, competition with both the global mega discount chains and upcoming local discount chains, and resistance from the mom and pop shops, to name a few. Once Lotte Mart overcomes all the hurdles, however, India can provide vast ground for growth and profitability. To successfully enter India's retail market, Lotte Mart needs to get immediately into the Indian market by a joint venture while preparing for a 100 percent investment opportunity. Furthermore, to benefit from the economy of scale fast and prepare for the increase in demand later on, Lotte Mart should build bigger stores about two to three times the size of existing new retail outlets and emphasize differentiation. With regard to location, it is recommended for Lotte to go into the big cities such as Mumbai and Delhi. Increasing the number of stores should be done gradually based on the knowledge gained from the few stores already operating. Lastly, transferring

Lotte Mart Korea's best practices to Lotte Mart India should be done first in its leading distribution system, indoor display management, and interior and localized IT. Human resources and advertising/marketing require both Lotte's know-how and localization customized to customer trends and tastes.

In this paper, Lotte Mart's competitive advantage and strength were discussed, and India's retail industry was analyzed based on the given recommendation. While this is obviously not the best solution, we believe it provides important reminders for Lotte Mart in deciding its strategic direction for its future in India.

〈논문 접수일: 2009. 01. 16〉

〈게재 확정일: 2009. 06. 29〉

## References

CII-McKinsey Report(2004), Retailing in India: The Emerging Revolution, CII  
 Chul Woo Moon, Chan Wan Kim(2005), India Shock, Maeil Business News Paper

Global Market Information Database(2006), Retailing-India, Euromonitor International  
 Images Retail(2008), Images Yearbook 2008  
 Images Retail(2007), India Retail Report 2007  
 Images Retail(2007), Malls in India  
 Images Retail(2007), The 20 Retail Concepts of 2007  
 Financial Times(2005), India to open retail to foreign investors, Financial times, May:10  
 Natalie Zmuda(2005), India Retail Boom Attracting U.S Players, Footwear News 61:18  
 Rajiv Banerjee(2006), India braces for a retail revolution, Media, Nov 17, 2006  
 Ranjan Biswas(2006), India's Changing Consumers, Chain Store Age, 82: A2  
 The Economist(2005), Asia: Wal-Mart still waits Indian retail reform, The Economist 376:54  
 The Economic Times(2006), Arch rival Lotte Mart may chase Wal-Mart in India, The Economic Times, Dec 5, 2006  
 The McKinsey Quarterly(2005), 2005 Special Edition: Fulfilling India's Promise  
 World Bank(2006), World Development Indicators 2006