Editorial Office & Headquarters
12, Sudder Street, Kolkata-700 016
Phone : (033) 2252-1031/34/35,
Fax : (033) 2252-1602/1492
Website : www.icwai.org.
Delhi Office
ICWAI Bhawan
3, Institutional Area, Lodi Road
New Delhi-110003
Phone : (011) 24622156, 24618645, 24641230, 24641231, 24641232, 24643273, 43583642, 24634084
Fax: (011) 24622156, 24631532, 24618645

The Management Accountant

★ *Official Organ of The Institute of Cost and Works Accountants of India*

Volume 44 No. 7 July 2009

IDEALS
THE INSTITUTE STANDS FOR

❑ to develop the Cost and Management Accountancy profession ❑ to develop the body of members and properly equip them for functions ❑ to ensure sound professional ethics ❑ to keep abreast of new developments.

The Management Accountant Technical Data

Periodicity	Monthly
Language	English

Overall size - 26.5 cm. x 19.5 cm.
Printed Area - 24 cm. x 17 cm.
Screens - up to 130

Subscription

Rs. 300/- (Inland) p.a.
Single Copy : Rs. 30/-

Overseas

US $ 150 for Airmail
US $ 100 for Surface Mail

Concessional Subscription Rates for Registered Students & Grad CWAs of the Institute

Rs. 150/- p.a.
Single Copy : Rs. 15/- (for ICWAI Students & Grad CWAs)

Subscription rate and price of *The Management Accountant (Student Edition)*

Annual Subscription rate : Rs. 50
Price of Single copy : Rs. 5

Advertisement Rates for The Management Accountant

	Rs.	(US $)
Back Cover (colour only)	30,000	2,000
Inside Cover (colour only)	25,000	1,500
Ordy. Full page (B/W only)	12,000	1,200
Ordy. Half page (B/W only)	9,000	1,000
Ordy. Qrtr. page (B/W only)	5,000	500

Advertisement Rates for Student Edition

Full Page	Rs.	10,000
Back Page	Rs.	8,000
(Always Half Page only)		
Inside Half Page	Rs.	5,000
Inside Quarter Page	Rs.	3,000

The Institute reserves the right to refuse any matter of advertisement detrimental to the interest of the Institute. The decision of the Editor in this regard will be final.

MISSION STATEMENT

"ICWAI Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not be attributed to ICWAI.

GOVERNMENT OF INDIA
COMPANY LAW BOARD

Shastri Bhawan, 5th Floor, 'A' Wing,
Dr. Rajendra Prasad Road, New Delhi-110001
Dated : 09.06.2009

OFFICE ORDER

The Company Law Board, New Delhi is in the process of shifting from Shastri Bhawan to Paryavaran Bhawan, CGO Complex, 3rd Floor, Lodhi Road, New Delhi-110003. Filing of new petitions and receiving of all other allied documents shall be made in the ground floor (Reception Counter) of Paryavaran Bhawan, CGO Complex and hearings shall be taken up by the Benches at the 3rd Floor of Paryavaran Bhawan, CGO Complex with effect from 1st of July, 2009.

All the Bench Officers of this Board are directed to bring this to the notice of all the professionals appearing before the Benches.

A copy of this order shall be communicated to all concerned as per standard list for their information.

By Order of Hon'ble Chairman, Company Law Board

(ALOK SAMANTARAI)
Secretary

Editorial

Retail Rush

Continuing on our series on "Engines of Indian Growth" after SEZs and IT, we focus on another sector that is heralded as a growth and employment accelerator of our economy- the retail sector. The sector contributes to 14% of our GDP and employs 7% of our total workforce. Of this organized retailing (trading activities undertaken by licensed retailers) constitutes only 5% of the total retailing pie. Rising salaries, double incomes, nuclear families and growing consumerism are factors that have helped feed the retail revolution, thus making modern retailing a relatively urban phenomenon. A study by Indian Council for Research on International Economic Relations (ICRIER) suggests that the Indian retail sector is expected to grow by a staggering 83.22% to $590 billon in 2011-12. Thus the opportunities offered by the sector are vast.

Ever since the retail wave first hit India, many retailing formats have been followed. Organized retailing could be classified into any one or more of the following formats namely branded stores, specialty stores, departmental stores, super markets, hyper marts, shopping malls, convenience stores and discount stores. With time there have also been many changes in the retail model. The first phase was characterized by mass production of uniform products and delivery at affordable prices. The second phase saw the retailers adopting clever marketing strategies and brand association to retain the fickle customers. However, with the recession tugging at the purse strings, consumers became more discerning and costs especially rental values have threatened their margins. Consequently, there is now a visible attempt by the retailers to satisfy both the basic and perceived needs of the consumers through the 3Vs- value, volume and variety; in other words to show that retailing is not just about the product but it rather about 'an entire experience'. At the same time they are aggressively targeting the vast number of people at the bottom of the pyramid and in the rural hinterland. With increasing competition, innovating marketing strategies are being adopted by the retailers. Some retailers are courting the kirana stores to stock and distribute their in-house brands in the food, home and personal care categories. It creates a win- win proposition with the kirana stores getting higher margins and the retailers getting higher volumes. Soaring real estate prices are forcing many retailers to adopt the franchising route to expansion or target Tier II cities.

Another issue affecting the retail sector has been allowing Foreign Direct Investment (FDI). FDI in will not only lead to injection of necessary capital for the cash starved retailers, it will also bring in state-of-the-art IT-based supply chain and knowledge management tools which allows retailers to leverage their proximity to the point of purchase to drive information on consumer behaviour to both manage and drive trends. This effectively improves yields and profitability at both the retailer and the supplier base level and better prices at the consumer level. This will also help tackle the problems of adulteration, shortage and wastage. While FDI amounting to 51% is permitted since 2006 in Indian companies engaged in retail trade of single brand products, multi national company retailers are only allowed if they operate in the cash-and-carry segments i.e. catering to the institutional clients rather than the households. The bigger question is however of allowing 100% foreign investment in multi brand retail stores. The FDI guidelines have been recently amended, which allow for surrogate entry of foreign capital in the retail sector, but already there are many dissenting voices against opening up the retail sector fully to foreign investment since such a move will sound the death knell of the nearly 1.3 crore small retailers. However, a study conducted by Assocham reveals that consequent on opening up the retail sector to foreign doors, there will be a healthy coexistence of the organized stores and the unorganized kirana shops like it happened in the West. The number of jobs that will created both in the front end (at the shops) and the back end segments (value chain, logistics etc.) of the sector is likely to more than compensate for some amount of displacement that may occur due to the policy change. Moreover, the presence of big domestic retailers like Reliance and Bharati will have the same impact on the 'mom and pop' stores so there is no reason why the foreign retailers should be denied entry.

India today has one of the lowest retail spaces per capita among the emerging nations and with economic growth and consumerism, this retail bandwagon can only roll-on at a scorching pace. However, behind the success stories of a Futures Group or Reliance or Spencers, there are many instances of retailers being forced to down their shutters both owing to extraneous factors and due to mismanagement. The perceived freshness of perishable items like food, the localized flavour of the products and the personalized service like home delivery associated with the traditional shops was bound to be a challenge for the relatively new concept of organized retailing. Adopting the discounted model format bled the retailers dry since the high operational costs far outstripped their low revenues and unmindful expansion based on a highly optimistic but unrealistic consumer growth forecast only worsened the situation. Onset of recession and high realty values further added to their woes. The next phase will be all the more crucial for the retail sector with entry of more domestic and foreign players chasing a weaker consumer demand. Problems of poor inventory management, inefficient replenishment measures and weak co-ordination between retailers and suppliers need to be sorted out. It will also help to have a well defined government policy that goes behind merely FDI guidelines and addresses laws on zoning, operating hours, retail sector worker rights, uniform taxation and closures.Some even suggest that the sector which I sonly the next to agriculture in providing employment should be accorded a separate "industry" status.

The July edition of Management Accountant highlights and examines the various issues concerning the retail sector.

• President's Communique •

My dear Professional Colleagues,

In my final communiqué to you as President, I look back at the speed with which a memorable and eventful year which launched our profession into a higher orbit has gone by. The time has come for me to hand over the baton on 22nd July, to the new President and his team bubbling with new ideas and zeal to work for the profession; and every member of the Council looking towards a brighter future with continuity, dedication and commitment to the common cause. The year gone by has been a year of hard work, privilege and a humbling experience made possible because of the love and affection of all the members, the faith, support and constructive suggestions from all my Council members and staff and executives of the Institute. My Vice President Mr. A. S. Durga Prasad has been a pillar of strength to me observing and sharing my work. I wish him all the best to take our profession to greater heights and it would be my pleasure to assist him and the Institute as a team member. Though we have made a lot of progress over the years, a lot remains to be done and it is the collective wisdom of the members and the Council which will lead us to further glory. I am confident that the active involvement and enthusiasm of the members of the Council and the staff and executives of the Institute will guide us to a much brighter future ahead.

Before I recapitulate the important events of the past one year, let me apprise you of certain events that took place from the time I last wrote to you. I had the privilege of meeting Mr. Salman Khursheed, Hon'ble Minister for Corporate Affairs & Minority Affairs on May 29, 2009, immediately after his assuming charge as Minister. I am thankful to the Hon'ble Minister for sparing his valuable time on the first day itself and Mr. H. K. Goel, my colleague in the Council and I could apprise him of the activities of the Institute in detail. The Hon'ble Minister showed his keen interest in the profession of cost and management accountancy and acknowledged the important role it plays in the economic development of the country. I am happy to inform you that the recommendations of the Expert Group figures very prominently among the priority areas of the Hon'ble Minister and he assured us his active co-operation and guidance for the continued development of our profession.

The Institute of Certified Management Accountants of Sri Lanka was launched on June 2, 2009 at Colombo and this was attended by a delegation from ICWAI. Mr. A.N. Raman, Mr. B.M. Sharma my colleagues in the Council presented papers at the Inaugural International Conference and I had the privilege of Chairing a Technical Session.

The ICWAI submitted its Pre-Budget Memorandum to the Government of India, Ministry of Finance and I must thank Shri S. C. Mohanty and his team for doing a commendable job. The Ministry is considering the proposals seriously.

The Council held a special meeting deliberating the recommendations of the Expert Group and sent its observations and comments on the recommendations to the Ministry of Corporate Affairs. These are now under consideration of the MCA. The issues regarding Excise Audit are being vigorously pursued by Dr. Sanjiban Bandyopadhyay and Shri Somnath Mukherjee, my colleagues in the Council.

We had further discussions with CIMA, UK and they have agreed that credit hours granted by ICWAI for CIMA members undergoing CEP Programmes of the Institute would be recognized by CIMA and the same would be considered for renewal of CIMA membership. CIMA has also agreed to give access to their web-based learning modules to our students and members. The modalities are being worked out.

Let me dwell on certain events that took place during the past one year.

- January 15, 2009 was a red letter day for our Institute when Bharat Ratna Dr. A.P.J. Abdul Kalam addressed the members at Pune and delivered the Golden Jubilee Commemorative Address marking the 50th year of enactment of the Cost and Works Accountants Act. The key message of Dr. Kalam to the professionals was **"Promote Profit with Integrity – *Work with integrity and Succeed with integrity*".** I place on record the appreciative role played by Shri V. Kalyanaraman, Former President of ICWAI and SAFA for his involvement in the organization of this function.
- The landmark achievement of the entire Council, which started deliberations in July 2008 culminated in submission of the Expert Group Report and the path-breaking recommendations it has made. I must place on record my sincere thanks to all the members of the Expert Group and especially for Mr. B. B. Goyal, Adviser (Cost), MCA and Chairman of the Expert Group, for their tremendous efforts.
- In the International forum, the agreement with CIMA-UK and Institute of Management Accountants, USA has enhanced the global presence of ICWAI. These agreements herald an era of opening up of globalization for the ICWAI members. We now have an opportunity to attain International accounting recognition at a fast pace which will take India closer to the nucleus of global accounting. Management accountancy is a global profession and we

• President's Communique •

are now in a position to highlight the benefits of a professional management accountancy qualification, to share best practice and to train and develop the global business leaders of the future and members of the Institutes will immensely benefit from recognition of these certifications.

- The signing of our Memorandum of Understanding with Omar Zawawi Establishment LLC of Oman and helping them set up IMA Oman by providing technical and academic support through our Directorate of Studies was definitely a commendable effort made successful by team ICWAI.
- The Companies Bill 2008 was presented before the Lok Sabha during October 2008. However, the Bill lapsed and is to be presented again before the Lok Sabha and it is hoped that the representations made by the ICWAI, where Shri Somnath Mukherjee and Dr. Sanjiban Bandyopadhyay played a pivotal role, would be duly taken care of.
- The SEBI issued notification permitting Cost Accountants to undertake internal audit of stock brokers/ trading members and clearing members which has opened new vista for the profession of Cost and Management Accountancy.
- The Cost Accounting Standards Board has been working tirelessly for developing the cost accounting standards under the Chairmanship of Shri M. Gopalakrishnan. The Council has also taken the proactive step of making the cost accounting standards mandatory from April 1, 2010.
- The progress of the Institute can be seen in the increased interest being shown by students joining the course in large numbers. This is reflected in the increased student strength in all the Regions. The newly introduced Certified Course in Accounting Technicians is also showing excellent progress under the able leadership of Shri G. N. Venkataraman. ICWAI has always worked towards providing quality education to the students and we are now able to provide necessary skills to students from all sectors of the economy to take up employment as Junior Accountants.
- Our Institute played a leadership role in International Federation of Accountants (IFAC) in catering to the needs of the Professional Accountants in Business (PAIB) when the IFAC-PAIB invited S/Shri Chandra Wadhwa and A. N. Raman to be member of the Review Group constituted for reviewing the activities for professional accountants in business. Since then, the ICWAI played a pivotal role in bringing to focus many issues pertaining to good practices in management accounting which have been duly taken note of by the IFAC. At the IFAC-PAIB meeting at Hong Kong Shri A. N. Raman pointed out that cost statements based on ledger balances which are subject to IFRS, the impact of fair value estimates would change the recorded transaction costs or historical costs. This may change the paradigm of historical cost. Shri Balwinder Singh is co-coordinating the ICWAI initiative in this respect.
- The Institute has been approached by the WHO and Ministry of Health for undertaking joint research in areas of health study so that proper costing of health services can be made and the same can be provided at affordable costs.

I would like to place on record my sincere appreciation and thanks for S/Shri Anurag Goel, Secretary, P. D. Sudhakar, Addl. Secretary, Jitesh Khosla, Joint Secretary, Smt. Renuka Kumar, Joint Secretary, S/Shri B. B. Goyal, Adviser (Cost), Jaikant Singh, Director, Diwan Chand, Director of the Ministry of Corporate Affairs as well as our Government Nominees S/Shri S. C. Vasudeva, P. K. Sharma, T. S. Rangan and R. K. Jain whose continued advise, guidance and support I will always cherish. I also thank S/Shri V. Kalyanaraman, J. K. Puri, B. D. Bose and Harijiban Banerjee for their continued guidance and support.

I have always believed that development and progress is a continuous process. We cannot rest but strive hard to continue the growth our founding fathers have visualized for this great profession. My best wishes to all my professional colleagues, the budding professionals and the staff and officers of the Institute. I leave you with the dream of making the Cost and Management Accountants to be the most sought after professionals in the country who will be the future leaders steering the destiny of the country and I extend a hearty welcome to the new President to lead us for the continued development of our esteemed profession.

With warm personal regards

Yours sincerely,

Kunal Banerjee
President

Organised retail sector in India –An analysis of the key factors associated with the emerging market environment

The retail sector in India is still largely dominated by the unorganized retailing and it is also highly fragmented. The lion's share of the consumer market remains in the hands of small, private, independent owners and a large number of middlemen exist in the structure of distribution. Indian consumer market is very large as well as swelling, the huge scope and vast potential for the prosperity of organized retailing are also increasing day by day and the organized retail sector in India has been witnessing winds of changes in the last couple of years. Though India is concerned with the global issues like financial meltdown, inflation, food scarcity etc., it has become one of the fastest growing sectors in the Indian economy and it is expected to grow rapidly. With this backdrop, this paper intends to analyze key factors associated with the Indian retail market environment upon which survival, operation, processes, growth and development of organized retailing are contingent upon. Billion-plus population, propitious economic growth and escalating incomes and development in infrastructure, openness of the Indian market, favorable demographic condition and change of expenditure pattern ,advent of double income families, move in customer demand to overseas brands , rapid urbanization ,increasing number of malls and consumer inclination for shopping in new surroundings , the internet uprising, availability of credit ,accessibility of quality real estate and shopping center and overall the changed mindset of the new generation customer will be the main driving forces in emerging retail market environment.

Dr. Prasanta Paul*
Dr Debasish Mukherjee**
Chiranjib Das***

Introduction

Retailing is one of the largest sectors in India and is still largely d1ominated by the unorganized retailing. Indian retail market is very large as well as swelling, the huge scope and vast potential for the prosperity of organized retailing are also increasing day by day. The Indian retail sector is attractive and very much competitive and the fresh participants in this sector in India signify the beginning of retail boom and the organized retail sector in India has been witnessing winds of changes in the last couple of years. Due to the worldwide crisis, there would be decline in disposable income and market of upper end goods as well as lifestyle commodities would get hampered but the market of utility goods would not be affected too much. Despite the current slowdown of Indian economy, organized retail sector of India is feeling the warmth of expansion by the participation of Indian business houses and foreign players. Indian retail sector has not been affected much as their overseas counterpart and India has been sailing smooth and gaining strength with the help of the ambiance of a strong financial system. Indian retail market is very large but the unorganized sector constitutes 94 percent of it. About 15 million tiny retail outlets exist and spread across the country. More than 3/4th of those retail enterprises are run by the private individuals with the help of family members. There is enough potential for the growth and development of organized retailing in India. Indian consumer mindsets are shifting towards an organized retailing experience. There is an explosion of organized retail enterprises (hypermarket, supermarket) in Indian market. The number of malls is expected to rise three times by 2010. Many Indian as well as foreign retail players are attempting to tap this opportunity of vast retail market.

With this backdrop, this paper intends to set some specific objectives. The objectives are as follows:-

a. To identify the key factors associated with the Indian retail market environment.

b. To analyze the results of the interactions among those factors considering the opportunities and challenges of the sector and to explore the impact of changes on organised retailing.

c. To suggest some measures for the development of organized retailing.

Methodology

This paper is the outcome of a theoretical study on retail management with special reference to Indian retail sector. To complete this, various books, journals and periodicals have been consulted, several reports on this particular sector have been considered, internet searching has also been done

*Reader in Commerce, Prafulla Chandra College, Kolkata-29

** Reader in Commerce, Prafulla Chandra College, Kolkata-29

***Asst.Director (Studies), ICWAI, Kolkata-16

Share of organized retail in total market (% organized)

Retail segment	2004	2005	2006	2007
Clothing, textile & fashion	13.6	15.8	18.9	22.7
Jewellery	2	2.3	2.8	3
Watches	39.6	43.5	45.6	48.9
Footwear	25	30.3	37.8	48.4
Health & beauty care	6	7.6	10.6	14.3
Pharmaceuticals	1.8	2.2	2.6	3.2
Consumer durables, home appliances	7.8	8.8	10.4	12.3
Mobile accessories, services	6.5	7	8	9.9
Furnishing, furniture-home and office	6.7	7.6	9.1	11
Food and grocery	0.5	.6	.8	1.1
Catering	5.7	5.8	6.9	8
Books, music &gifts	9.8	11.7	12.6	13.4
Entertainment	2.6	3.3	4.1	5.3
Total	**3**	**3.6**	**4.6**	**5.9**

Source: The India Retail Story, Images F&R Research, India Retail Forum 2008, Business world

and especially the opinions of executives of corporate majors have been taken into account.

Review of Surveys

India Retail Forum 2008 projected that with the given rapid pace of retail growth, it is expected that Indian retail market will be in excess of Rs.18, 10,000 crore (USD 452.8 billion) by year 2010. Organized retail will be likely 13 percent of the total market in 2010.

GROWTH IN RETAIL INDIA

(Value in INR Billion*with projections)

YEAR	RETAIL MARKET	ORGANISED RETAIL
2004	9300	280
2005	10300	375
2006	12000	550
2007	13300	783
2008*	14800	1120
2009*	16400	1600
2010*	18100	2300

Source: The India Retail Story, Images F&R Research, INDIA RETAIL FORUM 2008, Businessworld

Ernst & Young in their article "The Great Indian Retail Story" stated that traditionally, small-store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour.[1] Consequently, India has one of the highest retail densities in the world at 6% (15 million retail shops for about 209 million households). KPMG in India was invited by the Federation of Indian Chambers of Commerce and Industry (FICCI) to conduct a survey to explore the scope, prospects and readiness of the Indian retailers. They stated (2005) "India is witnessing an unprecedented consumption boom. The economy is growing between 7 and 8 percent and the resulting improvement in income dynamics along with factors like favorable demographics and growth inspirational consumption are the drivers. Retailing in India is currently estimated to be US$ 200 billion, of which organized retailing (i.e. modern trade) makes up 3 percent or US$ 6.4 billion. Organized retail is expected to grow at 25-30 percent p.a., and is projected to attain US$ 23 billion by 2010. At these levels, organized retail would constitute up to 9 percent of overall retail sales."[2]

Prakash Chandra Dash stated in his paper titled "Indian Retail Industry - Opportunities, Challenges, and Strategies" wrote that "A McKinsey report on India (2004) says organized retailing would increase the efficiency and productivity of entire gamut of economic activities, and would help in achieving higher GDP growth. At 6%, the share of employment of retail in India is low, even when compared to Brazil (14%), and Poland (12%).Govt of India's plan of changing the FDI guidelines in this sector speaks of the importance attached to retailing. Recently moves by big corporate houses like Reliance Industries has further fuelled the major investments in retail sector. A strategic alliance, land acquisitions in prime areas give the essence of the mood in this sector."[3] Ernst & Young India mentioned some key drivers of growth. Greater disposable incomes of the booming Indian middle class which currently comprises 22% of the total population. This figure is expected to increase to 32% by 2010. Disposable incomes are expected to rise at an average of 8.5% p.a .till 2015. More than 50% of the population is less than 25 years of age and strong growth is expected to continue in this age bracket. The Indian urban population is projected to increase from 28% to 40% of the total population by 2020 and incomes are simultaneously expected to grow in this segment. Retail loans have doubled in the last three years to reach USD 38.7 bn by 2005."[4] NV Siva Kumar, Pricewaterhouse Coopers, Retail & Consumer Leader, India stated "India is an economy on the move. This country's growth is estimated to overtake that of China by 2013 and GDP is expected to amount to US $2 trillion in 2015. The country is young, with 50% of the population under 25 years of age. The retail sector represents 13% of GDP and 6% of the workforce, and at the moment 12 million retail outlets serve 209 million households. There is therefore a huge amount of potential for the organised retail sector, which should help push total retail sales from the current US $300 billion to some US $637 billion by 2015."[5] The similar opinion has been expressed by Mr. Arvind Singhal, Chairman, KSA Technopak and said " The size of the organized retailing market stood at Rs. 280 billion in 2004 , thereby, making up a mere 3% of the total retailing market. Moving forward, organized retailing is projected to grow at the rate of 25%-30% p.a. and is estimated to reach an astounding INR 1000 billion by 2010. Further, its contribution to total retailing sales is likely to rise to 9% by the end of the decade."[6] Global retailors are interested to enter the indian retail market as India ranked number one in A.T.Kearney's Global Retail Index in both 2005 and 2006 in respect of consumer's market potentials and attractiveness. A number of Indian large business houses have already shown their presence in this field of categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food, Jewels and the products that are widely accepted by the urban Indian consumer. A number of stores like, beauty and health stores, supermarkets, self-service music stores, new age book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores etc. have come up in many cities of India.[7] RNCOS is an industry leader in the field of online business research and they stated, 3%- this is the estimated share of organized sector in total Indian retail market. But next 3-4 years would see almost double retail outlets and retail space, owing to the emulous expansion plans. World retail market says that India has bright possibilities in retail sector and considers it as the pioneer destination for investment; saturation of western markets may be a reason for this. Thus, the bigwigs of western retail markets are turning to India to tap the opportunity. Indian retail industry accounts for about 10% of GDP and around 7% of the employment and would become $ 16 billion market by 2010. Around 1500 supermarkets, 325 departmental stores and 300 new malls are coming up in the cities very soon.''[8] All these ideas have been corroborated by the report of Ernst & Young which says the number of malls across the country is likely to increase with retailers firming up plans to exploit the potential in Tier II cities.

Analysis of key factors

R. Hasty and J. Reardon (1997) in his book "Retail Management" stated that retailing is the business segment with which the people have the most intimate contact and it is retailing which is to function in a very complex external environment. Retailers are affected by the environment in which they operate; it influences how and why they conduct business.[9] This complex external environment can be divided into two types of environment. Newman and Cullen (2002) summarized those factors in macro and micro- environmental influences. Macro-environmental influences[10] include-

i. Political and Legal-consumer protection, equal rights, safety at work, working hours and the minimum wages.

ii. Economic- disposable income, gross domestic product, unemployment, interest rates, inflation.

iii. Socio-cultural- social class, reference groups, culture and subculture.

iv. Technological- products, processes, information handling, and management.

v. Demographic-age, sex, marital status, household size, education and geographic location.

vi. Physical- product availability, air and water quality and noise pollution.

These factors affect the whole sector and the people's shopping behavior. Another set of factors i.e., the micro environmental influences which comprises those factors that originate outside the retail firm, but which the retailer can affect through its management processes.

These micro-environmental influences include-

i. Market-segments, size, behaviors, trends, locations and level of service demand.

ii. Suppliers and Intermediaries-supply channels, availability of goods, number of alternatives, locations, geographic concentration and volume concentration.

iii. Competitors-number, strategies, potential new entrants and rivalry. Indian market environment is no exception.

Ernst & Young, a global leader in professional services (2006), estimated that the Indians with an ability to spend over USD 30,000 a year (PPP terms) on conspicuous consumption represent 2.8% of the entire population. But with a population base of 1.07 billion people, this number amounts to 30 million people, a market next only to USA, Japan and China[11]. While consumer demand is key source of retail growth, it is in turn being driven by the following factors[12]:

Vibrant economy with propitious growth: India is a vast country and its economy has been experiencing an impressive growth in the recent years. India is the world's 4th largest economy as regards GDP (in PPP terms) and is expected to rank 3rd by 2010, just behind the US and China. The Gross Domestic Product in the country increased at an impressive rate of 8.7 percent P.A. The GDP Growth was mainly led by the fast rising industrial production as well as the growth in the services sector. India is witnessing an unprecedented consumption boom because of greater disposable incomes for the emerging Indian middle class, which currently comprises 22% of the total population. This figure is expected to increase to 32% by 2010. Disposable incomes are expected to rise at an average of 8.5% p.a. till 2015. The rising figure of working young Indians (with an average age of twenty-four years) nuclear families in urban areas, working women and coming out of more opportunities in services sector are the main growth drivers of the organized retail sector in India. The purchasing power of a young consuming middle class has been talked of since the time of economic liberalization in1991. However, it is only today that we are witnessing the spending power associated with this consumer segment. Increasing number of double income families is another positive factor. Salary hikes in India are also expected to increase at a faster pace than other developing countries. All these are the indication of a sustained growth in discretionary spending in India.

Billon-plus population with Favourable demographic condition: Indian demographics are changing. Out of 1022.9 million population of India about 45% are young, 47% adults and about 7% are aged. In terms of economic class, about 77% are in the bottom line, about 12% are in middle class, and about 5.5% each belong to upper class and super class respectively. These estimates indicate to us the need for producing utility goods based on value generation i.e., the value generated by each product is a function of income class and age a consumer belongs to. It is not enough just to produce goods at affordable prices but help produce generate value. The population aged below 30 years is expected to continue to drive consumption wheel at a high speed across categories. This consumption is expected to continue due to the level of aspiration of spending associated with this consumer segment. The AC Nielsen Online Omnibus Survey 2005 rates India in the highest category of Aspiration Index in Asia, along with China, Indonesia and Thailand.

Technological development with rapid Urbanization: The whole world is witnessing technological development and so is the Indian consumer. The big corporations are producing variety of merchandise with the help of the innovative technology to cater the needs of the urban India's population. The Indian urban population is projected to increase from 28% to 40% of the total population by 2020 and incomes are simultaneously expected to grow in this segment. In urban India, the middle and high-income households is expected to grow from 46 million to 59 million by 2007. Indian retailing is totally changing and the forces which are leading to this change are the changing needs and aspirations of the urban consumers. Now in India the young people are making good money. They need certain place during weekends to hang out or to splurge. Some of the changes in the lifestyle of urban consumers are: ?Indian urban middle class has shifted from saving to spending. Rising incomes or increase in the number of earning members has also changed the scenario. The growth of malls has led the consumers to go for impulse purchases or stocking items which they might not require. There is a drastic shift in the Indian consumers' mindset. They are spending less on food and more on clothing and durable goods. There is an emergence of a consumer who does not blink while purchasing a shirt for Rs.3000 and a pair of shoes for Rs. 6,000. Some of the customers are engrossed to these shopping malls as of freebies and once they are inside the mall they don't mind spending suddenly and excessively on items which are not for their necessity. The rising overseas investment coupled with the impact of technological development in India is slowly changing the way urban Indians go shopping.

Financial openness with easy availability of credit: Due to the liberalization and openness of the Indian economy, inflow of finance has increased a lot. Retail loans have increased by manifolds in recent years. Easy availability of finance at competitive rates is a critical enabler for the envisaged rapid growth of retailing in India. It is quite easy to raise finance in India if the business case is sound.

Availability of real estate with increasing number of malls: One more important issue for organized retail is the rush in mall growth. The number of malls is expected to rise from 158 in 2005 to 600 by 2010. The emergence of a mall culture and development of malls should come across as a positive development. By 2011 India will have an additional 280 hypermarkets, 3200 supermarkets, 400 departmental stores, and approximately 1200 mega speciality stores and category killers and 20000 exclusive brand outlets across the various retail categories. Malls alone will provide an additional 200 million square feet of gross leasable quality retail space.[13] **New generation with the changed attitude of the consumer:** Attitudes are shifting towards a well thought-out retailing experience. Indians are enjoying shopping like never before, thanks to growing salaries and setting up of new malls that have prepared shopping an enormous fun for the swelling Indian middle-class. These encouraging large-scale trends are ensuing in shifting preferences in demand for lifestyle products. The Indian consumers' standard of living is also developing rapidly. India has one of the youngest populations in the world with 54% of the population below the age of 25. Unrestricted expenditure has seen a 16% rise for the urban upper and middle classes and the number of high income households has grown by 20%. There is an mounting shift from price consideration to design and quality, as there is a advanced focus on looking and feeling good (clothing as well as fitness).At the same point in time, the new Indian consumer is not deceived by retailed products which are high on price but commensurately low on worth or functionality. There is an easier acceptance of luxury and an increased willingness to experiment with mainstream fashion. This results in an increased tendency towards disposability and casting out - from apparel to cars to mobile phones to consumer durables. The self-employed section of the population has replaced the working salaried section as the mainstream market. 40% of primary wage earners in the top 2-3 social classes in towns with a population of 1 million or more are self employed professionals and businessmen. This has driven growth in using up of productivity commodities, particularly mobile phones and two and four-wheelers. Finally, credit friendliness, and easy availability of finance have changed mindsets of the young and new generation customers[14].

Global change with favourable political climate: Retailing industry has flourished globally and India is no exception. Though India is at the crucial juncture affected by some global issues like financial meltdown, inflation, food scarcity etc. ,one more cause for over enthusiasm in retail sector is the idea that India would ultimately initiate retailing to FDI. The most important international players of retailing have shown their interest in India. Hence, government is scheduling to ease restrictions. Some investors are making a bet on retail sector today in anticipation that once the overseas investment will be given indication, these will turn out to be the targets for takeover. At present, the restriction on FDI in retail by Indian government is in place, it appears to allow the Indian retailers to 'grown-up' with no fear of competition. Looking at the estimated size of industry by 2010, they have to make the right decisions on location, plan, products offerings, advertising method and other fundamental issues. This is the government's plan for Indian retail sector for coming years[15]. The Indian Government is also likely to spend USD 150 billion over the next few years to develop world class infrastructure, thereby aiding expansion in the retail sector. At present, the government is allowing 51% foreign investment in single-branded retail sector and cash and carry format of wholesale sector.

Challenges

Global retailing is facing challenges and India is no exception. India-specific challenges of retail sector can be classified broadly into two categories i.e., internal and external. Internal challenges are like; prevention of shortages, shop lifting, keeping pace with the technology, streamlining of logistic and supply chain, and training of personnel, management of the profitability of the store etc. External challenges are like; vastness of the market, required laws relating to this trade, infrastructure, rising aspirations of the consumer, etc. Government restrictions on FDI have not yet fully removed. There is lack of a uniform tax structure throughout the country though application of VAT is no doubt a major step in aiding the growth of this sector. Infrastructure development is another major challenge to sustain the growth of retailing. Unorganized sector is still a dominant factor because of the inherent advantages it possesses. FICCI and KPMG have conducted a survey to explore the key challenges in the Indian retail market and the results are shown in the following table:

Key challenges in the Indian retail market

(Respondents could choose more than one options)

Large geographic area	59
Infrastructure constraints	59
Distribution costs	46
Fragmented market	44
Lack of national distribution networks	42
Lack of distribution hubs	32

Source: KPMG International Consumer Markets in India Survey, 2005

Suggestions

There is no doubt that Indian organized retailing has gained a momentum of growth. It is also true that a number of agencies have projected in their own ways regarding the dimension of organized retail bazaar in the years to come. The one object that is general with these projections is that Indian organized retail marketplace will be very large in the coming five years. The future of the organized retail sector will depend typically on factors like administrative regulations and policies and real estate prices. Generation of employment and disposable income of the Indians are to be increased. Public private partnership is needed to utilize the prime locations. Infrastructure development (both physical and social, including transport, cold storage etc.) is to be given utmost priority. Dependence on metros is to be reduced and smaller cities and towns are to be targeted for the expansion of this sector. Keeping in mind the vastness of area and heterogeneity of Indian population, appropriate customer retention programme is to be chalked out. There is a need of competent work force accompanied by new technology.

References

1. Ernst & Young, "The Great Indian Retail Story", A Report On Indian Retail Sector, 2006.p.9
2. Indian Retail: On The Fast Track—— Bridging The Capability gaps, Consumer Markets, Federation Of Indian Chambers Of Commerce & Industry, Kpmg, 2006.
3. Prakash Chandra Dash, 'Indian Retail Industry - Opportunities, Challenges, And Strategies' 2007.p.1-4.
4. Ernst & Young, Op.cit, P.10-12.
5. Insights into The Food, Beverage and Consumer Products Industry – GMA (Grocery Manufacturers' Association) Overview Of Industry Economic Impact, Financial Performance and Trends, 2007, P.7-9, @ www.pwc.com/ r&c.
6. P. Ryan, "India's Growing Consumer Product and Retail Market'', 2007 in India Retail Report 2005: An Images-ksa Technopak Study Released At The KSA Retail Summit 2005.
7. "Indian Organized Retail Industry (2005-2007)" Published By Rncos, 2007, P.15.

Contd. on Page 525

Unorganized Retailing- Competition to Co-existence

Many researchers suggest that the market and the competitive dynamics threaten the survival of small kirana shops. This research investigates the relationship between market orientation and performance in unorganized retailers through an empirical analysis of survey data. Findings indicate that market orientation and performance are positively related and, moreover that, the customer strategy focus of small retailers is the key determinant of success compared with other components of market orientation and environmental influences. Unorganized retailers cannot compete with big retailers on head - to - head basis. They must either target different markets or offer something different to customers. Since major retailers aim at the mass – consumption middle class, small retailers can successfully target lower income group.

Keval Sheth, Rohit Divekar*
Prof. R Srinivasan*
Dr. R.K. Srivastava*

INTRODUCTION:

The retail sector is the second largest source of employment and the job market is hugely receptive to retailing expertise in India. India has 12 million retail outlets. It is estimated to create 50,000 jobs a year in the next five years. The retail market in India is estimated at Rs. 588, 000 crore. Of this the unorganized market is worth Rs.583, 000 crore and the organized market is Rs.5, 000 crore. Over 8% of India's population is engaged in retailing

The growth of the retail trade in India is associated with the growth in the Indian economy.

The international consulting firm, A.T. Kearney, annually ranks emerging market economies based on more than 25 macroeconomic and retail-specific variables through their Global Retail Development Index (GRDI). For the three years (2005, 2006, and 2007) India has been ranked as number one indicating that the country is the most attractive market for global retailers to enter. The high economic growth during the last few years raising disposable incomes rapidly, favourable demographics placing incomes on younger population with less dependency, and urbanization are some of the major factors fuelling the Indian retail market.

Organized Retail: The term Organized Retail means to have a formal organization to coordinate and carry out activities. The organized retail formats are generally owned by corporate. They mainly include: Hyper market, Supermarket, Convenience Store, Exclusive Outlet, Departmental Stores, and Cash-n-Carry. Organized Retail outlet is a place where the product attributes in terms of quality, weight / quantity, price, service of the providers is homogeneous and there is less dissatisfaction amongst the customer of having cheated or looted. Organized retailers have the advantages of economies of scale and scope as the purchasing in done in bulk orders. Organized retail which now constitutes a small 4 per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.

Organized retail plays the entire game from three strong pillars:

Price advantage: Price is a major factor in purchase decisions. Given a choice, Indian consumers will go the place which offers some discount instead of buying the same stuff from their neighbourhood store that sells at MRP. Organized retail players source in bulk hence they get the best price available. As a result of this, they offer heavy discounts on MRP and lure the price conscious customer to its stores. They source directly from consumer goods companies, and get better margin as no intermediary in the chain. All these result in organized players offering higher discounts on almost all categories.

Merchandise: Organized players provide a variety that a small store cannot provide. Small stores play the retail games with a fairly low working capital and hence are extremely selective in what they stock. Organized players, due to their store size and investment capability, are able to keep a variety of brands, thereby offering a wider choice to consumer.

Dearth of Time: Due to hectic lives and changing life style, today's

*Retail Management Students of K.J Somaiya Institute of Management Studies & Research, Mumbai.
*Head of Department Retail Management, K.J Somaiya Institute of Management Studies & Research, Mumbai.
*Emeritus Professor, K.J Somaiya Institute of Management Studies & Research, Mumbai.

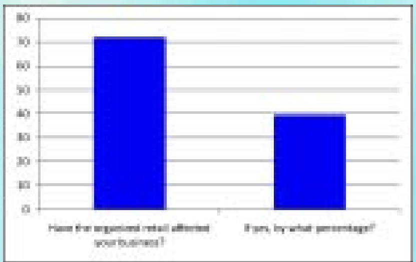
consumer has little of time. The customer simply doesn't have as much time as before to do shopping. And this constrain of time is an element that organized retail finds to exploit. A consumer, hard pressed for time, often finds it much more convenient to shop for all her needs under a single roof rather than hop from shop to shop.

Research Methodology: The qualitative field research sought to explore the nature of obstacles within the Mom-and-Pop retailers and the implications of the organized retailers. Data is collected from a 100 independent retailers (Kirana shops) in suburbs of Mumbai. Multivariate statistical methods were used to analyze the variables. Based on the research findings, strategies were framed to the unorganized retailers to survive the competition from the organized retailers.

Findings: Out of 100 local kirana stores surveyed, we found;

a) 72% of the kirana store owners felt that their business was affected.

b) They reported a drop in sales of each kirana store by approximately 40%.



Unorganizsed Retail: Unorganized Retail is to have an informal organization to coordinate and carry out activities. Usually the ownership lies with an individual. Unorganized Retailer does not have proper billing system or good layout of the store. Indian retail is dominated by a large number of small retailers consisting of the local *kirana* shops, owner-manned general stores, chemists, footwear shops, apparel shops, *paan and beedi* shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called "unorganized retail" or traditional retail. Unorganized Retail constitutes of about 96 per cent of the total retail in India with an expected growth of approximately 10 per cent per annum. It comprises of 15 million tiny outlets catering to customer needs across the country employing the second largest number of people after Agriculture.

Hawkers - Lari-Galla Vendors: The self-organized sector is characterized by the Lari-Galla vendors (also known as "mobile retailers") seen in almost every Indian lane and is, therefore, difficult to track, measure or analyse. But they do know their business – these lowest cost retailers can be found everywhere from village by-lines to where big malls are situated. As far as location is concerned, these retailers have succeeded undoubtedly. They have neither village nor city-wide ambitions nor plans – their aim is simply a long walk down the end of the next lane. This mode of "mobile retailers" is neither scalable nor viable over the longer term, but is certainly replicable all over India. Most retailing of fresh foods in India occurs in Mandis and roadside hawker parks. These are highly organized in their own way. If we put all these hawkers together they almost measure upto a large supermarket. These hawkers have a high degree of merchandise and have a system that works.

Kirana / Provision stores / Mom and Pop stores: Retailers like kirana (mom-and-pop stores), grocers and provision stores are characterized by the more systematic buying – from the mandis or the farmers and selling – from fixed structure. A euphemism for sale done through tiny family owned shops .In language of marketing gurus these kirana shops cater to the needs of low value, high frequency shops.

Competitive Advantages of Kirana stores:

Credit sales: The biggest USP of the unorganized retail is the credit offerings to their customers. This proves to be an 'add on' service to offer to the regular customers thus giving an advantage over the big or the organized retailers. The big retailers having high investments & overheads are unable to replicate them.

CRM: "Customer Relation Management does not require any software or hardware–All it requires is Heartware." This is the statement that kirana store owner knows very well and practices it in all his transactions. He gives best of services ranging from credit facility to free home delivery. The kirana store owner knows the in and out of his customer needs.

Flexible unitization: Since the kirana shops mainly caters the lower & middle income groups, he has to sell his product in less quantity owing to the limitations of the money his customer can spend .The term 'less quantity' can be as less as 100 grams. This is not possible for the big retailers as their products are pre-packed in a fixed quantity.

Door Delivery: Another advantage which an unorganized retailer offers is the Door Deliver to all his customers & this provides great deal of convenience. The service is offered even for the smallest of quantity purchased. It also helps the customer with immediate supply of the products that are ordered over phone. Now-a-days, to compete with the unorganized retail, even organized retailers like have started giving Door Delivery. However, there is a limitation because they provide home delivery only if the purchase is over and above certain amount decided by the organized retailer.

Flexible timing: The unorganized retail store have flexible timings, which can be seen in the pattern the stores operates generally across with the shops opening early in the morning and operates till late evening. Moreover many small store owners have *'niche* *dukaan upar makkan'* i.e. they live in the same building in which they have their shop they can be approached even at odd hours for eg. The local shops can be of a great help during the time of emergency.

Limitations of Kirana Shops:

The research has thrown light on few of the limitations of the kirana stores.

Price: Pricing is an important element in the purchase decision of a customers. organized retailer's have the bargaining power with the FMCG companies as they always buy in bulk and able to transfer the benefits to the customers. Where as kirana shops found lack in offering more discounts and offers to the customers.

Another problem we noticed during the survey , kirana shop keepers deals commodities like wheat, rice, *daals* etc which are often not branded products. Retailers in the same area offer different pricing for the same products. For instance *shruti kolum* rice in one kirana store is for Rs. 28 and the very next kirana store charges Rs. 30 for the same rice. This leads to confusion in the minds of the customers as to what is the exact price of the rice, and which rice is better.

Lack of Hygiene: Its' a major problem with the un-organized retailers as found during the research. since most of the Kirana stores operate at a very low capital & may not practice the high standard of hygiene. Majority of the kirana shops are located in the heart of a locality or on the busy streets. Since they deal with commodities which are not packed, chances of them getting polluted is relatively high.

Space constraints: During the research we found that the average space for most Kirana store is approximately between 300 sq ft to 400 sq ft. Of this nearly 25% of the area is used as godown. This shows the space constrains the kirana shops face and it is because of this that customers have turned to organized retailers.

Less Variety offered: As mentioned above since most of the kirana stores operate in a very limited space the variety offered by them is not comparable to the organized retailer. The goods offered by the Kirana stores generally include products that are high in demand in the market. Since they cannot afford to store slow moving products.

Generation Next; looking for new avenues: According to the survey we noticed that majority of the kirana shop owners do not want their son to be in the same business. The reason behind this is not that these kirana shops do not have a good future, but they want their children to do a white collared job that offer a better pay & regular flow of income, this is partially due to the higher education being received by their children.

Strategies for Unorganized Retail: The strategies that should be used by the unorganized retailers are broadly divided into two categories.

a) In store/ Operational Strategies

b) Functional strategies

It is very important that these strategies should be in proper synergy and should be well synchronized to get the best results.

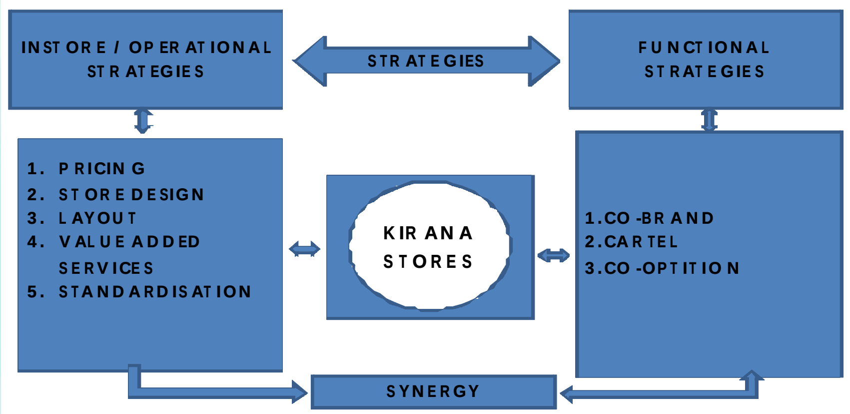
In Store/Operational Strategies:

Pricing & Standardization: We recommend that the kirana store owners should try to maintain uniform prices and refrain from charging above the MRP. Also, looking at the immense

UNORGANIZED RETAILERS v/s ORGANISED RETAILERS

Sr.No.	Characteristics	Unorganized Retailers	Organized Retailers
1.	Span of Control	There is a Direct control of strategy, and centralized decision-making	There is centralized or coordinated purchasing & decision making.
2.	Flexibility in operations	Has flexibility in location & strategy	Limited flexibility as well established norms have to be followed
3.	Economies of Scale	Lacks the economies of scale.	Efficiency of using warehousing facilities, large volume purchases, also centralized decision-making.
4.	Competition faced.	High because of factors such as ease of entry. Low capital requirements.	Lower than unorganized retailers because investment costs are high Individual outlets face competition from players offering similar assortment of goods/services.
5.	Some important concerns.	Searching for the successors.	In addition to maintaining consistent retail marketing strategies in all branches, adapting to local needs of the target market

Strategies for Unorganized Retailers



competition from the organized retailers, "value pricing" i.e. Selling prices on the perceived value to the customer & not at the MRP can be an important tool to attract customers.

A key success factor to all kirana store owners or the unorganized retail is standardization. The standardization we mean uniformity with respect to the packaging and quantity of the goods sold.

Store Design: The Kirana store owner should place merchandise such as accessories or smaller items of interest near the counter to entice your customer to make impulse purchases. Ensure that general housekeeping standards are, maintained and met regularly. Empty or dusty displays do not convey the message to the customers. Create points of interest in-store for example feature walls and displays to promote new product lines.

Layout: A typical Mom & Pop store or a kirana store lacks a good layout and uses "Dead Block Layout". The need of the hour for these small retailers is to improve the layout of their store because in today's world the customers are becoming extremely conscious regarding the ambiance of the store. More over if the store will have a proper layout; the space utilisation can be to its maximum helping the retailer to entertain more and more number of customers. The Kirana store owner should also concentrate on better visual merchandising for the optimum display of the variety of products.

Value Added Services: Value-Added Services enables to adopt postponement strategies and mass customize products at the time of distribution and fulfilment to ensure customer requests are fulfilled correctly at the lowest total supply chain cost. This can equip the kirana stores with a greater ability to accommodate changing customer tastes and product requirements. Also the supply chain wins with fewer excess products, parts, and components. S-Commerce: S-Commerce stands for Service Commerce, which is to provide single window service to the consumers. These services can include telecom, travel, insurance and banking and other sectors. The company can aggregate and commoditise services, such as tours and travel, entertainment, utilities, payment collection and financial services, and offer them on a single platform to the consumer. The target audience for the rollout would be those not possessing an e-payment mode, computer illiterates and the 'not so Internet savvy'. S-Commerce is a new model based on aggregation of regular services virtually at one point, & quite ingenious.

It is an ideal way for a 'Mom and Pop' store to differentiate itself at the time when organized retail is getting all the attention. Since Indians are uncomfortable with on line transactions, plus they are always looking for convenience, a model where they are not directly interacting with technology and are paying cash over the counter works beautifully. One primary difference of these small retailers who uses S-Commerce is that they don't have to turn away customers since the shop become's one stop shop. Also this looks a like the way the small kirana/ Mom & Pop stores can hold their ground in front of the big retailers.

The company which has recently formed on these lines is the Suvidhaa Infoserve Pvt. Ltd. Based in Mumbai & Oxigen based out of Delhi.

Functional Strategy:

Co-Branding: Co-branding involves combining two brands to create a single product or offering. It embraces a collaborative venture to further the interests of two or more organisations in a planned, strategic format. Retail co-branding is dominated by businesses that provide convenience benefits to consumers, for example fast food franchises teaming up with service stations (fuel retail) and grocery stores.

Cartel Formation: "Group of firms who attempt to control price or supply of a commodity through mutual restraint on production."

The Kirana shop owners can actually come together to form cartels in local vicinity. Such cartels could be then used to have a better bargaining power with the APMC's .Thus ensuring the good quality of goods at better price. The cartels can be used by the kirana stores to have a better bargain & ensure better deal for its members from the government thus ensuring better conditions for the Kirana shopkeeper. Such kind of cartels could also act as platform wherein ideas could be exchanged & micro-financing activities could be arranged thus providing financial support to the kirana shop owners.

Co-optition: Co-optition means a combination of co-operation and competition. The Kirana store owners could join hands with the leading retailer in B-2-B (Cash –and-Format) thus allowing to procure the goods at lower cost by being a member of that store. This would help them in procuring goods with competitive advantage. In recent scenario Metro can be one of the supplier of these kirana stores.

Co-existance: As seen from the above the impact of organized retail over the unorganized retail it seems difficult for the small *kirana* shops and vendors to survive. But fortunately that is not true. The unorganized retailers can definitely co-exist with the organized retail sector of the country.

India has a huge potential for growth& picking up with quiet reasonable pace. The organized and unorganized retail sectors would go from strength to strength together.

Many studies & example set globally have indicated that the both organized & unorganized retail can co-exist thereby indicating. A decline in short run is a normal phenomenon whenever competition enters as any existing business requires time to upgrade its infrastructure, services & set –up.

Increasing rate unorganized retailers are getting educated on the ways to improve their supply chain & inventory management, better use of technology there by increasing the efficiency. The unorganized retailer are also trying to join hands either amongst themselves or tying with the big retailers.

The retail industry has witnessed some of the few big retailers have adopted a unique approach of opening many retail stores in one city at one time thereby establishing their business quickly & take over the markets. FICCI on observation advised the Indian retailer to come with an "India model" of retailing which would be protect of the unorganized retailers or the 'Kirana stores' who bit venerable, to be integrated in the retail expansion of the country.

Research Limitations: One of the limitations of this study is that it does not integrate the uncontrollable extraneous such as situational conditions which influence purchase decisions, and general economic conditions including cost of living, inflation interest rate and purchase behaviour. Data is collected from the suburbs of Mumbai; it may not represent the entire community of unorganized retailers.

Conclusion: The country's traditional kirana (mom n pop) or the Unorganized retail stores have been able to adjust to the emergence of organised retail in the country. Few small stores are affected by the growth organized retail to some extent. Customers are not averse to the existence of big retail since they derive value from both the organised retail and mom-n-pop stores.

References:

1. ICRIER -report on Impact of Organized Retailing on Unorganised sector
2 HBR-Welcome Back,Mom & Pop –By Richard Metters ,Michel Ketzenberg and Gehe orge Gillen.
3 Articles from Retail Biz, Images Retail.
4. Berry, Leonard L. (2001), "The Old Pillars of New Retailing," *Harvard Business Review*,April, Vol. 79, Issue 4, pp. 131-138.
5. Dawson, John (2000), "Retailing at Century End: Some Challenges for Management and Research," The International Review of Retail, Distribution and Consumer Research,Volume 10, Issue 2 (April), pp. 119-148.
6. Incandela, Denise, Kathleen L. McLaughlin and Christiana Smith Shi (1999), "Retailersto the World," The McKinsey Quarterly, Number 3, pp. 84-97.❑

Contd. from Page 520

8. Matloob Hasan, "The Indian Retail Bazaar", Indian Retail, from 'Indian Retail Industry – An Analysis'2006, P-32-36.
9. R. Hasty And J. Reardon, ''Retail Management, 1997, Mc.hill.
10. Newman And Cullen,"Retailing", 2002, Vikas, New Delhi.
11. Ernst & Young, Op.cit, P.10-12.
12. Indian Retailing –A Cash Management Perspective Siddharth Rungta, Vice President, Sales, Global Payments and Cash Management, Hsbc, India, 2006. and Hsbc 'Jumbo Retailing – Organized retailing In India gets Hyper', May 2005
13. The India Retail Story, Images- Interim Update F&R Research, India Retail Forum 2008, Businessworld.
14. Matloob Hsan., Op.cit P. 32-36.
15. RNCOS., 2007, Op.cit,,P.15.

Other Sources(internet):

1. www.ficci.com/Media-room/Speeches-presentations/2004/Sep/Sep24-wisc.htm
2. www.kpmghu.lcc.ch/.../cm_Retail_In_India_06_20060718.pdf
3. Http://Consumer goods. india bizclub. com/info/consumer_markets/retailing
4. Www.indiaonestop.com/retailing.htm
5. http://www.articlesbase.com/publishing-articles/retail-industry-in-indiachallenges-opportunties-and-strategies-158550.html
6. http://www.rncos.com/Report/Cp15.htm
7. http://www.free-articles-zone.com
8. www.indiaretailbiz.com/Blog/2008/11/24/Indias-retail-sector
9. http://en.wikipedia.org/w/Index.php?title=retail&redirect=no
10. http://www.123eng.com/forum/view to pic. php? t = 13617 & start = 0 & postdays = 0 & postorder = asc & highlight = retailing challenges and opportuntites in india by poonam, 2006.
11. http://www.plunkettresearch.com/Industries/Retailing/Tabid/210/Default.aspx
12. http://www.indianmba.com/Faculty_Column/faculty _ column. htmlorganised Retailing In India - An overview by Prof. Shravan Rungta, Mumbai,2007
13. Images - Ksa Technopak India Retail Report-2005: I, II & III
14. http://www.kurtsalmon.com/❑

Boom in Retail Sector: The Indian Scenario

Prof. Asit Gope*
Dr. Arindam Ghosh**

Introduction:

At present India is facing the most dynamic combination of very highly informed and high demanding consumers of the world. Rapid growth in population has led to the rapid increase in the consumer's level across the country and hence the increase in the retail sectors was inevitable. To do business in our economy retail sectors need to be more adaptive towards the changing demand or preferences of the consumers, which involves the sectors to transform the challenges to opportunities. The retail industry in India is of late, often being hailed as one of the sunrise sectors in the economy. AT Kearney, the well-known international management consultancy, recently identified India as the 'second most attractive retail destination' globally from among thirty emergent markets. It has made India the cause of a good deal of excitement and the cynosure of many foreign eyes. With a contribution of 39% to the national GDP and employing 8% of the total workforce (only agriculture employs more) in the country, the retail industry is definitely one of the pillars of the Indian economy. Retailing is the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. India, one of the largest consumer markets in the world, draws attention from foreign retailers and suppliers who wish to establish a toehold in the second most populated country in the world. India's domestic retailers are in a formidable competition with the foreign retailers entering the market. The country is moving to its own retail model, which is a mixture of Indo-Western fusion of conventional merchandising and consumer service with the application of modern technologies. India is a nation of shopkeepers. With over 12 million retail outlets, India has one of the highest densities of retail outlets in the world with one retail outlet for 90 persons. No wonder India is the ninth largest retail market in the world with annual retail sales of $215 Billion in 2005. However, the share of organized trade in India is currently very low estimated at just Rs. 35,000 Cr. in 2005 (Rs. 28,000 in 2004). This accounts for 6% of the total retail trade in the country.

*Research Scholar, Department of Commerce, University of Kalyani; Lecturer Barasat College.
**Reader and Head, Department of Commerce, Panihati College Life Member, Indian Economic Association & Bengal Economic Association. Visiting Lecturer : Bengal College of Management & Media Infotech, Sikkim Manipal University.

The Indian Scenario:

The Indian Retail sector is highly fragmented mostly run by the owner like 'Mom and Pop' outlets. There are over 12 million retail outlets with an average outlet size of 500 sq.ft. There are a few medium sized Indian retail chains like Pantaloon, Shoppers' Stop, Foodworld (RPG Group) and Westside (Tata Group) – all growing rapidly. The retail segments are mainly in the apparel and food & grocery divisions. However, Dairy Farm, Metro, Shoprite and Marks & Spencer are the only major international retail chains in India having a marginal presence through either franchisee or wholesale formats. The retail industry is divided into organized and unorganized sectors. Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc. If we look at the socio economic and demographic picture of India, which lure foreign investors to make investments, it can be discovered that India is the 12th largest economy of the world, third largest GDP at 4.16 trillion USD, second largest labor force and accompanying with the literacy rate at 64.8%. However, the current retail landscape in India has the following to display:

Organized Retail Market in India:

According to the Report of Investment Commission of India (2004), the retail sector has been recognized as one of the highly potential sector that can help building our nation. According to the Investment Commission, the overall retail market is expected to grow three-fold in next ten years from USD 206 billion from today to USD 660 billion by 2015. India is expected to be among the top 5 retail markets in the world by 2015. The organized to retail sector is expected to grow rapidly to reach at USD 100 billion by 2015. The organized retail trade in India shows the following picture:

Table: 1

The Retail Sector in India	
Number of persons employed	21 Million
Estimated the number of new jobs in next two years	02 Million
Typical space occupied by Mom & Pop Store	100-500 Sq.ft.
Space occupied by modern Retail	35 Million Sq.ft.
Opening of Malls in 2007	114
New Malls under construction	361
Space occupied by Malls in the pipeline	117 Million Sq.ft.
New investment by 2011	USD 30 billion

Source: indiaretailbiz.com and india-reports.com

Table: 2 Organized Retail Market in India:

	Year			
	2004 Rs. Crore	% in total organized retail	2015(expected) Rs. Crore	% in total organized retail
Food, Grocery & General Merchandise	2950	10	102546	42
Clothes, Textile & Fashion Acc	10900	39	40605	16
Durables & Mobiles	3340	12	28891	12
Food Service	2000	7	24351	10
Home Improvement	2500	8	16346	7
Jewellery & Watches	1960	7	8770	3
Footwear	2500	9	6508	3
Books, Music, Toys & Gifts	800	3	3722	1
Others	1350	5	14692	6
Total	28,000	100	2,46,431	100

Source: TSMG Analysis

Table: 3 Top Players in Retail in India (2004):

Players	Revenues(in $ million) 2003-2004	Space Sq.ft. December 2004	Format
Pantaloon Retail	150	1,000,000	F&G, Specialty
RPG Retail	135	5,90,000	F&G, Specialty
Shoppers' Stop	100	7,40,000	Specialty Retail
Lifestyle International	53	3,25,000	Specialty Retail
Vivek's Ltd.	46	1,50,000	Consumer Durables
Trent (Tata)	38	2,70,000	F&G, Specialty

Source: Investment Commission of India.

According to the TATA Strategic Management Group "the organized retail market is expected to grow much faster at a CAGR of 21.8% (at constant prices) to Rs. 246,000 Cr by 2015 thereby constituting 15% of the overall retail sales. Based on our projections, the top 5 organized retail categories by 2015 would be food, grocery & general merchandise, apparel, durables, food service and home improvement". According to the Investment Commission of India, the top players in the retail trade are as follows:

Contribution of Retail Trade to our Economy:

Contribution of retail trade may be analyzed from two attributes i.e. Contribution towards employment generation and Contribution to GDP. A simple glance at the employment numbers is enough to show the phenomenon of the relative sizes of the two forms of trade in India. Organized trade employs roughly 5 lakh people, whereas the unorganized retail trade employs nearly 3.95 crores. According to a Government of India study the number of workers in retail trade in 1998 was almost 175 lakhs. It should worth noting that even within the organized sector, the number of individually-owned retail outlets far outnumber the corporate-backed institutions. When we compare the share of retailing in employment across different countries we discover this phenomenon.

Table: 4 Share of retailing in employment across different countries:

Country	Employment (%)
India	8
USA	16
Poland	12
Brazil	15
China	7

Source: Presentation to FICCI by Alan Rosling (Chairman, Jardine Matheson Group): "International Experience on Policy Issues."

Organized trade in India is highly under-developed as compared with other emerging markets in Asia, Latin America and Eastern Europe and developed markets like the US. Between 1996 and 2003, the organized retail market in China more than doubled. We estimate the Indian retail market today at the same inflection point as China in the mid- 1990s. Considering similar per capita GDP and economic growth, the Indian organized retail market has exponential growth potential over the next decade. Growing consumerism would be a key driver for organized retail in India. Several demographic trends are favorable for the growth of organized trade. The following table shows the percentage of organized and unorganized retail trade in different countries:

Table: 5

Country	% of Organized Retail Trade	% of Unorganized Retail Trade
India	6	94
China	20	80
Vietnam	22	78
South Africa	32	68
Brazil	75	25
USA	85	15

Source: EIU, AT Kearney Analysis and with author's calculation.

Given the attractiveness of the Indian market for retail, it is no wonder that the retail sector accounts for 39% of India's total GDP, which is quite a significant portion if we compare that with other developed and developing countries. However, the proportion of retailing which is in organized sector is still a very small proportion, with penetration at 6%.

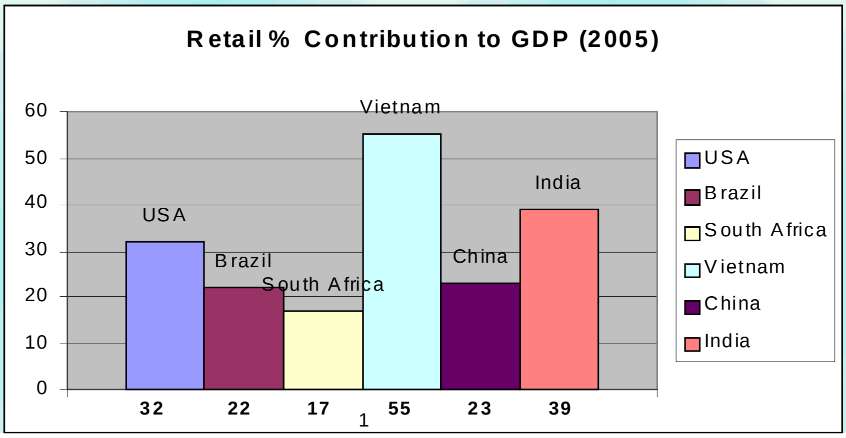
The Potential Area of Improvements:

Retail sectors require a good financial support. Because at the initial stage of the establishment of retail outlets, the owners have to bear losses and therefore to remain in the market they must ensure the positive financial support from the available source. Now the recent cut in the lending rates is a good opportunity for new entrants to do businesses in retailing. However, retailing does not boost GDP by itself. It is merely an intermediate value adding process. Therefore, unless goods are manufactured there can never be an opportunity in developing in contribution retail to GDP. As per the report of Investment Commission of India the following can be referred in favour of retailing in India:

- The high growth projected in domestic retail demand will be fuelled by:
- the migration of population to higher income segments with increasing per capita incomes
- an increase in urbanization
- changing consumer attitudes especially the increasing use of credit cards
- the growth of the population in the 20 to 49 years age band
- There is retail opportunity in most product categories and for all types of formats
- Food and Grocery.
- Home Improvement and Consumer Durables: Over 20% p.a. CAGR estimated in the next 10 years.
- Apparel and Eating Out: 13% p.a. CAGR projected over 10 years
- Opportunities for investment in supply chain infrastructure: Cold chain and logistics
- India also has significant potential to emerge as a sourcing base for a wide variety of goods for international retail companies

The following table can be drawn in the line of the above analysis:

Fig: 1



Source: *EIU, AT Kearney Analysis*

Table: 6

Improvements	Effects
Rapid growth in income	Consumers have greater ability to spend
Increase in Urbanization	Larger urban population which values convenience coupled with higher propensity of the urban consumer to spend
Increase in young generation	Growth of post liberalization maturing population with the willingness to spend
Tendency to spend now v/s save earlier	Consumers willing to borrow for current consumption

Conclusion:

Growing acceptance among consumers, increasing price competition and need for differentiation among retailers and lastly the ability to offer higher margins are the key factors contributing to the growth of private labels. Private labels enable the retailer an ability to offer a significant price advantage in the form some discounts to consumers since the private label prices is 16-32% lower as compared to manufacturer brands. The Indian retailers are of no excluded from the implication of global trend. Today Indian consumers are highly value conscious. In most cases the consumers wish to spend money, but remains cost conscious, evaluating every rupee spent. *"Survival of the fittest"* is the concept in the new regime of competitive environment today. To remain competitive in the market the retailers must offer price advantage to attract customers. In conclusion, the retail market is the next growth frontier for corporate India. It offers an opportunity for a large player to build highly customized retail businesses consist of multiple categories by 2015. The revenue of the largest Indian retailer Pantaloon was only Rs 1085 Cr in 2005. Traditional outlook of Indian economy is under a radical change. All sectors both public and private are receiving much attention from around the globe. No wonder large domestic business houses and international retailers have expressed keen interest to enter the retail sector in India. However, to capitalize the opportunity, a player needs to be aggressive in its outlook and build scale quickly.

Reference:

1. www.Indiaretailbiz.com
2. www.India-reports.com
3. TATA Strategic Management Group Analysis.
4. www.rai.net.in
5. Economist Intelligence Unit (EIU), AT Kearney Analysis.
6. www.indiaretailbiz.com.
7. www.india-reports.com
8. Investment Commission of India.
9. A CII report on "Retail in India: Getting organized to drive growth".
10. FDI in India's Retail Sector More Bad than Good? By Mohan Guruswamy Kamal Sharma, Jeevan Prakash Mohanty, Thomas J. Korah.❑

Skimming Pricing Trend in Retail Marketing

To move a product from seller to buyer is not an easy task. We have to utilize some strategy which may be old or new. Here I am discussed about pricing strategy particularly skimming pricing. This Skimming pricing strategy is used by Computer Industries, Television Industries, Xerox services and Telephone services. In my opinion, Future expectation is also predicted as revolutionary stage and the outcomes of future also explained in this paper. Our India's Ex-president Mr. Abdul Kalam, who is born in Tamil nadu, wrote a book named India 2020. This is my article on India 2020.

R Gopal*

Introduction:

In this competitive world, to move a product from seller to buyer is not an easy task. We have to utilize many strategies to win this competitive world. Marketing strategies are so much and there is no limit. The various strategies are product strategy, customer strategy, competitor strategy, branding, pricing, advertising strategy, distribution strategy etc. Out of the various strategies, I am select, the pricing strategy which plays substantial role, individually in marketing of a product. Out of pricing strategy, I am selecting this **Skimming Pricing Approach,** which various companies are followed to boost up their sales in the competitive world in recent scenario. Chances are too much to continue this approach in future also.

Skimming Pricing: Policy of higher prices is fixed; during early period of product is existence, due to high promotional expenditure. On later years, to cope up with competitors attack, the prices can be gradually reduced. Earlier stage of reducing sales is increased gradually /substantially.This skimming pricing approach is adopted by various industries. Out of those I will select Television and computer for Manufacturing Industry and Tele communication and Xerox for service oriented units. Future expectation on the above products/ services is also discussed here.

Television Manufacturing Companies:

Now television is available to all house's reception hall. It is a only dominated entertainment to people in their life. Once upon a time it is luxury but now, it becomes essential. We can't see a house without Television.

I will select 29 Inch Colour Television for Comparison.

Computer Manufacturing Companies :

Now I am select computer which plays tremendous role in business, personal, communication and education now-a-days. Manual work load was decreased/ reduced by computers now. Hard copy maintenance charges are also reduced, as all are soft copy. Analysis regarding computers is as follows.

Telecom Services: Now I shall prefer telecom services, which becomes essential in the life of human, bears this skimming pricing policy, is explained below. For comparison call charges to **Delhi** per minute is considered. (From Any place of Tamil nadu to New Delhi)

Xerox Services: Now a days Xerox services will play a tremendous revolution in our life. With in a town/ city/ Metro city, we find too much of Xerox shops. Adoption of skimming pricing is applied here also.

Year	Residence having 29" color TV	Price (Rs.)	Technology	Reactions
1987	0%	N.A	-----	Many customers are expected
1991	Below 1%	60,000	1 channel, as no Private channel Launched.	Very poor sales, as this TV is not available for sale at Indian market. Only very few customers are imported
1996	About 5%	40,000	50 channel, only few private channels	Offer arises gradually in Indian market. So Foreign TV companies entered in India
2001	20%	25,000	100 channel	Sales picked up substantially
2006	50%	15,000	200 channel	-only 29 inch TV is moved with minimum advertisement.
2008	75%	13,000	300 channel	Dish TV & DVD Free

See: Technology is increased every year, but price is reduced.

Year	Price(Rs)	Technology	Reactions
1987	60000	Low speed Black and white monitor	Poor response
1991	50000	Speed increased but monitor is black &white	Sales begins
1996	40000	LAN/WAN attached with color monitor	Sales increased
2001	30000	Modem , Internet ,colour Monitor and Floppy is used. KB capacity	Sales developed tremendously
2006	20000	CD used ,MB capacity	Sales achieved move than expectation. Lop top is also sold
2008	18000	Pen drive used GB capacity	Laptop sales is increased Computers are available in most of the houses

Now, technology is increased every month but prices are reduced.

M.F.M., M.Phil., AICWA,

Future Expectation:

From the above discussion, I came to know that the technology is improved every year but prices are reduced every year to cope up with competitor's attack. In my opinion, I am expecting future by merging these two strategies and my expectations are as follows:-

1. Laptop computer with micro type built-in-printer with internet facility with other facility can be available at Rs10000/- expected in the year 2020.
2. Television can be available at SLATE model, just like transistor radio. All the private and government channel can be tuned at free of cost without any cable. Being it is easy to carry, students may watch UGC program and sports at anywhere. Senior citizens are concentrate their TV serials anywhere. Others may watch other programs. This facility is accommodated at slate model TV, which may be available at Rs10000 (cheapest) in the year 2020.
3. Camera attached cell phone with the facility of caller and receiver can see the faces at the monitor of cell phone. Caller and receiver are satisfied due to face-to-face talking. This facility can be available at cell phone even in Rs 1000/- which is expected at 2020.
4. Color Xerox can be available at Rs1/- per page may be expected during 2020.

These are my expectation by merging price reduction policy with technology improvement strategy. This REVOLUTION can be expected even in 2020. Our India's Honorable Ex-president Mr. Abdul Kalam, who is born in Tamil nadu, wrote a book, named India 2020. This is my article on India 2020.

Conclusion:

Many strategies are available to pickup a market. Apart from the above discussed we use some new strategy to protect our market .So that competitors may get astonished.

Year	Charges	Instances
1987	Rs.90	Persons having telephone connections are very few. Only Call Booking facility is available all-over India and STD facility is available at some places
1991	Rs.60	Due to Some Technology Improvement, Connections are increased STD is announced with computerized exchanges at whole India
1996	Rs.30	Due to liberalization policy, the connections are increased by BNSL. Cell phone is introduced at highest level of call rates
2001	Rs.15	cell phone connection is increased. Net connection, caller ID facility and other facilities are provided by BSNL. Private telecom services are introduced all over area
2006	Re.1	Camera attached cell phone, is alive with many facilities.
2008	Re.1	As too much of private companies are issued SIM card, with various schemes at cheap rates, BSNL introduced additional free SIM card for each post paid SIM card . Now BSNL increases its advertisement

Now, technology is increased but call- charges (price) are reduced.

Year	Xerox Charges (Black & White)	Instances
1987	Rs.2	We have to wait, at least one hour to get our copies
1991	Rs.1.50	Instant copiers are introduced , Reduction –Enlarge facility is available
1996	Re.0.60	Liquid Xerox bears poor Impression with kerosene smell and black shades. But Powder Xerox have good impression without any smell and black shades @Re.1
2001	Re.0.50	Good Impression without smell and black shades
2006	Re.0.40	Black and white copy is clear. Color Xerox will become Introduction stage @ Rs.50 per copy
2008	Re.0.35	Many college students are prefer this type of Xerox Now Color Xerox @ Rs.25 per copy

Retailing, A New Luminary & Cynosure of Business: A Corporate Outlook

Avik Ranjan Roy*

Definition and scope of retailing

The word 'retail' is derived from the french word 'retailer' meaning 'to cut a piece off' or 'to break bulk'. In simple terms, it implies a first-hand transaction with the customer retailing involves a direct interface with the customer and the coordination of business activities from end to end – right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

Retailing and the marketing mix

Retailing forms an integral part of the marketing mix and includes elements like product, place, price, people, presentation and promotion. Place relates to the distribution and availability of products in various locations.

Customers are first introduced to the product at the retail store. Organizations sell their products and services through these retail outlets and get feedback on the performance of their products and customers' expectations about them.

Retail stores serve as communication hubs for customers. Commonly known as the point of sale (pos)' or the point of purchase (pop), retail stores transmit information to the customers through advertisements and displays. Hence, the role of retailing in the marketing mix is very significant.

Global overview of retailing

With total sales of us$ 6.6 trillion, retailing is the world's largest private industry, ahead of finance (US$ 5.1 trillion) and engineering (US$ 3.2 trillion). Some of the world's largest companies are in this sector: Over 50 fortune 500 companies and around 25 of the asian top 200 firms are retailers. Wal-mart, the world's second largest retailer, has a turnover of US$ 260 billion, almost one-third india's GDP.

As many as 10% of the world's billionaires are retailers. The industry accounts for over 8% of GDP in western countries, and is one of the largest employers. According to the u.s. Department of labor, more than 22 million americans are employed in the retailing industry in over 2 million retail stores.

Key drivers of retailing in india

In the pre-liberalization supply-led market, the power rested clearly with the manufacturers. In today's demand-led market, it's the consumer who calls the shots. Over the last decade, there has been a significant evolution in the indian consumer, mainly due to the liberalization of the consumer goods industry that was initiated in the mid-eighties and accelerated through the nineties, combined with a growing consumerism driven by the media, new opportunities and increasing wealth. Although this change is most noticeable in the metros, it has affected consumers in smaller towns as well.

Many retail organizations have customer relationship management (crm) programmers that help find out about their customers' purchase patterns. This also enables them to design a comprehensive benefit package for them. Retail organizations like shoppers' stop have used customer loyalty programmers with success, increasing their active base of consumers and delivering innovative benefit plans for them. They also focus on getting a larger share of sales from the loyal base of consumers.

Recent format developments

New retail formats have begun to supersede conventional ones. Independent big-box multi-brand department stores have started selling footwear as a category, especially in metros and cities. Malls are another new shopping format that is growing rapidly in the metros. Many upcoming footwear retailers are obtaining space inside the mails as mall partners to take advantage of the ready footfalls available. For the existing independent bobcat stores it is expensive now to run campaigns and promotions to attain the required footfalls and expected conversion.

Merchandise presentation and visual merchandising

Bobcat pioneered the concept of show window displays in india with a style that was unique to the company. It was professionally managed, with an exclusive team handling the motif and the design. Every month the direction to decorate the show windows were given by a mailer prepared by special decorators. Sales personnel in each store were trained to be window decorators too. Recently, these windows had to be done away with because the company thought that they should follow the contemporary practice of free-access retailing, where all merchandise pairs are displayed in open shelves to enable customers to help

Research Scholar, Burdwan University

themselves. Remember, in india footwear is always tried on a footstool and bought after considerable service extended by the sales person personally. Free-access retailing may work when there is adequate space inside a store to move around. The effect of such 'pigeon-hole' free access is that they give an impression that they are bobcat's R-Pair outlets. What can now entice the customer into entering a bobcat store?

Answer:-

1) Store Planning

2) Location Planning-Type of Locations

Store design and the retailing image mix

The space mix

For the retailer space is money. The store has to be planned in such a way that it optimizes the selling area and minimizes the non-selling parts. The selling area is used to present the merchandise and the non-selling part is account for by circulation space, aisles, staircases, lifts, facilities, the back area, etc. The area in a typical department store is: selling area about 60%, circulation area 15% and back area 25%.

If the store has any extra area, it is given to concessionaires to complement the store offering mix and to de-risk space. Examples are Planet M in Shoppers' Stop, Planet Sports in Pyramid and Ways in Lifestyle.

In a garment retail store, planning the size of the customer segment is intercepted and there wardrobe mix of garments and accessories mapped. This then determines the number of styles and the range width of the category. Then a business plan is made based on the integration with space.

The selling space is then configured in terms of size and location of goods based on the mix of staple, convenience and impulse merchandise Staple Goods are the core USP of the store. These constitute about 55% of the store offering and are4 kept at the central and

The site selection format is furnished below as a specimen.

Address of the property	
Details of adjacent occupants- north, east, west, south	
Can the site be used commercially?	
Name & address of the title holder	
Is the site free of encumbrance?	
Are all relevant taxes paid and currently up to date?	
Is the site free of any civil suit?	
When was the building constructed?	
Total number of floors	
Other prominent facilities nearby	
Details of facilities space/parking space	
Revenue details / rate per sq. ft. / details of built- up to carpet space ratio / terms of contract (if JV or Lease)	

Location Selection Form

Area:

Location:

Nearby major landmark:

Detailed description of the premises:

Commercial / residential / high-street / mal / complex /retail destination outlet (specify)	
Total number of offices/buildings with a 50 to 100 meters radius	
Total number of offices/buildings within a 100 to 200 meters radius	
Any general stores / koruna / supermarket etc. within a one-km radius	
Any general store / koruna / supermarket etc. within a 2-km radius	

Details description of the building/location

Total number of floors	
Other prominent occupants	
Number of employees visiting companies / offices in the catchments of 1 km	
Number of flats/residents in a catchments of 1 km.	

Customer Flow:

During Weekdays:				
	Residents/People in transit	Students	Professionals	Other Please Specify
Lean Period				
Medium Period				
Peak Period				
During Weekends:				
	Residents/People in transit	Students	Professionals Other Please Specify	
Lean Period				
Medium Period				
Peak Period				
Total no. of footfalls expected				
Total no. of conversion into purchase expected in terms of % age				
Total estimated sales per day in that area				
Average expected value of purchase per customer				
Terms & Conditions discussed				

Prepared by: - **Approved by:-**

deeper ends of the store. This enhances visibility, since the customer has to pass through the entire store to reach them. The shirts and trousers section in department stores form the staple merchandise. Similarly, grains and sugar are the staples in a supermarket.

Convenience goods are no-fuss basic merchandise that constitute about 30% of the store and are bought in multiple units. These need to be in convenient locations in the store to ensure conversions. Undergarments and white basic cotton T-shirt in a department store are convenience merchandise.

Impulse purchase merchandise-which usually constitutes about 15% of the store and has the highest of sale-is given maximum exposure in order to tempt the customer into buying them. Candies in a supermarket and socks and hair accessories in a fashion store are impulse purchase items and are kept near the cash counters and entrances/ exits. The customer picks them up after shopping for convenience and staple merchandise. The locations of various goods are chosen carefully to ensure that the customer is exposing to the entire store, thus increasing the possibility of a purchase.

Talking about space management and optimization in a retail store, Ajay Mehta, COO of Times Retail (Planet M) says: "Space management does not end with just optimization, but has a much larger opportunity for merchandise promotion and display which not only can profit for a retail organization but entertain and delight customers too".

Effective Retail Space Management

The sight of a good retail store with attractive windows and an enticing entrance induce the customer into entering. The customer enters the store and often keeps walking inside following the walkway wherever it leads, or sometimes takes a while to look for directions within the store. Sometimes the customer's attention is drawn to certain displays and merchandise presentation before he move on. To reach his destination inside the store, the customer tends to follow directions to reach there, especially in a big-box format. Seldom does he realize that subconsciously he is directed to 'walk' the entire store and thus exposing him to all that the store has to offer. This is achieved through a well thought-out and laid-out retail floor design.

Effective retail floor space management is critical to the successful operation of a retail store, as more and more sales from the same space would lead to increased margins for the organization. According to R. Siam, CEO of Crossword: "Space planning is integral to the success of any retail store since the biggest investment in retail is in space".

Let us now look at the ground rules for effective floor space planning and management. At the same time, let us get an insight into the customers' physical and emotional needs that contribute to store design conceptualization and space planning.

Store Layout: the Circulation Plant (The "Silent Guide")

Once inside the store, the customer needs to be guided silently to where he/she wants to go and also expose him/ her to the offering. This can be achieved by planning the circulation and the location of the merchandise.

Floor Space Management

One of the common problems in retail floor management in India is lack of attention paid to space productivity. Usually space productivity. Usually space productivity does not figure in the Key Result Areas of either the Store Operations or Buying and Merchandising departments. But ideally both should pay attention to this area. Store Operations, since it is responsible for reorders and replenishment, and Buying and Merchandising because it is accountable fro the Gross Profit Return (GPR) on the space occupied by the merchandise.

Parameters to Judge Space Performance

How the space performs can be judge by:

- The sales output and the ensuing margins.

- The inventory holding that leads to sales and the ensuing margins.

In a nutshell the performance parameters are sales and margins and their direct relationship to the stock holding on the retail floor.

- Sales per square foot, or top-line plan (sales): Here, space productivity is measured by sales volumes and value achieved per square foot per day.
- Margins per square foot or bottom-line plan (gross margin returns on footage, or GMROF): Here, space productivity is determined by the average inventory holding per square foot per day and how it measures against the ideal level of stock holding planned for a designed space in the store. Stock-turns in such designated space play a vital role in earning good revenue returns on the space occupied when they are optimized.

This space performance measurement can be done for any of the rungs in the SKU hierarchy: a department/ division, a category/class, a sub-category/sub-class, a brand and even for any style or size options.

Says G.S.M. Ghana, former Senior Vice-President (Retain) at Bata India Ltd: "One must analysis statistics of the value of merchandise and margins broken down to the space occupied by micro-groups of merchandise in the store. This will help retailers develop a blueprint for profitable deployment of especially in chain store operations. In addition, not only should merchandise categories be placed in the right locations that will maximize profitability but such placement should help attain uniformity for comfortable shopping by customers."

Space Audit: Non-treaded and Black Holes

Any successful retail store audits its space productivity from time to time. This audit looks at the various retail functions and activities for which space is employed and analyses returns in order to optimize them. It compares the performance of each function or activity with others in relation to space occupied.

Hot Spot Analysis: Hot spots are areas where the off take or merchandise is the highest. Similarly, there are warm spots and cold spots, where merchandise sales are lower. An analysis of these hot spot, warm spots and cold spots is made periodically and steps taken to convert cold spots to warm spots and warm spots to hot spots while retaining the best sales and the stock-turns of the spots.

Such audits reveal non-treaded space, where there in no customer traffic, and less treaded space which ha slow traffic. The possible reasons for these are analysis and hurdles and bottlenecks identified and removed to ensure that there are no non-treaded and black hole areas.

Efficiency of Selling Space to Non-selling Space: The utilization of selling and non-selling spaces-back area, facilities area, etc.-are periodically monitored for there efficiency in deliveries. A good retailer always aims to optimize selling space to improve the bottom-line, while taking care not to compromise on the efficiency of deliveries of the non-selling space.

Ground Rules for Successful Space and Layout Management

- Remember the golden rule of the retail floor space planning and management game-the convenience of the customer comes first.
- Provide the greatest opportunity for the customer to walk around the stores and browse through all the merchandise displayed, for it is the browsers who turn into buyers-buyers of a large basket size.
- Optimize the trading space to achieve maximum sales, while not neglected the non-trading area for customer convenience/concessions in order to ensure that they spend a longer time store and increase revenues.
- Make the right floor space management decisions after every space audit, effecting the necessary course-corrections on time as space costs a good deal of money.
- Appeal to all the five senses of the customer by creating an aesthetic and functionally effective ambience (which should eventually become the credo of a successful store) so that you can cling to the mind-space of the customer and Bering him back to the store again and again. Remember, a retail floor designed, planned and managed well with the target customer in mind helps to make an emotional connection with the buyer.

Retail Merchandising

The term 'merchandising' is unique and exclusive to the retail industry. It refers to the entire process of inventory planning and management in a retail organization. Merchandising, when done properly, leads to an increase in the return on investment (ROI). The greater the ROI, more the profitability.

Merchandise Planning

For a retailer, the objective of merchandise planning is clear: achieving the following seven 'RIGHTS'

The Right Product

The Right Place

The Right Quantity

The Right Quality

The Right Price

The Right Mix or Assortment

The Right Time

In order to satisfy every customer's needs, the retail store must have the right product in the right place, in the right quantity, with the right quality, at the right price, with the right mix of sizes or variants and at the right time. The function of merchandising is to achieve all these 'rights' so that sales are high with an ideal level of inventory holding and thus more profits.

Merchandise Hierarchy

While planning the merchandise mix, a retail organization has to start with a clear definition of its merchandise hierarchy. The merchandise hierarchy is a disciplined way of grouping the merchandise mix at different levels, starting from a high-level grouping to the lowest level of the stock-keeping unit (SKU).The merchandise hierarchy forms the platform needed to create the store's merchandise mix. The merchandising for the store dictates the different divisions and the lower rungs that the store must have in the hierarchy.

Building the store's merchandise mix by following the concept of merchandise hierarchy has its advantages:

(a) One can define in terms of ratios the mix of elements at each level of the hierarchy.

(b) One can analyze and drill down through the rungs of the hierarchy to the problem areas, if any up to SKU level.

(c) One can remove or add elements following security escalations. This means if the store's merchandise decisions have to be taken based on the performance, say, of the millions of SKUs contributing to the formation of the merchandise pyramid for the store – the peak being the divisions – decisions at the lower rungs can be taken by front-line personnel. Those at the higher levels, which would impact the merchandise proposition /

image of the store, can be taken by the higher-ups.

SKU: To use an example (see Fig. 12), a 410-size white shirt of solid design at the price-point of Rs. 750 (all options in the last level) having a button-down collar of the Arrow brand in the full sleeves sub-category or sub-class of the shirts category belonging to the men's department of the apparel division in a organization is an SKU. The levels in the merchandise hierarchy may be different for various products categories. For instance, in a supermarket, the levels may be:

Divisions:	Food
Department:	Packaged Food
Category:	Sauces
Sub-category:	Tomato
Brands:	Magi
Options:	250g, 500g, 1kg.

Range Planning: The first step in the process of range planning is merchandise assortment planning. This is a mix in percentage terms at every rung of the store's merchandise hierarchy.

The first element in the merchandise plan is the Strategic Plan. This is normally taken at the high level and used to set out the critical success factors for merchandising in terms of sales, margins and stocks.

A category-level margin plan is also created to plan the gross margins that each level (up to the SKU level) contributes to the store. The definition of the merchandise and the assortment planning based on the hierarchy levels help in analyzing weekly sales, stock and intake plan etc. at the category, sub-category, brand or SKU levels. With this, one can also identify any problems in sales or inventory holding at any levels and take corrective action. It is here that Open to buy (see 'The Buying Function' below) is planned in the process of buying. This is normally the first significant success factor in the implementation of the planning process.

Example of an assortment of shirt 20 pieces in stock:

Small / 2, Medium / 6, large / 7, Extra Large / 4, Extra Large / 1 = 20 pieces

Such an assortment plan helps replenish items to the store stock after they are sold by establishing minimum and maximum levels of stocking units. For instance, in the above example if the assortment ratio is planned as per the planned stock-turn for the store as 20 pieces, then the maximum stocks that are available in the SKU can only be 20. The replenishment trigger can be planned so that it is set off when the stock reaches a minimum specified level after sales. Another way of planning replenishment – which is done generally in high-turnover categories – is to trigger off reorders as and when the merchandise is sold with a cap on the maximum stock holding.

Pangram: There is another type of Assortment plan that is emerging now. It is a graphical range plan called the pangram. This short of plan moves away from the purely numerical type of planning that has been used until now and allows the range to be put together in a visual way. Typically digitally stored images are manipulated into collage-type storyboards. Space planning software packages like that of AC Nielsen support such graphic base stock mapping, which helps in easy replenishment planning and effective store space utilization.

Thus merchandise assortment planning and base stock – numerical and visual-numerical methods respectively – enable one to take account of the space utilization in a store by calculating the Return on Space Employed or Returns on Footage.

The Buying Function

Buying for a retail organization is a critical function of merchandising. The process begins with the preparation of the buying plan, called 'Open To buy' or OTB. It is helps retailers project and control future buying so that the flow of merchandise in the store matches anticipated sales at desired stock turn rates to give a positive cash flow.

For organized buying one need to follow the OTB planning, since it prevents over-buying, eliminates confusion and enables the organization to make more profits.

So what exactly is OTB? OTB refers to merchandise budgets for purchase during a certain period of time for which the stocks have not yet been ordered. It is also the process of forecasting sales and purchases. OTB is a planning tool that assists in setting budgets for sales and merchandise inventory levels and in monitoring the current status of the OTB amount, which is the amount remaining to be ordered to meet the budget.

Every retailer needs to use an OTB plan, as most tend to overstock when sales increase and under stock when they are low. Often a small increase in sales leads to excessive buying that ultimately affects the retailer fix the ideal amount of stock that should be on hand at the beginning of any given month and the quantum of new merchandise to be received during the month.

Ann efficient OTB plan has the following elements:

a) Forward Sales Planning (Sales Forecast): The sales plan ought to be prepared for the entire year with month-wise details of planned sales. A good OTB plan helps one to react to variations in sales plans (as the current month comes to an end), reschedule deliveries and cancel or alter purchase orders for future deliveries, as the case may be.

b) Forward Cover: This is based on the planned stock turns for the retail out fit. Form instance, if the planned stock turns for the store is four times in a year, and then the ideal stock holding at any point in time should be equivalent to three months' stock cover.

c) Stock Required: This is based on the forward cover planned month is month 1, then the stock required will be the sum of the planned/forecast sales of months 2, 3 and 4.

d) Opening Stock: The value of the opening stock is a flow calculation. In OTB planning, the first entry is an estimate. From the second month onwards, the opening stock is the closing figure of the previous month.

e) Intake Requirement: This is the difference between the required stock and the opening stock.

f) On Order: These are stocks that have been already ordered and due for delivery during the relevant period.

g) Open to Receive: This figure is arrived at by deducting the stock on order, if any, from the intake requirement. This figure indicates the OTB quantity.

h) Closing Stock: To arrive at this figure, one needs to take the opening stock, subtract the sales, and add the on-order and open-to-receive quantities.

Of working capital that needs to be employed in inventory from month to month.

(2) It helps ensure the right inventory level to support planned sales and to attain the best Gross Margin Return on Inventory (GMROI).

(3) The OTB plan places restraints on merchandise commitments so that the stock receives the right merchandise at the right time and not before or after.

(4) It enables a continuous flow of fresh merchandise into the store month after month during the seasons.

(5) The OTB plan establishes goals so that the actual performance can be compared with the plan and corrective action taken inn the

Advantage of an Open to Buy Plan

The OTB plan enables retailers to estimate in advance the amount

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Forecast Sales	1000	1500	2000	1500	1000	1000
Months Forward Cover	3	3	3	3	3	3
Stock Required	5000	4500	3500	3000	3000	3000
Opening Stock	2000	5000	4500	3500	3000	3000
Intake Requirement	4000	1000	1000	1000	1000	1000
On Order	2000	1000				
Open to Received-OTB	2000	0	1000	1000	1000	1000
Closing Stock	5000	4500	3500	3000	3000	3000

Table 5: A Model OTB Plan

required areas.

(6) Above all, an efficient OTB plan provides the organization more opportunity for profit.

Retailers who follow a well-formulated POTB plan are successful in their merchandising and buying efforts. The merchandise management system employed in the organization generally support such statistical techniques in the OTB plan, but it is the buyer's insight and decision-making capability that help deliver best result.

Markups and Markdowns in Merchandise Management

Markup is the percentage amount (calculated on cost) added to cost in order to arrive at the maximum retail price for a product. Hence,

Markup = percentage of margin calculated on cost added to arrive at the maximum retail price.

Cost = Maximum Retail Price – Margin

Margin = Maximum Retail Price – Cost

Maximum Retail Price = Cost + Markup

Markup is based on cost and is expressed in percentage terms.

Problem: What is the markup percentage for a dress that cost Rs. 200 and retails for Rs. 400?

Markup % = Difference between MRP and cost (Rs.400 – Rs.200) ÷ Cost (Rs.200) x 100

= Rs.200 ÷ Rs. 200 x 100

= 100%

Sometimes the retailer needs to look at the cost of an item and determine what that item should retail for It is fixed if the target customer is willing to pay that price. Markdown is the amount reduced from the maximum retail to arrive at the new retail price. Markdown is calculated as a percentage of MRP.

Problem: What is the markdown percentage for a dress whose original MRP is Rs. 400 and the new retail price after markdown is Rs.200?

Markdown % = Difference between old MRP and new MRP after markdown (Rs.400 – Rs. 200) ÷ old MRP (Rs. 400) x 100

= Rs. 200 ÷ Rs. 400 x 100

= 50%

Markdowns are done when product sales low are or when the season draws to a close and the product line needs to be cleared from the shelves. Merchandise is also marked down when inventories are high, when saleable merchandise is shop-soiled or when certain price–off promotions are done. Markdowns are also affected when products that have manufacturing defects but are still saleable are found at the floor level. It is essential that the markdown percentage is kept at the lowest, as it directly affects the returns on gross margins in a retail store.

The Current Scenario in India

Retailing in India is plagued by weak gross margins compared to those in global retailing. While apparel retailers manage to get gross margins of 30-33% after struggling a great deal with vendors and brand markets the food sector has to settle for just 15-19%.

Contd. on Page 541

Relating Supply Chain Management and Information and Communication Technology: Challenges

The paper's purpose is to provide a motivation for investigating the relationship between supply chain management (SCM) and information and communication technology (ICT), to describe associated theoretical and practical problems. Design/methodology/approach – The paper is partly based upon a short literature review. Findings – An important finding is that the relationship and integration of SCM and ICT are strongly intertwined with managerial and organizational theory related issues. Research limitations/implications – The paper suggests three possible avenues for building theory in the joint field of SCM and ICT on the one hand and organizational theory on the other hand. Practical implications – Implicitly the paper argues for a better use of organizational and managerial insights to increase the usage and implementation of ICT in the context of SCM. Originality/value – The paper offers a research agenda for incorporating organizational theory to develop the integration of SCM and ICT.

D. Ghose*

We are in the midst of a swiftly moving river of technology and business innovations that is transforming the global business landscape. It is more than obvious that the introduction of new technologies in Information and Communication (referred to as ICT) has changed our lives, privately and professionally. Also the way business is conducted has changed through the introduction and widespread use of ICT. An entirely new business culture is emerging with profound implications for the conduct of the business. We can see everyday by observing how business people work using high sped Internet connections for email and information gathering, PC connected to the wireless networks, cellular telephones connected to the Internet, and hybrid handheld devices delivering phone, Internet and computing power to an increasingly mobile and global workforce. On one hand, applications of ICT have resulted in many new business models often put under the umbrella of "new economy" or more accurately the dotcom boom. Some of these have resulted in stable companies, like Amazon, Dell, Wal-Mart and so on. On the other hand, ICT has resulted in a plethora of new tools that might support operations management and supply chains. Virtually no large business exists without having some type of ERP system or using EDI; email and internet are common for almost every company; while new technologies such as RFID emerge.

Lecturer, Department of Business Administration, Assam University, Silchar, India. Email: debomalya_bemba@sify.com

Although the effect and influence of ICT both as an inspiration for new business and as an enabler of a fast flow of information to support operations and supply chain management is clear, we still know relatively little about the relationship between supply chain management (SCM) and ICT. As an almost superficial example: textbooks in operations management still like to explain the basic principles of MRP in great detail, whereas the above developments are discussed only briefly. In line with that remark, Reynolds (2000) noted that academic research in this area is lagging behind, and Cullen and Webster (2007) stress that specifically the operational aspects have been ignored. Bozarth (2006, p. 1224) signals that the OM literature does "rarely take full advantage of the constructs and models contained in these works [the MIS literature]".

The aim of this paper is to bring together perspectives from these two fields that seem to be developing in different directions, whereas more interdisciplinary empirical research would be beneficial. Pertinent questions that need to be answered, if we look from an SCM perspective, are: what type of ICT fits to the characteristics of specific supply chains (e.g. type of products, complexity of the chain, organizational types)? What are the limits of information systems? What are new advancements in ICT and what is their relevance for SCM? How do information systems help in achieving supply chain integration? Is ICT one of the fields where technological determinism is paving the way for solutions that will never work? From an ICT perspective most of these questions are relevant as well, but probably have been even less rigorously investigated (if at all) than they have been in the OM literature.

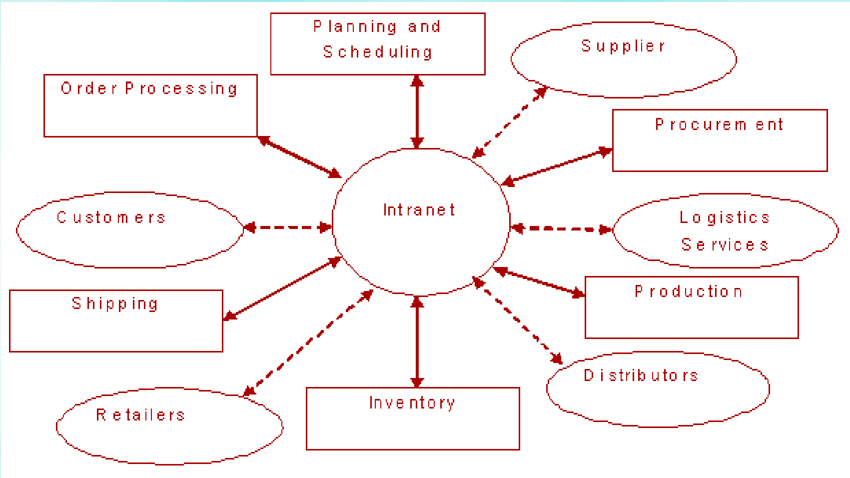
Information is a key supply chain driver because it serves as the glue that allows the other supply chain drivers to work together with the goal of creating an integrated, coordinated supply chain. Using IT systems to capture and analyze information can have a significant impact on a firm's performance.

It is important to develop a framework that helps a manager understand how this information is utilized by the various segments of IT within the supply chain. Enterprise software collects transaction data, analyzes these data to make decisions and executes on these decisions both within an enterprise and across a supply chain. Certainly other parts of IT beyond enterprise software, such as hardware, implementation services, and support, are all crucial to making IT effective.

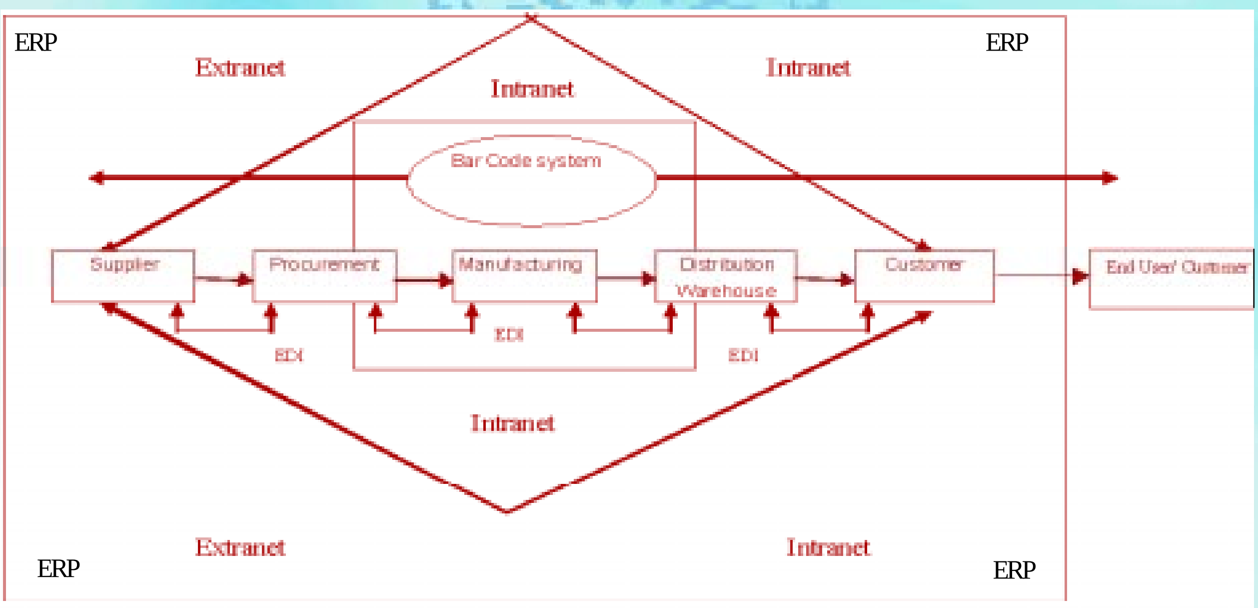
Within ICT research, considerable effort is put into the development of new systems and technologies, that should remedy most, if not all, problems of earlier systems and technologies. There also seems to be a disconnect between "theory" and "practice" in the field of SCM and ICT as much money is actually spent in purchasing, implementing, running and updating ICT in all its diversity, whereas at least in the SCM field, all of these aspects are hardly investigated and we do not know that much about effects, proper implementation and relevant factors to consider. Whereas we are frequently told that a seamless flow of goods and information is needed, we only acknowledge that "information distortion in a supply chain" (Lee et al., 1997) is a problem. We rarely investigate what is needed to develop and implement appropriate information systems nor do we study if information systems are capable of providing such seamless information flows. Sometimes it seems that pen-and-paper solutions, along with face-to-face communication, are still the most powerful approaches. Maybe, we should even investigate whether we need the paradigm of seamless flow of information, at all.

Asian Paints Portfolio of IT Products:

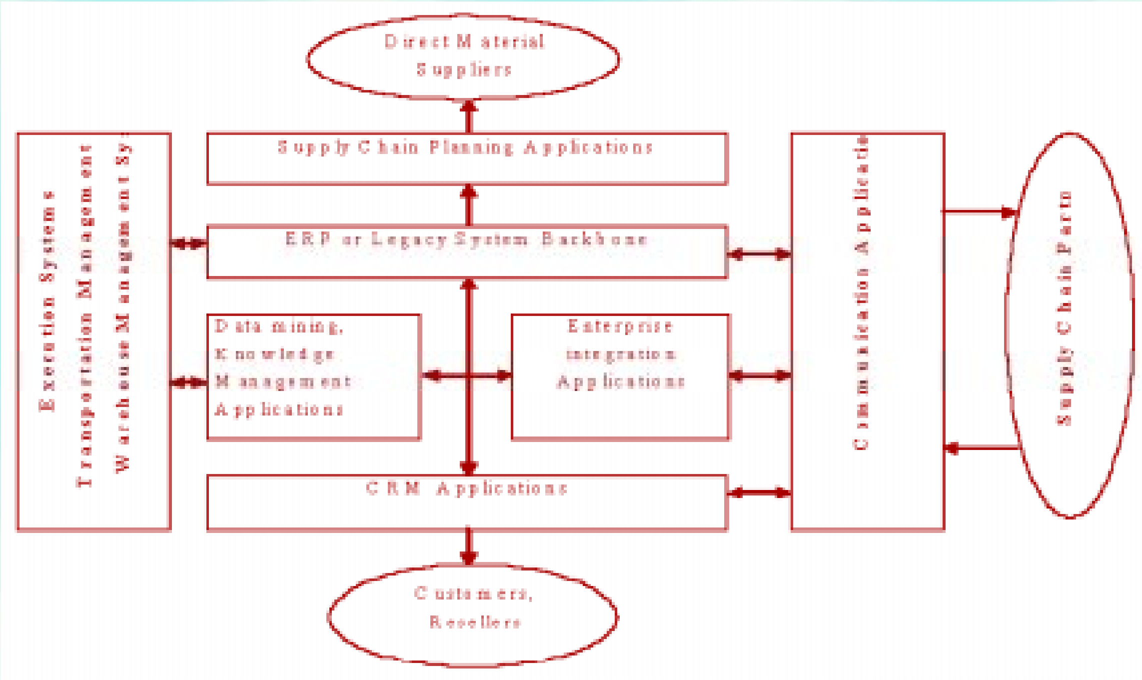
Asian Paints, the largest paint manufacturer of India manages its supply chain with a wide range of IT-



Intranets and Extranets For Supply Chain Management



Integrated ICT Solutions for Supply chain Management



Supply Chain Information System: integrated Modules

solutions. It has focused on top Operating Performance (TOP) for its supply chain excellence. Its IT portfolio includes world class solutions like SAP for the ERP, Optiva for CRM, Factory planner, Demand Planner and Supply chain planner from i2 and many more. Asian Paints has undertaken massive process redesign, standardization and benchmarking exercises to focus on process integration and compatibility of IT solutions.

(Source: Business line, paint still perceived a luxury product, 28 December, 2003.

http://www.apaints.com/AsainPaints.jsp)

Wal-Mart Stores Inc:

In January 2005, Wal-Mart went live with RFID technology and mandated its Use for its suppliers. At first, Wal-Mart had more than 100 suppliers tagging products. It now has more than three times that number involved, feeding RFID-tagged goods to 500 Wal-Mart facilities through five distribution centers. The company has raised the number of stores capable of handling RFID-tagged items to double to nearly 1000 in January 2007, with 600 suppliers employing the technology by then. The company has already seen a return on investment, such as out-of-stock items that are RFID-tagged being replenished three times faster than before, and the amount of out-of-stock items that have to be manually filled cut by 10%.

Recently, a considerable number of papers has addressed one or several issues related to the role of ICT in SCM. However, most of those papers grasp one specific aspect of ICT only: the use of inter-organizational information systems (Da Silveira and Cagliano, 2006), the use of EDI (Hill and Scudder, 2002), designing CPFR (Danese, 2007), the implementation/use of ERP (Wu and Wang, 2006), or the learning effects in on-line ordering (Kull et al., 2007) and hardly address the trade-offs between different types of ICT and/or the trade-off between ICT and other forms of information exchange. Carr and Kaynak (2007) recently also noticed this gap in the context of supplier development and subsequently develop an integrated model.

There is a common perspective to these papers, as each of them stresses the limitations of ICT usage as being influenced by organizational, strategic and/or behavioral aspects. The first paper by Bakker, Zheng, Knight and Harland offers an interesting perspective on the adoption of e-commerce in a healthcare setting. They show that the adoption of e-commerce is not only a matter of fit between characteristics of the supply chain and the type of e-commerce, but that the organizational context can play a decisive role.

The second paper, by Mortensen and Lemoine, discusses the usage and importance of ICT in the context of TPL-providers. Here, it seems that the usage of ICT, most commonly in the form of inter-organizational computer systems, has become a qualifier rather than an order winner.

The third paper by Ambrose, Marshall, Fynes and Lynch, shows that not only are the content of information and the frequency of information exchange important features, but that the interaction between human decision makers in a supply chain influences the selection of information channels and consequently of ICT, as well.

In line with the paper by Carr and Kaynak (2007), these three papers together indicate that a necessary condition for further understanding how and when integrating SCM and ICT might be effective, is to incorporate, as a third component, organizational theory and organizational context. Suggesting that integrating a third component is useful is, of course, not directly helping in better understanding the relationship between SCM and ICT, nor does it directly say how and where we can constructively apply organizational theory. In fact, it only adds complexity to a subject that is already problematic. Recently, Blackmon and van Donk (2007) suggest three propositions or directions that can be used to import organizational theory into operations management/supply chain management. The paper will briefly describe these three perspectives and explore how this might help in developing a research agenda for investigating the relationship between SCM and ICT that incorporates an organizational theory perspective.

The first perspective follows the often used argument that supply chains represent a new (unique) organizational form. Although it is hard to prove empirically, this idea is used as a conceptual metaphor. Applying organizational theory, now, is more or less straightforward as organizational theory applies to organizations. For ICT that would imply that we could go back to some early theory building that related organizational structuring and information systems (Galbraith, 1973). Theoretical frameworks such as those, can be helpful in understanding why the use and implementation of ICT in certain supply chains and supply chain forms is less beneficial than in others, or is even undesirable. Other forms of organizational theory in this perspective might be the use of metaphors such as the learning organization or organizations as social networks

The second perspective of Blackmon and Van Donk (2007) suggests that supply chain management can be seen as a specific organizational phenomenon and consequently organizational theory that explains other organizational phenomena can be used to explain and understand this one. Within this perspective we can differentiate between different types of SCM (e.g. a Third Party Logistics TPL-relationship is different from a buyer-supplier relationship), along with finding appropriate organizational lenses to investigate and understand such different forms. That, in turn, will help to develop theory to understand differences in use of ICT in different supply chain forms. It might help to further understand the use of inter-organizational information systems in the case of TPL (Mortensen and Lemoine, this special issue), as opposed to their use in buyer-supplier relationships as investigated in Da Silveira and Cagliano (2006), along with a deepened understanding of why different forms of SCM are used in these two distinctive situations.

The third perspective taken by Blackmon and Van Donk (2007) simply states that SCM is a type of management. Management theories can thus be used to identify and understand effective and ineffective managerial activities in the context of SCM and ICT. Rigorous research into this direction could help to resolve why implementing ERP systems and using them beneficially for managing the supply chain seems so problematic, and to understand why implementation plans seem to be rational and wise but are difficult to realize. It might also address issues, such as: who is responsible for a certain part of the chain and how is that reflected in the design of the ICT, or, what is a proper organizational and informational structure to manage a certain supply chain? Whereas the intention was to answer questions and increase our understanding of how to use and implement ICT in the context of SCM, this introduction can only end in concluding that more work along the lines above.

Still managers need to keep in mind several general ideas when they are making a decision regarding supply chain ICT.

1. Select an ICT system that addresses the company's key success factors.
2. Take incremental steps and measure value.
3. Align the level of sophistication with the need for sophistication.
4. Use IT systems to support decision making, not to make decisions.
5. Think about the future.

References:

1. Blackmon, K. and Van Donk, D.P. (2007), "Do we need organisation theory in supply chain management?", paper presented at the 2007 Annual Meeting of the Academy of Management, Doing Well by Doing Good, Philadelphia, PA, August 3-8.
2. Bozarth, C. (2006), "ERP implementation efforts at three firms: integrating lessons from the SISP and IT-enabled change literature", International Journal of Operations & Production Management, Vol. 26 No. 11, pp. 1223-39.
3. Carr, A.S. and Kaynak, H. (2007), "Communication methods, information sharing, supplier development and performance: an empirical study of their relationships", International Journal of Operations & Production Management, Vol. 27 No. 4, pp. 346-70.
4. Cullen, A.J. and Webster, M. (2007), "A model of B2B e-commerce, based on connectivity and purpose", International Journal of Operations &

Production Management, Vol. 27 No. 2, pp. 205-25.

5. Chopra, S & Meindl, P, "Supply Chain Management," Pearson education, Third edition, Delhi.

6. Christopher, Martin: Logistics and supply chain management, London 1992.

7. Christopher, Martin: Logistics and supply chain management: Creating value-adding networks, 3rd ed., Harlow 2005.

8. Clemons, Eric K., Sashidhar P. Reddi and Michael C. Row: The impact of information technology on the organization of economic activity: The 'move to the middle' hypothesis, in: Journal of Management Information Systems, Vol.10 (1993), No. 2, pp. 9-35.

9. Cleveland, Harland: Information as resource, in: The Futurist (1982), December, pp. 34-39.

10. Da Silveira, G.J.C. and Cagliano, R. (2006), "The relationship between inter-organizational information systems and operations performance", International Journal of Operations & Production Management, Vol. 26 No. 3, pp. 232-53.

11. Danese, P. (2007), "Designing CPFR collaborations: insights from seven case studies", International Journal of Operations & Production Management, Vol. 27 No. 2, pp. 181-204. Galbraith, J.R. (1973), Designing Complex Organizations, Addison-Wesley, London.

12. Hill, C.A. and Scudder, G.D. (2002), "The use of electronic data interchange for supply chain coordination in the food industry", Journal of Operations Management, Vol. 20 No. 4, pp. 375-87.

13. Kull, T.J., Boyer, K. and Calantone, R. (2007), "Last-mile supply chain efficiency: an analysis of learning curves in online ordering", International Journal of Operations & Production Management, Vol. 27 No. 4, pp. 409-34.

14. Kilger, Christoph and Boris Reuter: Collaborative planning, in: Stadtler, Hartmut and Christoph Kilger (Eds.): Supply chain management and advanced planning: Concepts, models, software and case studies (2nd ed.), Berlin Heidelberg New York 2002, pp. 223-237.

15. Kim, Soo Wook and Ram Narasimhan: Information system utilization in supply chain integration efforts, in: International Journal of Production Research, Vol.40 (2002), No. 18, pp. 4585-4609.

16. Kleinrock, Leonard: Information flow in large communication nets, in: RLE Quarterly Progress Report (1961), July.

17 Knolmayer, Gerhard, Peter Mertens and Alexander Zeier: Supply chain management based on SAP systems, Berlin Heidelberg New York 2002.

18. Lee, H.L., Padmanabhan, V. and Whang, S. (1997), "Information distortion in a supply chain: the bullwhip effect", Management Science, Vol. 43 No. 4, pp. 546-58.

19. Reynolds, J. (2000), "E-commerce: a critical review", International Journal of Retail & Distribution Management, Vol. 28 No. 10, pp. 427-44.

20. Wu, J-H. and Wang, Y-M. (2006), "Measuring ERP-success: the ultimate users' view", International Journal of Operations & Production Management, Vol. 26 No. 8, pp. 882-903.❑

Contd. from Page 536

The lifestyle garments and related accessory retailer Shoppers' Stop has four in-store private label brands that contributed approximately 25% to its turnover, growing 5% over the previous year. The private label of a Delhi-based apparel retailer Robyn Retail contributed approximately 21% to total sales last year.

I grocery, Food world's private label brands account fro around 21% of total sales. It is reported that the company plants to increase the share of its store brands to 27% of total sales by the time the first phase of the private label initiative is over. Food World expects to extend its private label brand to 38 sub-categories from the 22 it currently has.

Westside, the apparel retailing initiative from the house of Tatars, is a success story with a strategic approach to private brand retailing (approximately 80% to 85% of the merchandise retailed comprises its own brands). The store is said to be struggling in the area of men's apparel, which is truly brand-led, and is said to be contemplating accommodating a few 'must have' men's brands in its outlets in addition to its core private labels.

References:

References includes books as well as websites.

1) www.fibre2fashion.com/.../impact-of-retail-management-in-the-growth-of-indian-economy1.asp

2) www.fibre2fashion.com/industry-article/free-retail-industry-article

3) www.welingkar.org/welingkar/v1/Programmes/Inter Prg_ ret. asp?section=Programs

4) www.artrm.com

5) www.sap.com/industries/retail/index.epx

6) www.spjain.org/prog _ retai l_ mgmt.asp

7) www.rediff.com/getahead/2008/mar/05iycu.htm

8) https://www.accenture.com/Global/default.htm

9) www.andhrauniversity.info/retail/index.htm

10) www.servalrm.com❑

Supply Chain Management

Dr. M. K. Krishnaveni*
K. Kumuthadevi**

Introduction

Supply chain management (SCM) is the process of implementing and controlling the operations of the supply chain as efficiently as possible. Supply Chain Management spans all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption.The definition one American professional association put forward is that Supply Chain Management encompasses the planning and management of all activities involved in sourcing, procurement, conversion, and logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers.

Benefits of supply chain management

The supply chain management solutions provides the following benefits to organizations;

* Enables organizations to make better and informed decisions, such as forecasting demand and supply, through a better understanding of the supply chain processes.
* Streamlines business processes leading to increased productivity and improved performance
* Provides for faster response time thereby enhancing customer satisfaction.
* Global supply chain management systems enable real-time exchange of data and information between concerned parties in the supply chain network.
* Enables organizations to efficiently monitor status of inventories ensuring that orders for the right quantities are placed
* The movement of goods can be tracked at all times ensuring on time and safe delivery of products.
* A supply chain management solution helps in increasing inventory turnover resulting in reduced costs of products.
* Offers mechanisms for better and effective communication between supply chain partners
* Reduces paper work and administration costs as orders are placed and accessed electronically
* Reduces errors arising from the manual way for recording and tracking data and processes.

*Head of the Department of Commerce, Karpagam Arts and Science College, Coimbatore-21.
**Head of the Department of Commerce with Computer Application, Karpagam Arts and Science College ,Coimbatore-21. Email- krishnakumutha@rediffmail.com

Process of Supply Chain Management

Supply chain management combining these processes:

a. Customer service management
b. Procurement
c. Product development and commercialization
d. Manufacturing flow management/ support
e. Physical distribution
f. Outsourcing/partnerships
g. Performance measurement

a) Customer service management process

Customer Relationship Management concerns the relationship between the organization and its customers.Customer service provides the source of customer information. It also provides the customer with real-time information on promising dates and product availability through interfaces with the company's production and distribution operations. Successful organizations use following steps to build customer relationships:

- determine mutually satisfying goals between organization and customers
- establish and maintain customer rapport
- produce positive feelings in the organization and the customers

b) Procurement process

Strategic plans are developed with suppliers to support the manufacturing flow management process and development of new products. In firms where operations extend globally, sourcing should be managed on a global basis. The desired outcome is a win-win relationship, where both parties benefit, and reduction times in the design cycle and product development are achieved. Also, the purchasing function develops rapid communication systems, such as electronic data interchange (EDI) and Internet linkages to transfer possible requirements more rapidly. Activities related to obtaining products and materials from outside suppliers requires performing resource planning, supply sourcing, negotiation, order placement, inbound transportation, storage, handling and quality assurance, many of which include the responsibility to coordinate with suppliers in scheduling, supply continuity, hedging, and research into new sources or programmes.

c) Product development and commercialization

Here, customers and suppliers must be united into the product development process, thus to reduce time to market. As product life cycles shorten, the appropriate products must be developed and successfully launched in ever shorter time-schedules to remain competitive. According to Lambert and Cooper (2000), managers of the product development and commercialization process must:

1. coordinate with customer relationship management to identify customer-articulated needs;
2. select materials and suppliers in conjunction with procurement, and
3. develop production technology in manufacturing flow to manufacture and integrate into the best supply chain flow for the product/market combination.

d) Manufacturing flow management process

The manufacturing process is produced and supplies products to the distribution channels based on past forecasts. Manufacturing processes must be flexible to respond to market changes, and must accommodate mass customization. Orders are processes operating on a just-in-time (JIT) basis in minimum lot sizes. Also, changes in the manufacturing flow process lead to shorter cycle times, meaning improved responsiveness and efficiency of demand to customers. Activities related to planning, scheduling and supporting manufacturing operations, such as work-in-process storage, handling, transportation, and time phasing of components, inventory at manufacturing sites and maximum flexibility in the coordination of geographic and final assemblies postponement of physical distribution operations.

e) Physical distribution

This concerns movement of a finished product/service to customers. In physical distribution, the customer is the final destination of a marketing channel, and the availability of the product/service is a vital part of each channel participant's marketing effort. It is also through the physical distribution process that the time and space of customer service become an integral part of marketing, thus it links a marketing channel with its customers (e.g. links manufacturers, wholesalers, retailers).

f) Outsourcing/partnerships

This is not just outsourcing the procurement of materials and components, but also outsourcing of services that traditionally have been provided in-house. The logic of this trend is that the company will increasingly focus on those activities in the value chain where it has a distinctive advantage and everything else it will outsource. This movement has been particularly evident in logistics where the provision of transport, warehousing and inventory control is increasingly subcontracted to specialists or logistics partners. Also, to manage and control this network of partners and suppliers requires a blend of both central and local involvement. Hence, strategic decisions need to be taken centrally with the monitoring and control of supplier performance and day-to-day liaison with logistics partners being best managed at a local level.

g) Performance measurement

Experts found a strong relationship from the largest arcs of supplier and customer integration to market share and profitability. By taking advantage of supplier capabilities and emphasizing a long-term supply chain perspective in customer relationships can be both correlated with firm performance. As logistics competency becomes a more critical factor in creating and maintaining competitive advantage, logistics measurement becomes increasingly important because the difference between profitable and unprofitable operations becomes more narrow. A.T. Kearney Consultants (1985) noted that firms engaging in comprehensive performance measurement realized improvements in overall productivity. According to experts internal measures are generally collected and analyzed by the firm including

1. Cost
2. Customer Service
3. Productivity measures
4. Asset measurement, and
5. Quality.

Functions of supply chain

Supply chain management is a cross-functional approach to manage the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and then the movement of finished goods out of the organization toward the end-consumer. As organizations strive to focus on core competencies and becoming more flexible, they have reduced their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other entities that can perform the activities better or more cost effectively. The effect is to increase the number of organizations involved in satisfying customer demand, while reducing management control of daily logistics operations. Less control and more supply chain partners led to the creation of supply chain management concepts. The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus improving inventory visibility and improving inventory velocity.

Several models have been proposed for understanding the activities required to manage material movements across organizational and functional boundaries. SCOR is a supply chain management model promoted by the Supply Chain Management Council. Another model is the SCM Model proposed by the Global Supply Chain Forum (GSCF).

Supply chain activities can be

grouped into strategic, tactical, and operational levels of activities.

Strategic

- Strategic network optimization, including the number, location, and size of warehouses, distribution centers and facilities.
- Strategic partnership with suppliers, distributors, and customers, creating communication channels for critical information and operational improvements such as cross docking, direct shipping, and third-party logistics.
- Product design coordination, so that new and existing products can be optimally integrated into the supply chain, load management
- Information Technology infrastructure, to support supply chain operations.
- Where-to-make and what-to-make-or-buy decisions
- Aligning overall organizational strategy with supply strategy.

Tactical

- Sourcing contracts and other purchasing decisions.
- Production decisions, including contracting, locations, scheduling, and planning process definition.
- Inventory decisions, including quantity, location, and quality of inventory.
- Transportation strategy, including frequency, routes, and contracting.
- Benchmarking of all operations against competitors and implementation of best practices throughout the enterprise.
- Milestone payments
- Focus on customer demand.

Operational

- Daily production and distribution planning, including all nodes in the supply chain.
- Production scheduling for each manufacturing facility in the supply chain (minute by minute).
- Demand planning and forecasting, coordinating the demand forecast of all customers and sharing the forecast with all suppliers.
- Sourcing planning, including current inventory and forecast demand, in collaboration with all suppliers.
- Inbound operations, including transportation from suppliers and receiving inventory.
- Production operations, including the consumption of materials and flow of finished goods.
- Outbound operations, including all fulfillment activities and transportation to customers.
- Order promising, accounting for all constraints in the supply chain, including all suppliers, manufacturing facilities, distribution centers, and other customers.

Issues on Supply Chain Management

Supply chain management must address the following problems:

- Distribution Network Configuration: Number, location and network missions of suppliers, production facilities, distribution centers, warehouses, cross-docks and customers.
- Distribution Strategy Including questions of operating control (centralized, decentralized or shared); delivery scheme (e.g., direct shipment, pool point shippingCross docking DSD (direct store delivery), closed loop shipping); mode of transportation (e.g., motor carrier including truckload, LTL, parcel railroad intermodal, including TOFC and COFC; ocean freight; airfreight); replenishment strategy (e.g., pull, push or hybrid); and transportation control (e.g., owner-operated, private carrier, common carrier, contract carrier, or 3PL).
- Information: Integration of and other processes through the supply chain to share valuable information, including demand signals, forecasts, inventory, transportation, and potential collaboration etc.
- Inventory Management: Quantity and location of inventory including raw materials, work-in-process and finished goods.
- Cash-Flow: Arranging the payment terms and the methodologies for exchanging funds across entities within the supply chain.

Supply chain execution is managing and coordinating the movement of materials, information and funds across the supply chain.

Conclusion

A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers. The conclude that the aim of supply chain management, to have the right products in the right quantities (at the right place) at the right moment at minimal cost, is translated into the interrelated issues of customer satisfaction, inventory management, and flexibility. Customer satisfaction is to a high degree dependent on the flexibility of the supply chain, i.e. its ability to respond to changes in demand. Flexibility is often imperfect because of long lead times, uncertainties, and unforeseen event. To counterbalance this lack of flexibility companies will keep inventories at various levels of the supply chain. Balancing the costs of imperfect customer satisfaction and holding inventory is a classic issue of logistics and supply chain management.❑

Corporate Brand Valuation – A Global Perspective

Financial evaluation and accounting procedures for brands have become subjects of intense debate. This is reflective of the importance of intangible assets in modern companies. The main purpose of valuing the brand is to determine the monetary benefit that accrues to the brand owner as a result of the brand. The valuation of brand is more concerned about its economic use. Economic valuation of brands are frequently done to serve the purposes such as setting royalty rates in licensing brands, evaluation of debt levels and risks, and estimating damages in trade marks disputes, etc. With the recent spate of mergers and takeovers there had been generated a pressing demand for review of accounting standards and regulations, so that not only acquired brands but also created brands are capitalized on the balance sheet.

Dr.M.Yadagiri*
R.Sridhar**

Introduction:

Brands are emerging as important strategic assets of the firms. Brand valuation can better explain the vast difference between the market value and the book value. Failure to value brands can affect the firm's rate of return and can create the lop-sided balance sheet. Moreover, there is an increasing realization among the CEOs that brands are the assets created by marketing people and one best way of recognizing marketing department performance is through brand valuation. Brand valuation helps a firm to evaluate its existing brands and initiate suitable strategic moves like weeding out non-performing brands, strengthening performing brands, brand acquisition, brand repositioning, etc.

*Professor & Head Dept of Commerce, Telangana University, Nizamabad-503175, AP. He can be reached at dr.yadagiri@yahoo.co.in.

** Lecturer in Dept. of Business Management, Ramappa Engineering College, Warangal-506001, AP. He can be reached at janusri0011@gmail.com.

Corporate India, too, on account of competitive pressures, threats of takeovers, desire to reveal true profits and position, etc. is recognizing the need of brand valuation. Some of the highly performing brands like Infosys, Wipro, Tata, etc., are getting their brands valued either internally or with the help of external brand experts.

Objectives of the study:

The present paper is an attempt of understanding the whole process of brand valuation, need, objectives and methods of valuations as used by Indian companies and international agencies like UK's Interbrand.

Financial Evaluation and Accounting for Brands:

Financial evaluation and accounting procedures for brands have become subjects of considerable interest. This intense interest in the subject has several technical, economic and fiscal aspects which especially reflect the discovery of the importance of intangible investments in modern companies and of the growth that a brand can generate. This aspect is gaining importance at international level as these are concerned with the financial information of large multinational corporations holding brands that are strong. However, there exist differences in the accounting procedures for brands and their position in the balance sheet from one country to another, which greatly affects the interpretation of the financial health of the companies. Besides this within the same country, the accounting procedures and regulations may be contradictory, thus creating certain possibilities which may be seized by certain innovating companies.

The reason for the interest in this subject is the large increase in the number of mergers and acquisition of companies worldwide. When one company is acquired by another, there exists a huge difference between the actual price paid and book value of net assets of the company. This difference is significantly more in case of companies which have strong brands and positive forecasts for growth. This difference is commonly known as goodwill, which is a measure of the financial markets positive attitude to the future of the company. For accounting purposes, the payment made by the acquiring company which is excess of the assets must lead to the inclusion in its balance sheet, so as to get a perfect match between these elements and the price paid. In the modern accounting system and norms goodwill must be allocated to the specific items that have created it. Brands, patents, know-how and databases are from this category. The difference between the price paid and book value of net assets of the company can be influenced by the various intangible and tangible assets. All these influencing assets have been depicted in the following figure:

Benefits of Brand Valuation:

The following are different types of tangible and intangible benefits of Brand Valuation:

Price Paid

Sources of the Gap: Intangible and Tangible Assets		Goodwill (Large meaning)
	Existing Goodwill	
	Brands	
	Patents	
	Technical Know-how	
	Data base	
	Equipment (economic value)	
	Buildings (economic value)	

Net assets (Book value)

Tangible Benefits:

a) **Merger & Acquisition:** It is of critical importance for an acquirer, as well as for the vender to understand and evaluate their real worth for negotiating the correct purchase consideration.

b) **Disposal:** The current focus on brands has led many companies to recognize that they cannot support properly all their brands or certain brands could be worth more to a third party than to their current owner. Brand evaluation technique can be used to judge which brand to dispose of and their possible economic worth to a third party.

c) **Licensing:** Brand licensing, either to third-parties or internally to its own subsidiary, is an increasingly common practice brand valuation assists in formulating this strategy.

d) **Fund Raising:** Brand valuation is playing an increasing prominent role in the area of fund raising, particularly from the public as brand represent robust asset against which to seek funds is much easier.

e) **Discount Rate:** Brand valuation reveals the robust strength and also assists in arranging the large funds at lower cost.

Intangible Benefits:

(a) **Enhances confidence:** Brand credibility shows the faith and confidence of public at large in the product; Valuation if reflected in the books of accounts further enhances the public loyalty to the product and hence becomes a force multiplier.

(b) **Indicator of effective utilization:** The investment in the brand building creates value in the reverse direction when compared to the capital expenditure. When the firm invest in capital expenditure it utilize the proportionate cost every year, which the firm write off in the form of depreciation or amortization, where as the expenditure in brand building is incurred to day and this expenditure is converted into valuable asset over a period of time. The expenditure is considered as revenue expense due to accounting and taxation provision which really is not so, hence, valuation gives the real affective worth, which has created over the years through brand building.

(c) **Credibility to the real worth:** If the firm valuate its brand only at the time of disposal it has a much lesser influence and will always leave a doubt of its real worth, in the mind of both the buyer as well as the seller where as if the brand is continuously valued has a different impact and gives much more creditability to the real worth.

(d) **Strategy development:** Companies are applying brand evaluation techniques in order to understand and manage their brands better. Brand evaluation involves a detailed examination of a brand from the view point of marketing, financial and legal prospective. It also examines the brand performance, prospective, market opportunity, and competition. Thus, it provides an excellent tool for strategy development.

Brand Valuation Methodology:

Recognisation of brands as assets has a long history. Perhaps, the interest in the financial evaluation of brands is a more recent phenomenon. The corporate world is in the wave of mergers and acquisitions which began in the 1980s and in which brands often playing an important role. Economic valuation of brands are frequently done to serve the purposes such as setting royalty rates in licensing brands, evaluation of debt levels and risks, and estimating damages in trademark disputes, etc. Thus, several consulting firms have proposed and developed a variety of methodologies to meet this demand for brand valuation and performed various services regularly.

Financial World annually publishes the estimates of the value of more than two hundred brands that are based on a simplified version of the Interbrand methodology. According to this methodology, a brand's value is taken to be the product of two variables;

1. Its annual net after tax profits, adjusted to exclude the earnings expected for an equivalent unbranded product and averaged over time, and
2. A discount rate reflecting the brand's strength.

The assessment process of brand strength takes the following seven factors into account:

1. Leadership: ability to influence the market.
2. Stability: capability to maintain a consumer franchise.
3. Market: vulnerability of market demand to changes in tastes or technology.
4. International scope: cross-national/ cultural potential.

5. Trend: long-term appeal to consumers.
6. Support: strength of communication.
7. Protection: security of the brand owner's legal or property rights.

Based on the above factors the brand's strength is determined which in return determines the appropriate multiplier. The greater a brand's strength, the higher it's multiple. Multiples range from six to twenty.

Methods of Brand Valuation:

The main purpose of valuing the brand is to determine the monetary benefit that accrues to the brand owner as a result of the brand. The valuation of brand is more concerned about its economic use. For accounting purposes, there are different methods of brand valuation, which are concerned with the measure of historical value of a brand, as opposed to the value it will generate in future. The following two are the popular methods of brand valuation:

- Historical Cost Method.
- Replacement Cost Method.

Historical Cost Method: The historical cost accounting approach is an accounting technique that values an asset for balance sheet purposes at the price paid for the asset at the time of its acquisition. The historical cost accounting is the situation in which accountants record revenue, expenditure, asset acquisition and disposal at historical cost: that is, the actual amounts of money, or money's worth, received or paid to complete the transaction.

Replacement Cost Method: An accounting system that values assets and liabilities according to their replacement cost rather than their historical cost. Replacement cost accounting incorporates the effects of changing prices and the resultant changing values of the items that are listed in a firm's financial statements.

Approaches to Brand Valuation:

The Brand Valuation approaches can be identified into the following two types:

- Economic Use Approach
- Potential Earnings Approach

Economic Use Approach:

This approach considers the economic value of a brand in current use to current owner. In other words, it considers the return that the owner actually achieves by owning the brand – now and in the future. Economic use valuations assume that brands provide their owners with security of demand. In the short run a manufacturer without a brand might enjoy the same sales, the same economies of scale, even the same premium prices as the manufacturer with a brand. However, the non-branded manufacturer could not rely on the same security of knowing that the brand's customers this year are likely to be customers of the brand next year, and for many years after that. This approach also depends on the accuracy of future sales and earnings projections.

Within economic use there are two approaches for the valuation of brands. They are:

- The Relief from Royalty Approach.
- The Earnings Split Approach.

The Relief from Royalty Approach: Under this approach the assumption is that a business does not own its trademarks but licenses them from another business at a market rate. Brand value under this method is the net present value of the royalty payments made for using the trademarks. This valuation methodology favors the fiscal authorities and the courts because they calculate brand value by reference to documented third-party transactions involving brands of equivalent strength in equivalent industries.

The Earnings Split Approach: In this approach the earnings above a break-even economic return on the tangible assets of the business are attributed to the intangible assets. The brand proportion of these intangible earnings is then estimated, generating a stream of earnings attributable to the brand. This approach of brand valuation is commonly used for most marketing purposes.

The following are five major components to the Earnings Split Approach:

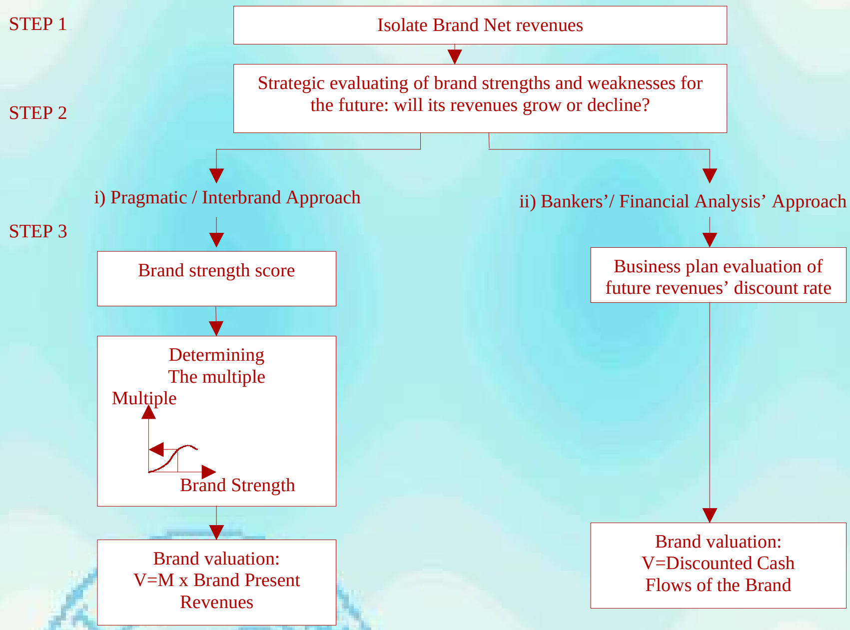
1. ***Market and Competitive Context:*** This identifies the overall dynamics of the market and the strength of competition.
2. ***Business Segmentation:*** Brand influence varies by line of business, customer and product type. Consequently, this step divides the business into segments, based on the role played by the brand.
3. ***Financial Forecasts:*** These are projections for the future earnings of each segment in the previous step.
4. ***Brand Value Added:*** This involves identifying the drivers of purchase decisions in each segment, and the impact exerted by the brand. The composite brand score across all drivers provides the proportion of total branded business earnings that can be attributed to the brand.
5. ***Risk Analysis:*** This assesses the strength of the brand's franchise with trade customers and end consumers to establish the security of future brand earnings. The result is a discount rate for the stream of earnings attributable to the brand.

In theory, both the forms of economic use should give rise to approximately similar valuations. But in practice, the Earnings Split Approach tends to produce higher values because it is generally based on a broader definition of brand, and because it allows for growth into new segments.

Potential Earnings Approach:

The need for the valuation of brands lies in the fact that they are considered as the most important assets of the organization. In this regard an asset is expected to generate revenues for the company. This approach to brand valuation is based on the expected profits of the brand. The process of valuing the expected profits of the brand can be divided into three independent stages which are exhibited in the figure below:

1. The first step involves separating and isolating the net income associated with the brand and not with the company.
2. The second step is to estimate the future cash flows. This requires a strategic analysis of the brand in its market or markets.
3. The third step involves choosing the suitable approach either by using multiple methods to determine precisely this multiple or a classic financial method of a discount rate and period.



Effectiveness of Brand Valuation:

Brand valuation assigns financial value to the name or image of a brand offering a comprehensive measure of equity for the organization. The brand's value, as a measure of success helps in estimating the effect of management decisions such as those generating short-term expenditures and long-term benefits. Brand valuation enables an organization in effectively discharging various functions such as:

- Brand valuation allows managers to appraise the efficiency of brand expenditures in terms of the increased value of the brand itself. The new role can be taken by accountants by helping marketing manager's measure performance in strongly branded companies.
- Brand valuation is another important accounting technique which may be more useful to marketing, which extents beyond a cost focus. Because of its comprehensiveness, it relates to outcomes and incorporates projections of future income and cash flows. This predictive information is important in assisting a firm with strategic brand management.
- Brand valuation provides management with a measure that allows an appraisal of the brand relative to the other assets of the organization.
- Brand valuation facilities a regular process whereby marketing professionals can help in alerting corporate strategists to the critical importance of the brand.
- Brand valuation techniques allow a company to deliver a consistent brand image. When the entire organization understands how brand value is ascertained, it will be easier to prevent actions that conflict each other or interfere with the overall brand strategy.
- Brand valuation will also aid managers involved in budget allocation decision making. Marketing budget allocation can be done on the basis of relative value of the brand in the portfolio.
- Brand valuation allows the use of a comparable measure, which helps in comparing the performance of managers of different products or in different geographic segments.
- Brand valuations are an ideal measure for tackling short term issues and help in determining the performance and rewards.
- Coordination of strategies among separate product managers by considering the combined effect on brand value for management of the separate product segments is possible through brand valuation.
- The brand value helps in determining inter-company transfer price.

Analysis of World's Most Powerful Brands Value:

Now, it proposed to examine the pattern and trend in the growth rate of brand value of world's most powerful brands, with a view to point out the progress of brand value. The relevant data to the study is presented in the following table:

Value of World's Most Powerful Brands:

No.	Brand Name	Country of Origin	Industry	Brand Value2004 (US $ m)	Brand Value2005 (US $ m)	Brand Value2006 (US $ m)	Brand Value2007 (US $ m)	Brand Value2008 (US $ m)
1	Coca-Cola	US	Beverages	67,394 (-4)	67,525 (0)	67,000 (-1)	65,324 (-3)	66,667 (2)
2	IBM	US	Computer Services	53,791 (4)	53,376 (-1)	56,201 (5)	58,709 (2)	59,031 (3)
3	Micro-Soft	US	Computer Software	61,372 (-6)	59,941 (-2)	56,926 (-5)	57,090 (3)	59,007 (1)
4	General Electric	US	Diversified	44,111 (4)	46,996 (7)	48,907 (4)	51,569 (5)	53,086 (3)
5	Nokia	Finland	Consumer Electronics	24,041 (-18)	26,452 (10)	30,131 (14)	33,696 (12)	35,942 (7)
6	Toyota	Japan	Automotive	22,673 (9)	24,837 (10)	27,941 (12)	32,070 (15)	34,050 (6)
7	Intel	US	Computer Hardware	33,499 (8)	35,588 (6)	32,319 (-9)	30,954 (-4)	31,261 (1)
8	Mc Donald	US	Restaurants	25,001 (1)	26,014 (4)	27,501 (6)	29,398 (7)	31,049 (6)
9	Disney	US	Media	27,113 (-3)	26,441 (-2)	27,848 (5)	29,210 (5)	29,251 (0)
10	Google	US	Internet Services	--	8,461 (--)	12,376 (46)	17,837 (44)	25,590 (43)

Source: www.interbrand.com/league_chart.html
Note: Figures in brackets indicate annual percentage growth.

The analysis of data reveals that in the year 2008, Coca-Cola of US Beverages brand value was highest with US $ 66,667 Million followed by IBM, Microsoft, General Electric of US, Nokia of Finland, Toyota of Japan and Intel, Mc Donald, Disney and Google of US brands during the period of review. As against these the Coca-Cola of US Beverages brand value in 2004 and 2005 was at US $ 67,394 Million and US $ 67,525 Million respectively. It was interesting to note that the Google brand of US Internet Services was made a significant progress, though it was entered in to the market very recently in the year 2005. However, Toyota brand of Japan Automotive industry, Nokia brand of Finland Consumer Electronics, Mc Donald brand of US Restaurants and General Electric brand of US Diversified have registered a regular and significant increase. Among all the worlds top most brands, US industries brands have been dominating during the period under review.

Conclusion:

Now-a-day's brands are emerging as important strategic assets of the firms. Financial evaluation and accounting procedures for brands have become subjects of considerable interest. Brand valuation assigns financial value to the name or image of a brand offering a comprehensive measure of equity for the organization. Brand valuation also helps in determining inter-company transfer price.

Reference:

1. David A. Aaker, Building Strong Brands (New York: Free Press, 1996).
2. David A. Aaker, Managing Brand Equity (New York: Free Press, 1991).
3. P. Barwise, Accounting for Brands (London: London Business School and the Institute of Chartered Accountants in England and Wales, 1989.)
4. Stephen J. Garone, Managing Reputation with Image and Brands (New York: The Conference Board, 1998).
5. P. Stobart, "Alternative Methods of Brand Valuation," in J. Murphy (ed.), Brand valuation (London: Business Books Ltd, 1991.
6. Chris Guilding and Richard Pike, "Brand Valuation: A Model and Empirical Study of Organizational Implications," Accounting and Business Research, summer 1994.
7. Jean-Noel Kapferer, Strategic Brand Management (New York: Free Press, 1992).
8. www.interbrand.com/league _chart. html.❑

Financial Reporting in Retail Sector

K.S.Muthupandian*

Retail sector has played a major role world over in increasing productivity across a wide range of consumer goods and services. The International Financial Reporting Standards (IFRS) brings significant changes to the retail sector's financial reporting. Global retailers do not yet have the necessary hindsight to ensure that the IFRS have been interpreted in a consistent, comparable way across the sector.

All the new IFRS will affect the retail sector, but the standards which are of particular relevance to the retail sector include:

IFRS 3, *Business Combinations*

IFRS 8, *Operating Segments*

IAS 2, Inventories

IAS 7, *Cash Flow Statements*

IAS 12, *Income Taxes*

IAS 16, *Property, Plant and Equipment*

IAS 17, *Leases*

IAS 18, *Revenue*

IAS 19, *Employee Benefits*

IAS 23, *Borrowing Costs*

IAS 24, *Related Party Disclosures*

IAS 27, *Consolidated and Separate Financial Statements*

IAS 28, *Investments in Associates*

IAS 31, *Interests in Joint Ventures*

IAS 33, *Earnings Per Share*

IAS 36, *Impairment of Assets*

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*

IAS 38, *Intangible Assets*

Following high level technical summaries of the IFRS would be useful to Retailers:

IFRS 3: The objective of IFRS 3, *Business Combinations*, is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about a business combination and its effects. The Core principle is - An acquirer of a business recognises the assets acquired and liabilities assumed at their acquisition-date fair values and discloses information that enables users to evaluate the nature and financial effects of the acquisition.

The salient features of IFRS 3 are:

- A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners, members or participants.
- The acquisition method is used for all business combinations.
- Steps in applying the acquisition method are:

1. Identification of the 'acquirer' – the combining entity that obtains control of the acquiree.
2. Determination of the 'acquisition date' – the date on which the acquirer obtains control of the acquiree.
3. Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest (NCI, formerly called minority interest) in the acquiree.
4. Recognition and measurement of goodwill or a gain from a bargain purchase.

- Assets and liabilities are measured at their acquisition-date fair values (with a limited number of specified exceptions). An entity may elect to measure NCI either at (a) fair value or (b) the NCI's proportionate share of the fair value of the identifiable net assets of the acquiree (option is available on a transaction-by-transaction basis).
- Goodwill is measured as the difference between:

– the aggregate of (a) the acquisition-date fair value of the consideration transferred, (b) the amount of any NCI, and (c) in a business combination achieved in stages (see below), the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree; and

– the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (measured in accordance with IFRS 3).

- If the difference above is negative, the resulting gain is recognised as a bargain purchase in profit or loss.
- For business combinations achieved in stages, if the acquirer increases an existing equity interest so as to achieve control of the acquiree, the previously-held equity interest is remeasured at acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.
- If the initial accounting for a business combination can be determined only provisionally by

*M.Com., FICWA and Member of Tamil Nadu State Treasuries and Accounts Service, presently working as Treasury Officer, Ramanathapuram District, Tamil Nadu. Email: ksmuth upandian@ymail.com/ ksmuthup an di an@gmail.comSummaries of IFRS relevant to retail sector

the end of the first reporting period, the combination is accounted for using provisional values.

- Consideration for the acquisition includes the acquisition-date fair value of contingent consideration. Changes to contingent consideration resulting from events after the acquisition date are recognised in profit or loss.
- In addition, IFRS 3 provides guidance on some specific aspects of business combinations including:
  - business combinations achieved without the transfer of consideration;
  - reverse acquisitions;
  - identifying intangible assets acquired;
  - pre-existing relationships between the acquirer and the acquiree (e.g. reacquired rights); and
  - the reassessment of the acquiree's contractual arrangements at the acquisition date.

IFRS 8: The objective of IFRS 8, *Operating Segments*, is to specifies the use of a 'through the eyes of the management' approach to an entity's reporting of information relating to its operating segments in annual financial statements, and also requires an entity to report financial and descriptive information about its reportable segments. The Core principle is - An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

The salient features of IFRS 8 are:

- IFRS 8 applies to the consolidated financial statements of a group with a parent (and to the separate or individual financial statements of an entity):
  - whose debt or equity instruments are traded in a public market; or
  - that files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.
- An operating segment is a component of an entity:
  - that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
  - whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
  - for which discrete financial information is available.
- Guidance is provided on which operating segments are reportable (generally 10% thresholds).
- At least 75% of the entity's revenue must be included in reportable segments.
- Some entity-wide disclosures are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services.
- Analyses of revenues and certain non-current assets by geographical area are required from all entities – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the entity's organisation.
- There is also a requirement to disclose information about transactions with major external customers (10% or more of the entity's revenue).

IAS 2: The objective of IAS 2, *Inventories*, is to prescribe the accounting treatment for inventories, including cost determination and expense recognition.

The salient features of IAS 2 are:

- Inventories are stated at the lower of cost and net realisable value (NRV).
- Costs include purchase cost, conversion cost (materials, labour and overheads), and other costs to bring inventory to its present location and condition, but not foreign exchange differences.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.
- For interchangeable items, cost is determined on either a First In First Out (FIFO) or weighted average basis. Last In First Out (LIFO) is not permitted.
- When inventories are sold, the carrying amount is recognised as an expense in the period in which the related revenue is recognised.
- Write-downs to NRV are recognised as an expense in the period of the write-down. Reversals arising from an increase in NRV are recognised as a reduction of the inventory expense in the period in which they occur.

IAS 7: The objective of IAS 7, Statement *of Cash Flows*, is to require the presentation of information about historical changes in an entity's cash and cash equivalents by means of a statement of cash flows that classifies cash flows during the period according to operating, investing and financing activities.

The salient features of IAS 7 are:

- The statement of cash flows analyses changes in cash and cash equivalents during a period.
- Cash equivalents include investments that are short-term (less than

three months from date of acquisition), readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value. Generally exclude equity investments.

- Cash flows from operating, investing and financing activities are separately reported.
- Cash flows arising from operating activities are reported using either the direct (recommended) or the indirect method.
- Cash flows arising from taxes on income are classified as operating unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign subsidiary is the rate in effect at the date of the cash flows.
- Aggregate cash flows relating to obtaining or losing control of subsidiaries and other business units are presented separately and classified as investing activities, with specified additional disclosures.
- Investing and financing transactions that do not require the use of cash are excluded from the statement of cash flows, but separately disclosed.

IAS 12: The objective of IAS 12, *Income Taxes*, is to prescribe the accounting treatment for income taxes.

To establish the principles and provide guidance in accounting for the current and future tax consequences of:

- the future recovery (settlement) of carrying amounts of assets (liabilities) recognised in an entity's statement of financial position, and
- transactions and other events of the current period that are recognised in an entity's financial statements.
- Current tax liabilities and assets are recognised for current and prior period taxes, measured at the rates applicable for the period.
- A temporary difference is a difference between the carrying amount of an asset or liability and its tax base.
- Deferred tax liabilities are recognised for the future tax consequences of all taxable temporary differences with three exceptions:

– where the deferred tax liability arises from the initial recognition of goodwill;

– the initial recognition of an asset/ liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or the taxable profit; and

– differences arising from investments in subsidiaries, branches and associates and interests in joint ventures (e.g. due to undistributed profits) where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

- A deferred tax asset is recognised for deductible temporary differences, unused tax losses, and unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, with the following exceptions:

– a deferred tax asset arising from the initial recognition of an asset/ liability, other than in a business combination, which, at the time of the transaction, does not affect the accounting or the taxable profit; and

– assets arising from deductible temporary differences associated with investments are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available to utilise the difference.

- Deferred tax liabilities (assets) are measured at the tax rates expected to apply when the liability is settled or the asset is realised, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.
- Deferred tax assets and liabilities are not discounted.
- Deferred taxes asset and liabilities are presented as non-current items in the statement of financial position.

IAS 16: The objective of IAS 16, Property, *Plant and Equipment*, is to prescribe the principles for the initial recognition and subsequent accounting for property, plant and equipment.

The salient features of IAS 16 are:

- Items of property, plant, and equipment are recognised as assets when it is probable that the future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.
- Initial recognition is at cost, which includes all costs necessary to get the asset ready for its intended use. If payment is deferred, interest is recognised.
- Subsequent to acquisition, IAS 16 allows a choice of accounting model:

– cost model: the asset is carried at cost less accumulated depreciation and impairment; or

– revaluation model: the asset is carried at a revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment.

- Under the revaluation model, revaluations are carried out regularly. All items of a given class are revalued.

- Revaluation increases are credited to equity.
- Revaluation decreases are charged first against the revaluation surplus in equity related to the specific asset, and any excess against profit or loss.

- When the revalued asset is disposed of, the revaluation surplus in equity remains in equity and is not reclassified to profit or loss.
- Components of an asset with differing patterns of benefits are depreciated separately.
- Depreciation is charged systematically over the asset's useful life. The depreciation method reflects the pattern of benefit consumption. The residual value is reviewed at least annually and is the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. Useful life is also reviewed annually. If operation of an item of property, plant and equipment (e.g. an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied.
- Impairment of property, plant and equipment is assessed under IAS 36.
- All exchanges of property, plant and equipment are measured at fair value, including exchanges of similar items, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

IAS 17: The objective of IAS 17, *Leases*, is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures for finance and operating leases.

The salient features of IAS 17 are:

- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples:
  - lease covers substantially all of the asset's life; and/or
  - present value of lease payments is substantially equal to the asset's fair value.
- All other leases are classified as operating leases.
- A lease of both land and buildings is split into land and building elements. Land element is generally an operating lease. Building element is an operating or finance lease based on the criteria in IAS 17.
- Finance leases – Lessee's Accounting:
  - asset and liability are recognised at the lower of the present value of minimum lease payments and the fair value of the asset;
  - depreciation policy is as for owned assets; and
  - finance lease payments are apportioned between interest expense and reduction in liability.
- Finance leases – Lessor's Accounting:
  - receivable is recognised at an amount equal to the net investment in the lease; and
  - finance income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
- Operating leases – Lessee's Accounting:
  - lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Operating leases – Lessor's Accounting:
  - assets held for operating leases are presented in the lessor's statement of financial position according to the nature of the asset; and
  - lease income is recognised on a straight line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
- Lessors spread initial direct costs over the lease term (immediate expensing prohibited).
- Accounting for sale and leaseback transactions depends on whether these are essentially finance or operating leases.

IAS 18: The objective of IAS 18, *Revenue*, is to prescribe the accounting treatment for revenue arising from sales of goods, rendering of services and from interest, royalties and dividends.

The salient features of IAS 18 are:

- Revenue is measured at the fair value of the consideration received/ receivable.
- Recognition:
  - from sale of goods: when significant risks and rewards have been transferred to buyer, seller has lost effective control, and amount can be reliably measured;
  - from rendering of services: percentage of completion method;
  - for interest, royalties, and dividends: when it is probable that economic benefits will flow to the entity.

Interest – using the effective interest method as set out in IAS 39, *Financial Instruments: Recognition and Measurement*.

Royalties – on an accrual basis in accordance with the substance of the agreement.

Dividends – when shareholder's right to receive payment is established.

IAS 19: The objective of IAS 19, *Employee Benefits*, is to prescribe the accounting and disclosure for employee benefits, including short-term benefits (wages, annual leave, sick leave, annual profit-sharing, bonuses and non-monetary benefits); pensions; post-employment life insurance and medical benefits; other long-term employee benefits (long-service leave, disability, deferred compensation, and long-term profit-sharing and bonuses), and termination benefits.

The salient features of IAS 19 are:

- Underlying principle: the cost of providing employee benefits is recognised in the period in which the entity receives services from the employee, rather than when the benefits are paid or payable.
- Short-term employee benefits (payable within 12 months) are recognised as an expense in the period in which the employee renders the service. Unpaid benefit liability is measured at undiscounted amount.
- Profit-sharing and bonus payments are recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.
- Post-employment benefit plans (such as pensions and health care) are categorised as either defined contribution plans or defined benefit plans.
- For defined contribution plans, expenses are recognised in the period the contribution is payable.
- For defined benefit plans, a liability is recognised in the statement of financial position equal to the net of:
  - the present value of the defined benefit obligation (the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods);
  - deferred actuarial gains and losses and deferred past service cost; and
  - the fair value of any plan assets at the end of the reporting period.
- Actuarial gains and losses may be (a) recognised immediately in profit or loss, (b) deferred up to a maximum, with any excess amortised in profit or loss (the 'corridor approach'), or (c) recognized immediately in other comprehensive income.
- Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies.
- For group plans, the net cost is recognised in the separate financial statements of the entity that is legally the sponsoring employer unless a contractual agreement or stated policy for allocating the cost exists.
- Long-term employee benefits are recognized and measured the same way as post employment benefits under a defined benefit plan. However, unlike defined benefit plans, actuarial gains and losses and past service cost are always recognised immediately in profit or loss.
- Termination benefits are recognised when the entity is demonstrably committed to terminating one or more employees before the normal retirement date or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

IAS 23: The objective of IAS 23, Borrowing *Costs*, is to prescribe the accounting treatment for borrowing costs.

The salient features of IAS 23 are:

- Borrowing costs include interest, amortisation of discounts or premiums on borrowings, and amortisation of ancillary costs incurred in the arrangement of borrowings.
- Two accounting models:
  - expense model: all borrowing costs recognised as an expense when incurred (no longer permitted from 1 January 2009); and
  - capitalisation model: borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset, but only when it is probable that these costs will result in future economic benefits to the entity, and the costs can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalisation are expensed when incurred.
- A qualifying asset is one that requires a substantial period of time to make it ready for its intended use or sale. Examples include manufacturing plants, investment properties and some inventories.
- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, a capitalisation rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) is applied to expenditure incurred during the period, to determine the amount of borrowing costs eligible for capita-lisation.

IAS 24: The objective of IAS 24, *Related Party Disclosures*, is to ensure that financial statements draw attention to the possibility that the financial position and results of operations may have been affected by the existence of related parties.

The salient features of IAS 24 are:

- Related parties are parties that control or have significant influence over the reporting entity (including parent entities, owners and their families, major investors, and key management personnel) and parties that are controlled or significantly influenced by the reporting entity (including subsidiaries, joint ventures, associates, and post-employment benefit plans).
- The Standard requires disclosure of:

– relationships involving control, even when there have been no transactions;
– related party transactions; and
– management compensation (including an analysis by type of compensation).

- For related party transactions, disclosure is required of the nature of the relationship and of sufficient information to enable an understanding of the potential effect of the transactions.
- Examples of related party transactions disclosable under the Standard:

– purchases or sales of goods;
– purchases or sales of assets;
– rendering or receiving of services;
– leases;
– transfers of research and development;
– transfers under licence agreements;
– transfers under finance arrangements (including loans and equity contributions);
– provision of guarantees or collateral; and
– settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

IAS 27: The objective of IAS 27, *Consolidated and Separate Financial Statements*, is to prescribe:

- requirements for preparing and presenting consolidated financial statements for a group of entities under the control of a parent;
- how to account for changes in the level of ownership interests in subsidiaries, including the loss of control of a subsidiary; and
- how to account for investments in subsidiaries, jointly controlled entities and associates in separate financial statements.

The salient features of IAS 27 are:

- A subsidiary is an entity controlled by another entity, the parent. Control is the power to govern the operating and financial policies.
- Consolidated financial statements are financial statements of a group (parent and subsidiaries) presented as those of a single economic entity.
- When a parent-subsidiary relationship exists, consolidated financial statements are required.
- Consolidated financial statements include all subsidiaries. No exemption for 'temporary control' or 'different lines of business' or 'subsidiary that operates under severe long term funds transfer restrictions'. However, if, on acquisition, a subsidiary meets the criteria to be classified as held for sale under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, it is accounted for under that Standard.
- Intra group balances, transactions, income and expenses are eliminated in full.
- All entities in the group use the same accounting policies.
- The end of the reporting period of a subsidiary cannot be more than three months different from the end of the reporting period of the group.
- Non-controlling interests (NCI, previously called minority interest) are reported in equity in the statement of financial position separately from the equity of the owners of the parent. Total comprehensive income is allocated between NCI and the owners of the parent even if this results in the NCI having a deficit balance.
- Partial disposal of an investment in a subsidiary while control is retained is accounted for as an equity transaction with owners, and gain or loss is not recognised.
- Partial disposal of an investment in a subsidiary that results in loss of control triggers remeasurement of the residual holding to fair value. Any difference between fair value and carrying amount is a gain or loss on the disposal, recognised in profit or loss. Thereafter, apply IAS 28, IAS 31 or IAS 39, as appropriate, to the residual holding.
- In the parent's separate financial statements: investments in subsidiaries, associates and joint ventures (other than those that are classified as held for sale under IFRS 5) are accounted for either at cost or as investments under IAS 39.

IAS 28: The objective of IAS 28, *Investments in Associates*, is to prescribe the investor's accounting for investments in associates over which it has significant influence.

The salient features of IAS 28 are:

- Applies to all investments in which an investor has significant influence unless the investor is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through profit or loss under IAS 39.
- Interests in associates that are classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard.
- Otherwise, the equity method is used for all investments in associates over which the entity has significant influence.
- Rebuttable presumption of significant influence if investment held, directly and indirectly, is more than 20% of associate.
- Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor's share of the investee's post acquisition change in net assets.
- Investor's statement of comprehensive income reflects its share of

the investee's post-acquisition profit or loss.

- Associate's accounting policies are the same as those of the investor.
- The end of the reporting period of an associate cannot be more than three months different from the investor's end of the reporting period.
- Even if consolidated financial statements are not prepared (e.g. because the investor has no subsidiaries) equity accounting is used.

However, the investor does not apply the equity method when presenting 'separate' financial statements as defined in IAS 27. Instead, the investor accounts for the investment either at cost or as an investment under IAS 39.

- Impairment is assessed in accordance with IAS 36. The impairment indicators in IAS 39 also apply.
- The 2008 amendments (effective 1 July 2009) address the accounting treatment when significant influence over an associate is lost. On loss of significant influence, the investment is remeasured to its fair value at that date, with the gain or loss recognised in profit or loss. Thereafter, IAS 39 is applied to the remaining holding.

IAS 31: The objective of IAS 31, Interests *in Joint Ventures*, is to prescribe the accounting treatment required for interests in joint ventures (JVs), regardless of the structure or legal form of the JV activities.

The salient features of IAS 31 are:

- Applies to all investments in which an investor has joint control unless the investor is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through profit or loss under IAS 39.
- The key characteristic of a JV is a contractual arrangement to share control. JVs may be classified as jointly controlled operations, jointly controlled assets or jointly controlled entities.
- Jointly controlled operations: venturer recognises the assets it controls, and expenses and liabilities it incurs, and its share of income earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: venturer recognizes its share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture.

These rules apply to both separate and consolidated financial statements.

- Jointly controlled entities: two accounting policy choices are permitted:

– proportionate consolidation: under this method the venturer's statement of financial position includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its statement of comprehensive income includes its share of the income and expenses of the jointly controlled entity; and

– the equity method, as described in IAS 28.

- Interests in jointly controlled entities that are classified as held for sale in accordance with IFRS 5 are accounted for in accordance with that Standard.
- Even if consolidated financial statements are not prepared (e.g. because the venturer has no subsidiaries), proportionate consolidation/ equity accounting is used for jointly controlled entities. However, in the venturer's 'separate' financial statements as defined in IAS 27, interests in jointly controlled entities are accounted for either at cost or as investments under IAS 39.
- The 2008 amendments (effective 1 July 2009) address the accounting treatment when joint control over a jointly controlled entity is lost. On loss of joint control the investment is remeasured to its fair value at that date, with the gain or loss recognised in profit or loss. Thereafter, IAS 28 or IAS 39, as appropriate, is applied to the remaining holding.

IAS 33: The objective of IAS 33, Earnings *Per Share*, is to prescribe principles for determining and presenting earnings per share (EPS) amounts in order to improve performance comparisons between different entities in the same period and between different accounting periods for the same entity. Focus of IAS 33 is on the denominator of the EPS calculation.

The salient features of IAS 33 are:

- Applies to publicly-traded entities, entities in the process of issuing such shares, and any other entity voluntarily presenting EPS.
- An entity presents basic and diluted EPS:

– for each class of ordinary share that has a different right to share in profit for the period;

– with equal prominence;

– for all periods presented.

- If an entity presents only a statement of comprehensive income, EPS is reported in that statement. If it presents both a statement of comprehensive income and a separate income statement, EPS is reported only in the separate income statement.

- EPS is reported for profit or loss attributable to equity holders of the parent entity, for profit or loss from continuing operations attributable to equity holders of the parent entity, and for any discontinued operations (this last item can be in the notes).
- In consolidated financial statements, EPS reflects earnings attributable to the parent's shareholders.
- Dilution is a reduction in EPS or an increase in loss per share on the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued when specified conditions are met.
- Basic EPS calculation:

– earnings numerator: after deduction of all expenses including tax, and after deduction of non-controlling interests and preference dividends; and

– denominator: weighted average number of shares outstanding during the period.

- Diluted EPS calculation:

– earnings numerator: the profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares (such as options, warrants, convertible securities and contingent insurance agreements), and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;

– denominator: adjusted for the number of shares that would be issued on the conversion of all of the dilutive potential ordinary shares into ordinary shares; and

– anti-dilutive potential ordinary shares are excluded from the calculation.

IAS 36: The objective of IAS 36, *Impairment of Assets*, is to ensure that assets are carried at no more than their recoverable amount, and to prescribe how recoverable amount is calculated.

The salient features of IAS 36 are:

- IAS 36 applies to all assets except inventories (see IAS 2), assets arising from construction contracts (IAS 11, *Construction Contracts*), deferred tax assets (IAS 12), assets arising from employee benefits (IAS 19), financial assets (IAS 39), investment property measured at fair value (IAS 40, *Investment Property*), and biological assets related to agricultural activity measured at fair value less estimated point-of-sale costs (IAS 41, *Agriculture*).
- An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount.
- An impairment loss is recognised in profit or loss for assets carried at cost; and treated as a revaluation decrease for assets carried at revalued amount.
- Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.
- Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
- Discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The discount rate used does not reflect risks for which future cash flows have been adjusted and is the rate of return that investors would require if they were to choose an investment that would generate cash flows equivalent to those expected from the asset.

- At the end of each reporting period, assets are reviewed to look for any indication that an asset may be impaired. If impairment is indicated, the asset's recoverable amount is calculated.
- Goodwill and other intangibles with indefinite useful lives are tested for impairment at least annually, and recoverable amount calculated.
- If it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount of the asset's cash-generating unit is determined. The impairment test for goodwill is performed at the lowest level within the entity at which goodwill is monitored for internal management purposes, provided that the unit or group of units to which goodwill is allocated is not larger than an operating segment under IFRS 8 (or, prior to the adoption of IFRS 8, a segment under IAS 14, *Segment Reporting*).
- Reversal of prior years' impairment losses is permitted in certain instances (prohibited for goodwill).

IAS 37: The objective of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets, is to* prescribe criteria for recognising and measuring provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

The salient features of IAS 37 are:

- A provision is recognised only when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably.
- The amount recognised as a provision is the best estimate of the settlement amount at the end of the reporting period.

- Provisions are reviewed at the end of each reporting period to adjust for changes in estimate.
- Provisions are utilised only for original purposes.
- Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds and site restoration.
- Planned future expenditure, even where authorised by the board of directors or equivalent governing body, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.
- A contingent liability arises when:
  - there is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
  - a present obligation may, but probably will not, require an outflow of resources; or
  - a sufficiently reliable estimate of the amount of a present obligation cannot be made.
- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- A contingent asset arises when the inflow of economic benefits is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only.

If the realisation of income is virtually certain, the related asset is not a contingent asset and recognition is appropriate.

IAS 38: The objective of IAS 38, *Intangible Assets*, is to prescribe the accounting treatment for recognising, measuring and disclosing all intangible assets that are not dealt with specifically in another IFRS.

The salient features of IAS 38 are:

- An intangible asset, whether purchased or self-created, is recognised if:
  - it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and
  - the cost of the asset can be measured reliably.
- Additional recognition criteria for internally generated intangible assets.
- All research costs are charged to expense when incurred.
- Development costs are capitalised only after technical and commercial feasibility of the resulting product or service have been established.
- Intangible assets, including in-process research and development, acquired in a business combination are recognized separately from goodwill if they arise as a result of contractual or legal rights, or they are separable from the business. In these circumstances, the recognition criteria (probability of inflow of future economic benefits and reliable measurement – see above) are always considered to be satisfied.
- Internally-generated goodwill, brands, mastheads, publishing titles, customer lists, start-up costs, training costs, advertising costs and relocation costs are never recognised as assets.
- If an intangible item does not meet both the definition and the recognition criteria for an intangible asset, expenditure on the item is recognised as an expense when it is incurred, except if the cost is incurred as part of a business combination, in which case it forms part of the amount recognised as goodwill at the acquisition date.
- For the purpose of accounting subsequent to initial acquisition, intangible assets are classified as:
  - indefinite life: no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. and
  - finite life: a limited period of benefit to the entity.
- Intangible assets may be accounted for using a cost model or a revaluation model (permitted only in limited circumstances – see below). Under the cost model, assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.
- If an intangible asset has a quoted market price in an active market (which is uncommon), an accounting policy choice of a revaluation model is permitted. Under the revaluation model, the asset is carried at a revalued amount, which is fair value at revaluation date less any subsequent depreciation and any subsequent impairment losses.
- The cost (residual value is normally zero) of an intangible asset with a finite useful life is amortised over that life. Impairment testing under IAS 36 is required whenever there is an indication that the carrying amount exceeds the recoverable amount of the intangible asset.
- Intangible assets with indefinite useful lives are not amortised but are tested for impairment on an annual basis. If recoverable amount is lower than the carrying amount, an impairment loss is recognised. The entity also considers whether the intangible continues to have an indefinite life.
- Under the revaluation model, revaluations are carried out regularly. All items of a given class are revalued (unless there is no active market for a particular asset). Revaluation increases are

recognised in other comprehensive income and accumulated in equity. Revaluation decreases are charged first against the revaluation surplus in equity related to the specific asset, and any excess against profit or loss. When the revalued asset is disposed of, the revaluation surplus remains in equity and is not reclassified to profit or loss.

- Normally, subsequent expenditure on an intangible asset after its purchase or completion is recognised as an expense.

Financial Reporting in Indian Retail Sector

The Indian retail market, which is the fifth largest retail destination globally, has been ranked the second most attractive emerging market for investment after Vietnam in the retail sector by AT Kearney's seventh annual Global Retail Development Index (GRDI), 2008. The share of retail trade in the country's gross domestic product (GDP) was between 8–10 per cent in 2007. It is currently around 12 per cent, and is likely to reach 22 per cent by 2010. At US$ 511 billion in 2008, India's retail market is larger than ever and drawing both global and local retailers. It is expected to rise to US$ 833 billion by 2013 and to US$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10 per cent.

In India, the financial statements of Retail Companies should have been prepared to comply in all material aspects with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956. The Indian Accounting Standards (AS) corresponding to the IFRS relevant to Retail Sector are:

The extract from the Annual Report (2007-08) of Shopper's Shop Ltd. about the Significant Accounting Policies is a good illustration of Financial Reporting in Indian Retail Sector (see Appendix).

Conclusion

For the Indian retail sector there will be few greater challenges over the coming year than the far-reaching reforms that are taking place in financial reporting. Preparing for the IFRS convergence needs to come high up on every Chief Financial Officer's agenda.

Appendix

Shopper's Stop Ltd.

Notes to the Financial Statements for the year ended 31 March, 2008

1. Company Background

Shopper's Stop Limited ('SSL' or the 'Company') was incorporated on 16 June 1997. The Company is engaged in the business of retailing a variety of household and consumer products and books through departmental stores facilities. As at 31 March 2008, the

IFRS relevant to Retail Sector	Indian Accounting Standards
IFRS 3, *Business Combinations*	AS 14, *Accounting for Amalgamations*
IFRS 8, *Operating Segments*	AS 17, *Segment Reporting*
IAS 2, *Inventories*	AS 2, *Valuation of Inventories*
IAS 7, *Cash Flow Statements*	AS 3, *Cash Flow Statements*
IAS 12, *Income Taxes*	AS 22, *Accounting for Taxes on Income*
IAS 16, *Property, Plant and Equipment*	AS 10, *Accounting for Fixed Assets*
IAS 17, *Leases*	AS 19, *Leases*
IAS 18, *Revenue*	AS 9, *Revenue Recognition*
IAS 19, *Employee Benefits*	AS 15, *Employee Benefits*
IAS 23, *Borrowing Costs*	AS 16, *Borrowing Costs*
IAS 24, *Related Party Disclosures*	AS 18, *Related Party Disclosures*
IAS 27, *Consolidated and Separate Financial Statements*	AS 21, *Consolidated Financial Statements*
IAS 28, *Investments in Associates*	AS 23, *Accounting for Investments in Associates in Consolidated Financial Statements*
IAS 31, *Interests in Joint Ventures*	AS 27, *Financial Reporting of Interests in Joint Ventures*
IAS 33, *Earnings Per Share*	AS 20, *Earnings Per Share*
IAS 36, *Impairment of Assets*	AS 28, *Impairment of Assets*
IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	AS 29, *Provisions, Contingent Liabilities and Contingent Assets*
IAS 38, *Intangible Assets*	AS 26, *Intangible Assets*

Company operated through 27 such departmental stores located in different cities of India. The activities of the company in the context of Accounting Standard 17 on "Segment Reporting" constitute a single reporting segment.

2. Significant Accounting Policies

a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Indian Generally Accepted Accounting Principles and the provisions of the Companies Act, 1956.

b) Use of estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and differences between actual results and estimates are recognised in the periods in which the results are known/materialize.

c) Fixed Assets and Depreciation

Tangible Assets

Fixed assets are stated at their original cost of acquisition less accumulated depreciation and impairment losses. Cost comprises of all costs incurred to bring the assets to their location and working condition and includes all expenses incurred up to the date of launching new stores to the extent they are attributable to the new store.

Depreciation is provided, pro rata for the period of use, by the straight line method (SLM), based on management's estimate of useful lives of the fixed assets, or at the SLM rates prescribed in Schedule XIV to the Act whichever is higher, at the following annual rates:

	(%)
Air conditioning and other equipment	5.00
Furniture, fixtures and other fittings	20.00
Computers	33.33
Vehicles	20.00
Leasehold Improvements	10.00

Intangible Assets

Intangible assets are stated at their cost of acquisition, less accumulated amortization and impairment losses. An intangible asset is recognized, where it is probable that the future economic benefits attributable to the asset will flow to the enterprise and where its cost can be reliably measured. The depreciable amount of intangible assets is allocated over the best estimate of its useful life on a straight-line basis.

The company capitalizes software and related implementation costs where it is reasonably estimated that the software has an enduring useful life. Software is depreciated over management estimate of its useful life. (3 to 5 years)

Trademarks and Copyrights are amortized uniformly over a period of 10 years.

Impairment of assets

An asset is considered as impaired in accordance with Accounting Standard 28 on Impairment of Assets when at balance sheet date there are indications of impairment and the carrying amount of the asset, or where applicable the cash generating unit to which the asset belongs, exceeds its recoverable amount (i.e. the higher of the asset's net selling price and value in use). The carrying amount is reduced to the recoverable amount and the reduction is recognized as an impairment loss in the profit and loss account.

d) Investments

The company has presently classified all its investments as "Long Term" in accordance with Accounting Standard 13 on Accounting for Investments. Long-term investments are stated at cost. Provision is made to recognise a decline, other than temporary, in the value of investments.

e) Revenue recognition

Revenue is recognised when it is earned and no significant uncertainty exists as to its realisation or collection.

Retail sales and revenues are recognised on delivery of the merchandise to the customer, when the property in the goods is transferred for a price, when significant risks and rewards have been transferred and no effective ownership control is retained.

Sales are net of Discounts. Sales Tax and Value Added Tax are reduced from Retail Turnover.

The property in the merchandise of third party concession stores located within the main departmental store of the Company passes to the Company once a customer decides to purchase an item from the concession store. The Company in turn sells the item to the customer and is accordingly included under Retail Sales.

The property in the merchandise of third party consignment stock does not pass to the Company. Since, however, the sale of such stock forms a part of the activities of the Company's departmental stores, the gross sales values and cost of the merchandise are displayed separately in the profit and loss account.

In respect of gift vouchers and point award schemes operated by the Company, sales are recognised when the gift vouchers or points are redeemed and the merchandise is sold to the customer.

Revenue from store displays and sponsorships are recognised based on the period for which the products or the sponsor's advertisements are promoted / displayed. Facility management fees are recognised pro-rata over the period of the contract.

f) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition and location. Cost is determined by the weighted average cost method.

Merchandise received under consignment and concessionaire arrangements belong to the consignors / concessionaires and are therefore excluded from the Company's inventories.

g) Employee benefits

Short term employee benefits which are payable within twelve months after the end of the period in which the employees render service are measured at cost.

Long term employee benefits (benefits which are payable after the end of twelve months from the end of the period in which the employees render service) and post employment benefits (benefits which are payable after completion of employment) are measured on a discounted basis by the Projected Unit Credit Method on the basis of annual third party actuarial valuation.

Contributions to provident fund, a defined contribution plan, are made in accordance with the rules of the statute and are recognized as expenses when employees have rendered service entitling them to the contributions.

Gratuity and leave encashment costs (defined benefit plans) are determined using the Projected Unit Credit Method with actuarial valuations being carried out by third party actuaries at each balance sheet date.

Gratuity and leave encashment benefit obligations recognized in the Balance Sheet represents the present value of the obligation as adjusted for past service cost and as reduced by the fair value of plan assets. Actuarial gains and losses are recognized immediately in the profit and loss account.

h) Foreign currency transactions

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into Indian Rupees at the exchange rate prevailing at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

i) Income Tax

Income taxes are accounted for in accordance with Accounting Standard 22 on Accounting for Taxes on Income. Taxes comprise both current and deferred tax.

Current tax is measured at the amount expected to be paid/recovered from the taxation authorities, using the applicable tax rates and tax laws.

The tax effect of the timing differences that result between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations.

The carrying amount of deferred tax assets at each balance sheet date is reduced to the extent that it is no longer reasonably certain that sufficient future taxable income will be available against which the deferred tax asset can be realized.

Fringe Benefits Tax (FBT) payable under the provisions of section 115 WC of the Income Tax Act, 1961 is in accordance with the Guidance Note on Accounting for Fringe Benefits Tax issued by the ICAI is regarded as an additional income tax and considered in determination of the profits for the year. Tax on distributed profits payable in accordance with the provisions of section 115 O of the Income Tax Act, 1961 is in accordance with the Guidance Note on Accounting for Corporate Dividend Tax regarded as a tax on distribution of profits and is not considered in determination of the profits for the year.

j) Earnings Per Share

The company reports basic and diluted Earnings Per Share (EPS) in accordance with Accounting Standard 20 on Earnings Per Share. Basic EPS is computed by dividing the net profit or loss for the year by the weighted average number of Equity shares outstanding during the year. Diluted EPS is computed by dividing the net profit or loss for the year by the weighted average number of equity shares outstanding during the year as adjusted for the effects of all dilutive potential equity shares, except where the results are anti-dilutive.

k) Borrowing costs

Borrowing costs attributable to the acquisition or construction of qualifying assets, as defined in Accounting Standard 16 on Borrowing Costs, are capitalized as part of the cost of acquisition. Other borrowing costs are expensed as incurred.

l) Operating Lease

Operating Lease payments are recognized as an expense in the Profit & Loss Account on a straight-line basis, which is representative of the time pattern of the user's benefit.

m) Stock based compensation

The compensation cost of stock options granted to employees is calculated using the intrinsic value of the stock options. The compensation expense is amortized uniformly over the vesting period of the option.

n) Cash Flow Statement

The Cash Flow Statement is prepared by the indirect method set out in Accounting Standard 3 on Cash Flow Statements and presents the cash flows by operating, investing and financing activities of the Company.

Cash and cash equivalents presented in the Cash Flow Statement consist of cash on hand and demand deposits with banks.

o) Contingent Liabilities

Contingent Liabilities as defined in Accounting Standard 29 on Provisions, Contingent Liabilities and Contingent Assets are disclosed by way of notes to the accounts. Provision is made if it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability.❑

The Organization Structure of the IASC Foundation

Devarajan Swaminathan*

IFRS or The International Financial Reporting Standards are the accounting standard norms that Companies globally have started to adopt. India is committed to prepare its financial statement based on IFRS from 2011 onwards. An attempt is made here to understand the DNA of the Organization, namely the International Accounting Standards Committee Foundation or the IASC Foundation, which has taken on the responsibility to frame International Financial Reporting Standards and how India is represented in this structure (at least till now).

In writing this article references have been heavily drawn from the IASB website www.iasb.org , IASC Foundation Constitution and the book IFRS Practical Implementation Guide and Workbook – 2nd Edition by Abbas Ali Mirza, Magnus Orrell, Graham .J. Holt, a John Wiley Publication.

The International Accounting Standards Committee Foundation or the IASC Foundation is the parent body or the Organization.

A little back in History:

From 1973 untill 2001 the body in charge was the International Accounting Standards Committee (IASC). IASC was created in 1973 between the professional accountancy bodies in 9 countries and from the year 1982 its membership comprised of all the accountancy bodies who were members of the International Federation of Accountants (IFAC). The principle significance of the IASC was to encourage national accounting standard setters around the world to improve and harmonize national accounting standards.

The members of the IASC who were Professional Accountancy Bodies of the world delegated the responsibility to the IASC Board. The IASC Board was responsible for all activities including standard setting activity. The Standards adopted by the IASC Board were known as the International Accounting Standards (IAS).

The IASC Foundation:

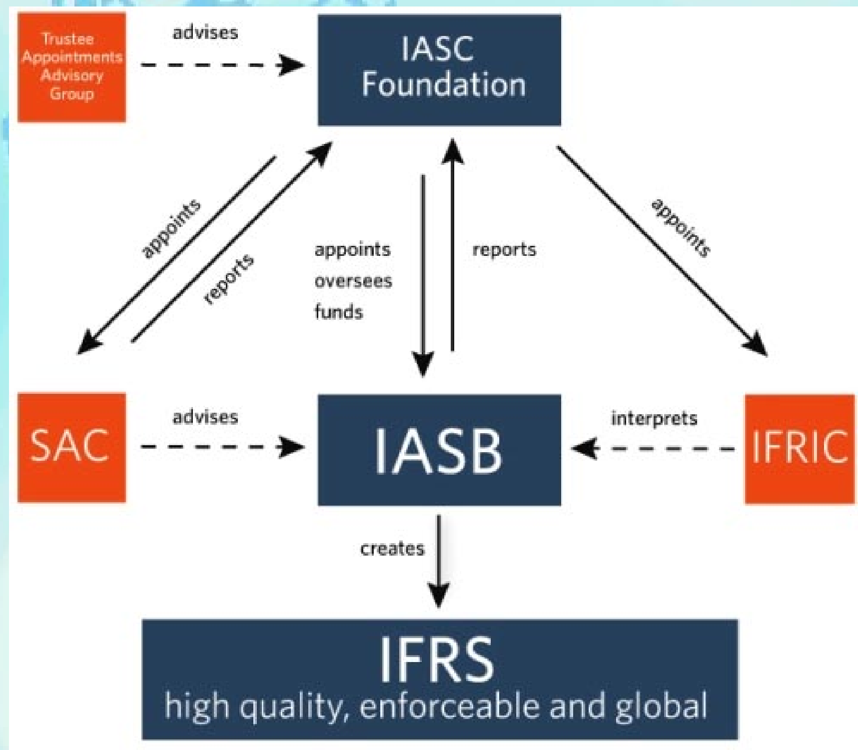
The constitution of the International Accounting Standards Committee Foundation (IASC Foundation) was approved in its original form by the erstwhile International Accounting Standards Committee (IASC) in the year 2000 and by the members of the IASC at a meeting on 24th May 2000.

The erstwhile IASC Board had appointed a nominating committee to appoint the first Trustees. In execution of its duties the first trustees formed the International Accounting Standards Committee Foundation on 6th February 2001.

There is a key difference between the erstwhile IASC and the present IASC Foundation. The members of the IASC were the accounting bodies of the world who were also the members of the IFAC. The IASC Foundation does not have such a relationship with these global accounting bodies.

The IASC Foundation is an independent not for profit private sector organization. Its Governance rests with its 22 Trustees.

ORGANIZATION STRUCTURE



*Devarajan Swaminathan & Co. Cost and Management Accountants

It receives funding in the form of donations from Organizations, Accounting firms, Central Banks and Capital Market Regulators amongst others. The funding of the IASC Foundation is based on four principles.

In its Annual Report of 2007, the Foundation received funds of approximately 11.28 Million Sterling Pounds. 26 Countries contributed. Of these, 174,358 Sterling Pounds was India's contribution. Contributors from India include the RBI, ICICI, Infosys, Grasim Industries, Bharti Airtel, Tata Sons, Satyam Computers, L&T and RIL.

It is interesting to note that International Accounting Firms contributed 3.24 Million Sterling Pounds approximately 28% of the Total Funding received by the Foundation. Firms included PWC, Deloitte, E&Y, KPMG, Grant Thornton, BDO and Mazars.

The governance structure within IASC Foundation comprises its key parts namely:

1. The Monitoring Board
2. The Trustees
3. The International Accounting Standards Board (IASB)
4. The International Financial Reporting Interpretation Committee (IFRIC)
5. The Standards Advisory Council (SAC)

The Monitoring Board:

Although the governance of the IASC Foundations rests with the Trustees, the Monitoring Board plays a pivotal role as the crucial link between the Trustees and the Public Authorities that have generally overseen accounting standard setters. This link between the Trustees and the Monitoring Board is established by way of a Memorandum of Understanding (MoU). Such a MoU will be made available to the public. A draft of the MoU is available on www.iasb.org. The process of getting the MoU signed between the Trustees and the Monitoring Board is already in process.

The monitoring board has the authority to participate in the process and the appointment of Trustees. It has the authority to overlook whether the trustees are discharging their duties in accordance with the constitution. The Trustees make an annual written report to the Monitoring Board.

Initially the Board comprise of

1. A responsible member of the European Commission.
2. The Chair of the IOSCO Emerging Market Committee.
3. The Chair of the IOSCO Technical Committee
4. The Commissioner of Japan Financial Services Agency
5. The Chairman of the United States Securities Exchange Commission and
6. As an observer, the Chairman of the Basel Committee on Banking Supervision

India as is apparent is not represented on the Monitoring Board.

The Trustees:

The Trustees of the IASC Foundation are responsible for its Governance including funding. The Trustees are publically accountable to the Monitoring Board of the capital market authorities.

According to the present trustee distribution, the Trustees comprise of 22 individuals. 6 Trustees have been appointed from the Asia Oceanic region, 6 Trustees have been appointed from North America, 8 Trustees have been appointed from Europe (*although the constitution has provided only for 6 from Europe*), 1 Trustee from Brazil and 1 Trustee from South Africa (*although the constitution provides for 4 from other regions*).

India is represented by Mr. Mohandas Pai of Infosys.

The Trustees are initially appointed for a period of three years.

The trustees are, in addition to the governance of the foundation, responsible for the appointment of the members of the International Accounting Standards Board (IASB), the International Financial Reporting Interpretation Committee (IFRIC) and the Standards Advisory Council (SAC). They also have the power to terminate non performing members of the above board, committee and council.

The International Accounting Standards Board (IASB):

The IASB is responsible for all standard setting activities, including the development and adoption of IFRS. The IASB comprises of 14 members that is to be increased to 16 members. The members of the Board are a mix of practical experience in standards setting process, or as a user, or accounting, academia or from the preparer community. The Trustees appoint the members of the Board.

The present distribution of the Board is 6 members from Europe (*although the constitution provides for 4*), 4 Members from Asia Oceanic (*the constitution provides for 4 members from Asia Oceanic*), 3 members from North America (*although the constitution provides for 4*), 1 from South Africa (*the constitution provides for 1 member from Africa*) and 1 from Brazil (*the constitution provides for 1 member from Latin America*). That takes the tally to 15 members.

The constitution also makes it amply clear that the work of the IASB will not be invalidated by its failure at any time not to have representation in accordance with the geographical allocation laid down in the constitution. Members of the IASB are appointed for a term of up to 5 years, renewable once.

Mr. Prabhakar Kalavarcherla is a member of the ICAI so can be said to represent India.

At the time the IASC Foundation was constituted first, the IASB adopted all IAS issued by the erstwhile IASC. The existing IAS continues to be operative till the extent it has not been amended or withdrawn by the IASB. New standards issued by the IASB are called the IFRS. Collectively IFRS includes both IAS and IFRS.

The International Financial Reporting Interpretation Committee (IFRIC):

The interpretative body of the IASC Foundation is IFRIC. It is responsible for developing guidance on the interpretations of the application of both the IAS and IFRS. Such guidance on interpretation would be on financial reporting issues not specifically dealt with in the IAS and IFRS. It would also be on those issues where there are conflicting or divergent interpretations in the absence of an authoritative guidance.

IFRIC comprises of 14 members appointed by the Trustees for a renewable period of three years. No specific geographical allocations have been spelt out in the constitution.

Going by the profile of the existing members that comprise the IFRIC it is apparent that the committee does not have representations from India.

The constitution provides that the Trustees, as they deem necessary, appoint non voting observers representatives of the regulatory authorities who shall have the right to attend and speak at the meeting. Accordingly, IOSCO (International Organization of Securities Commission) and European Commission are presently the Observers.

Standards Advisory Council (SAC):

The members of the SAC are appointed by the Trustees. The objective of the SAC is to advice the IASB on agenda decisions and priorities. The constitution provides that the council may comprise of 30 or more members. No geographical allocations have been specified. Members appointed on the council would represent a wide group of organizations and individuals who are affected by or with an interest in international financial reporting.

Conclusion: With so many organizations, institutions, individuals, countries that are participating in this exercise of creating an Organization that will eventually issue Reporting Standards that will be adopted globally, it remains to be seen how the various committees, councils, trustees steer away from the political pushes / compulsions to have a high quality standards drafted and issued. The ISAC Foundation has a Conflict of Interest Policy in place but the same was not available on their website for download and for me to include it here. India has to increase its participation in the entire process to ensure that its interest is addressed appropriately.❑

AT THE HELM

We are pleased to inform that the American Accounting Association has selected eminent academician and Cost Accountant of repute, Dr. Bhabatosh Banerjee as the nominee for the August post of International Council Member-at-Large for the year 2009-2010. We pray for Dr. Banerjee's success in the election and wish him all the success in his future endeavours.

PRIDE OF THE PROFESSION

Shri Chandan Choudhuri has assumed charge as Director (Finance) of Bridge & Roof Co. (India) Ltd. with effect from 22nd November, 2008. Prior to joining in the Bridge & Roof Co. (India) Limited, he worked as Director (Finance) of Jute Corporation of India Limited from January, 2005. Shri Choudhury is a qualified Cost accountant of the 1976 batch and has served various organizations in Public & Private Sectors which includes Grindlays Bank Limited (presently Standard & Chartered Bank), Steel Authority of India Limited, Andrew Yule & Co. Limited and Bharat Heavy Electricals Limited to name a few.

E-Stamping: Easiest & Fastest method of Payment of Stamp Duty

Prakash S Mutha*

Introduction

Everybody is aware of Telgi Scam of Stamp Papers which had resulted in incurring huge huge losses of revenue to State Government. To prevent such scams and also all related malpractices, Government has come out the fantastic and foolproof idea of E-Stamping.

In today's era there is tremendous success to electronic procedures due to availability of high tech facilities. To name a few, everybody is aware of E-mails, E-trades, E-commerce, E-ticketing by Railways & Airlines, Dematerialization of Shares and Internet Banking etc etc. On similar concepts and with the help of high tech facilities available, Government has come out the E-Stamping method of paying Stamp Duty. Without raising any doubt, I am sure this will also be proved to be very successful method in due coarse of time on line with other e-services, already introduced.

What is E-Stamping

E-Stamping is the simple but fast process whereby the Non-judicial Stamp Papers (NJSP) can be electronically purchased for making Stamp Duty payment, required for various legal purposes, to the Government. This is a very welcome step to the smart new age system of purchase and payment of Stamp Duty to the Government, for registering various legal documents.

E-Stamping is nothing but the internet and computer based stamping of various legal documents where the Central Record Keeping Agency maintains the Database electronically, instead of Physical Stamping of Documents which could be fake, forged or duplicate etc. Thus this system is a secured electronic way of Stamping of all legal documents. Sooner or later, this system no doubt, shall replace the present system of purchase/franking of Stamp Papers.

E-Stamping is expected to ensure the hundred percent transparencies besides ending all related malpractices and is a step forward making the Govt. more informative technology oriented. It would provide a reliable system of documentation and help in the retrieval of particulars as and when required.

Thus E-Stamping facilitates convenience, safety and security, time saving and preventing from all malpractices at the same time a very simple method of payment of Stamp Duty to Govt. by a common man.

How does the E-Stamping system work?

E-stamping system is a very simple one. The client approaches the authorized e-Stamping centre and obtains the e-Stamping Application Form. Then he fills the same appropriately and submits it along with the payment across the counter. After getting the requisite application form, duly filled up along with the payment, the officer at the centre verifies the details with the client and keys-in the necessary entries in the e-Stamping system. Then the e-Stamping system generates and prints an e-Stamping Certificate with having a Unique Identification No (UNI). The client along with this e-Stamping Certificate approaches the respective Sub-Registrar to register his transaction/ document. The transaction/ documentation becomes complete after the Sub Registrar locks the e-Stamp Certificate.

With this e-Stamping system, the client can always online verify the authenticity of the e-Stamp Certificate on website www.shcilstamp.com and need not worry about standing in queue any more.

This new e-Stamping system is a highly sophisticated and internet based computerized system where information security is in the top priority. In view of this, the entire system is designed and developed with having a state of art technology especially with the security feature and which has been rigorously tested and approved by the Govt. Further more this system is not restricted to any fixed denomination but is designed to print out the Certificate of any denominations, starting from Rupee 1/-.

In view of foregoing, this system is tamperproof, readily available, user friendly and has facilities like on-line verification and availability in any required denomination.

However, for cancellation of e-Stamping Certificate, one has to contact the competent authority in the Stamp Office appointed by the State Govt.

E-Stamping System enables Govt. to collect the revenues from sale of stamp papers quickly. It also facilitates Audit trails, MIS Reports, Verification of Certificates, Retrieval whenever necessary etc.

List of documents in general, which can be registered with e-Stamping System:

- All Sale/Purchase/Conveyance Agreements/Deeds.
- Lease/Mortgage Agreements
- Partition/Re-conveyance/Renewals

Cost Accountant, Nasik.

/ Releases/Settlement/Decree MoS/ MoU

- Trust Documents
- Affidavits/Indemnity Bond/Partnership Deeds/Divorce
- PoA- SPA/GPA etc etc.

Benefits of E-Stamping System:

This system has emerged out a WIN-WIN Situation to both, the Govt. & the Public.

Benefits to the Government

- A Check on circulation of fake/ forged/duplicate Stamp Papers and to prevent the loss of revenue from sale of such stamp papers, if any.
- Ensuring hundred percent Transparencies.
- Fast collection of revenue in the treasury.
- Saving in cost of printing and handling/distribution of stamp papers.
- Facilitates Audit trails, MIS Reports, Verification and Retrieval whenever necessary.
- Centralized Data base generated.
- Ending scope for malpractices.
- Building reliable system of documentation.
- Maintains Information security.
- Secured and safer electronic payment gateway to the Govt.
- Can easily cope up with the increased volume thereby can get increased revenue.

Benefits to the Purchaser

- Easy and convenient accessibility besides speedy processing.
- No fear of buying fake/forged/ duplicate Stamp Paper.
- Stamp Certificate generated is tamper proof.
- Authenticity of the Certificate is checked through its enquiry module.
- Stamp Certificate generated has a Unique Identification No.(UNI).
- Stamp Certificate of exact denomination can be purchased. No problem of any denomination.
- Any time availability.
- Avoiding queuing besides substantial Time Saving.
- No additional charges like franking service charges levied by banks.
- Need not carry original documents as is required for franking.

Central Record Keeping Agency (CRA)

The Union Govt. has appointed the Stock Holding Corporation of India Ltd (SHCIL) to act as the Central Record Keeping Agency (CRA) for E-Stamping Project. So far, SHCIL is the only CRA appointed by the Union Govt.

Role of CRA

SHCIL i.e. the sole CRA will be responsible for user registration, imp rest balance, administration and overall e-Stamping application operation and maintenance.

E-Stamping Centre

All the branches of SHCIL situated at various locations across India shall be acting as an authorized e-Stamping Centre in that particular location, wherever this scheme is approved and implemented by the respective State Govt.

The Nasik Branch of The Stock Holding Corporation of India Ltd located above Bafna Jewelers, Sharanpur Road, Nasik has been appointed as an authorized e-Stamping Centre. Interested persons can approach them for any additional enquiry on 2571535/2571869.❑

SEBI

DEPUTY GENERAL MANAGER, **INVESTMENT MANAGEMENT DEPARTMENT**
SEBI / IMD / CIR No. 1/ 165935 / 2009 date: June 9, 2009
All Mutual Funds, Asset Management Companies (AMCs)
and Association of Mutual Funds in India (AMFI)

Sir / Madam**,**

Sub: Guidelines for Investment by Mutual Funds in Indian Depository Receipts (IDRs) and copies of gazette notifications dated April 8, 2009 and June 5, 2009

1. In terms of regulation 43(1) of SEBI (Mutual Funds) Regulations 1996 (the Regulations), mutual funds are permitted to invest in securities. It is hereby clarified that mutual funds can invest in Indian Depository Receipts [Indian Depository Receipts as defined in Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with SEBI (Mutual Funds) Regulations 1996 and guidelines issued thereunder, specifically investment restrictions as specified in the Seventh Schedule of the Regulations.
2. Further, find enclosed a copy of the gazette notification No. and No. pertaining to SEBI (Mutual Funds) (Amendment) Regulations 2009 for your information and implementation.

   This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of the SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Ruchi Chojer

SECURITIES AND EXCHANGE BOARD OF INDIA (DELISTING OF EQUITY SHARES) REGULATIONS, 2009

No. LAD-NRO/GN/2008-2009/09/165992. In exercise of the powers conferred by section 31 read with section 21A of the Securities Contracts (Regulation) Act, 1956 (42 of 1956), section 30, sub-section (1) of section 11 and sub-section (2) of section 11A of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Board hereby makes the above said regulations.

The details of these regulations are available on the website of SEBI i.e. www.sebi.nic.in

DEPUTY GENERAL MANAGER, INVESTMENT MANAGEMENT DEPARTMENT

SEBI / IMD / CIR No. 2/166256/ 2009 date: June 12, 2009

All Mutual Funds, Asset Management Companies (AMCs) and Association of Mutual Funds in India (AMFI)

Sir / Madam**,**

Sub: Valuation of debt securities by Mutual Funds

Please refer to SEBI Circulars No. MFD/CIR/8/92/2000 dated September 18, 2000, MFD/CIR No. 14/442/2002 dated February 20, 2002 and SEBI/IMD/CIR No. 9/08 dated October 18, 2008.

With a view to ensure that the value of debt securities reflects the current market scenario in calculation of net asset value, it has been decided that discretionary mark up and mark down shall be brought to the level as detailed in SEBI Circulars No. MFD/CIR/8/92/2000 dated September 18, 2000 and MFD/CIR No. 14/442/2002 dated February 20, 2002.

Accordingly, the discretionary mark up and mark down will be as under:

a. In case of rated debt securities

Category	**Current (as per Circular dated October 18, 2008)**		**Proposed**	
	+	-	+	-
Rated instruments with duration upto 2 years	500 bps	150 bps	100 bps	50 bps
Rated instruments with duration over 2 years	400 bps	100 bps	75 bps	25 bps

b. In case of unrated debt securities

Category	Current (as per Circular dated October 18,2008)	Proposed
Unrated instruments with duration upto 2 years	Discretionary discount of upto +450 bps over and above mandatory discount of +50 bps	Discretionary discount of upto +50 bps over and above mandatory discount of +50 bps
Unrated instruments with duration over 2 years	Discretionary discount of upto +375 bps over and above mandatory discount of +25 bps	Discretionary discount of upto +50 bps over and above mandatory discount of +25 bps

Further, it has been decided that

- For valuation of securities purchased after the issuance of circular, the discretionary mark up or down limit, as detailed above, should be applied.
- For cases where on the date of this circular, the increased discretionary mark up or down limit is being used, it should be brought back to the proposed levels as detailed above within a period of two months.
- Chief Executive Officer (whatever his designation may be) of the Asset Management Company shall give prior approval to the use of discretionary mark up or down limit.

This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of the SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

Ruchi Chojer

RBI/2008-09/485

DBOD.BP.BC. No.134 /21.06.001/2008-09 May 26, 2009

The Chairman and Managing Directors/
Chief Executive Officers
All Scheduled Commercial Banks
(Excluding RRBs and LABs)

Dear Sir,

Capital Adequacy Norms for Banks' Exposures to Central Counterparties(CCPs)

Please refer to our Master Circular – Prudential Guidelines on Capital Adequacy and Market Discipline – Implementation of New Capital Adequacy Framework No. RBI/ 2008-09 /68.DBOD.No. BP.BC. 11 /21.06.001/2008-09 dated July 1, 2008.

2. Banks have been exposed to CCPs attached to stock exchanges while settling contracts like currency futures and interest rate futures. The Clearing Corporation of India Limited (CCIL) has also been acting as a Central Counter Party (CCP) for banks in various segments of the financial markets.

In terms of para 5.15.3 (iv) (b) of the Master Circular, the instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments are exempted from the capital requirements

3. As indicated in paragraph 146 (extract reproduced in Annex) of the Annual Policy Statement for the year 2009-10, released on April 21, 2009, the revised norms for capital adequacy treatment of banks' various types of credit risk exposures to the CCPs will be as under:

i. The exposures to CCPs on account of derivatives trading and securities financing transactions (e.g. CBLOs, Repos) outstanding against them, will be assigned zero exposure value for counterparty credit risk, as it is presumed that the CCPs' exposures to their counterparties are fully collateralised on a daily basis, thereby providing protection for the CP's credit risk exposures.

ii.The deposits/collaterals kept by banks with the CCPs will attract risk weights appropriate to the nature of the CCP. In the case of CCIL, the risk weight will be 20 per cent and for other CCPs, it will be according to the ratings assigned to these entities as per the New Capital Adequacy Framework.

4. The above prescriptions about the adequacy of margin, quality of collateral and risk manag ement systems of the clearing house/CCP will be reviewed after one year.

5. All existing exposure limits, such as gap limits for forex exposures, PV01 limits for interest rate risk exposures which are applicable for OTC derivatives exposures of banks will continue to apply for exchange traded transactions as well.

Yours faithfully,
(P.Vijaya Bhaskar)
Chief General Manager

RBI/2008-09/491

DNBS (PD) CC.No. 141 /03.10.001/2008-09 June 4, 2009

All Non-Deposit taking Non-Banking Finance Companies

Dear Sirs,

Applicability of NBFCs-ND-SI regulations

In terms of circular DNBS (RID) C.C. No. 57/02.05.15/2005-06 dated September 6, 2005, all NBFCs with assets size of Rs 100 crore and above, and not accepting / holding public deposits were required to submit a Monthly Return on Important Financial Parameters to the Regional Office under whose jurisdiction the company is located. Further, in terms of "Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007" as amended from time to time, systemically important non-deposit taking non-banking financial companies are required to comply with, inter alia, capital adequacy, credit concentration and disclosure norms along with reporting requirements. 'Systemically important non-deposit taking non-banking financial company'(NBFC-ND-SI) as defined in Para 2(xix) of the said Directions means a non banking financial company not accepting/holding public deposits and having total assets of Rs 100 crore and above as shown in the last audited balance sheet.

2. A non-deposit taking NBFC with an asset size of less than Rs. 100 crore as on balance sheet date might subsequently add on assets before the next balance sheet date due to several reasons including business expansion plan. It is clarified that once an NBFC reaches an asset size of Rs. 100 crore or above, it shall come under the regulatory requirement for NBFCs-ND-SI as stated above, despite not having such assets as on the date of last balance sheet.

3. Therefore, it is advised that all such non-deposit taking NBFCs may comply with RBI regulations issued to NBFC-ND-SI from time to time, as and when they attain an asset size of Rs. 100 crore, irrespective of the date on which such size is attained.

4. It is further observed that in a dynamic environment, the asset size of a company can fall below Rs 100 crore in a given month, which may be due to temporary fluctuations and not due to actual downsizing. It is clarified that in such a case the company may continue to submit the Monthly return on Important Financial Parameters to Reserve Bank of India and to comply with the extant directions as applicable to NBFC-ND-SI, till the submission of their next audited balance sheet to Reserve Bank of India and a specific dispensation is received from the Bank in this regard.

Yours sincerely,

(P. Krishnamurthy)

Chief General Manager-in-Charge

RBI/2008-2009/488 DBOD.No.DIR.BC.136/13.03.00/2008-09 date: May 29, 2009

All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir,

Issue of Guarantees by banks

It is observed that, of late, certain banks, in terms of paragraph 2.4.2.3 (a) of the Master circular RBI/2008-09/79 DBOD.No.Dir.BC.18/13.03.00/2008-09 dated July 1, 2008 (extract attached), have been issuing guarantees on behalf of corporate entities in respect of non-convertible debentures issued by such entities. It is clarified that the extant instructions apply only to loans and not to bonds or debt instruments. Guarantees by the banking system for a corporate bond or any debt instrument not only have significant systemic implications but also impede the development of a genuine corporate debt market.

2. Banks are advised to strictly comply with the extant regulations and in particular, not to provide guarantees or equivalent commitments for issuance of bonds or debt instruments of any kind.

Yours faithfully,

(P. Vijaya Bhaskar)

Chief General Manager

Extract of Master Circular RBI/2008-09/79 DBOD.No.Dir.BC.18/13.03.00/2008-09 dated July 1, 2008

2.4.2.3 (a) Banks may issue guarantees favouring other banks/ FIs/ other lending agencies for the loans extended by the latter, subject to strict compliance with the following conditions. i. The Board of Directors should reckon the integrity/ robustness of the bank's risk management systems and, accordingly, put in place a well-laid out policy in this regard. The Board approved policy should, among others, address the following issues:

1. Prudential limits, linked to bank's Tier I capital, up to which guarantees favouring other banks/FIs/other lending agencies may be issued
2. Nature and extent of security and margins
3. Delegation of powers
4. Reporting system
5. Periodical reviews

ii. The guarantee shall be extended only in respect of borrower constituents and to enable them to avail of additional credit facility from other banks/FIs/lending agencies. iii. The guaranteeing bank should assume a funded exposure of at least 10% of the exposure guaranteed. iv. Banks should not extend guarantees or letters of comfort in favour of overseas lenders including those assignable to overseas lenders. However, AD banks may also be guided by the provisions contained in Notification No. FEMA 8/2000-RB dated May 3, 2000. v. The guarantee issued by the bank will be an exposure on the borrowing entity on whose behalf the guarantee has been issued and will attract appropriate risk weight, as per the extant guidelines. vi. Banks should ensure compliance with the recommendations of the Ghosh Committee and other internal requirements relating to issue of guarantees, to obviate the possibility of frauds in this area.

RPCD.CO.RF.BC.No. 112 /07.37.02/2008-09 June 3, 2009

All State Co-operative Banks (StCBs) and
District Central Co-operative Banks (DCCBs)

Dear Sir,

Valuation of properties - Empanelment of Valuers

It has been observed that different banks follow different policies for valuation of properties and appointment of valuers for the purpose. The issue of correct and realistic valuation of fixed assets owned by banks and that accepted by them as collateral for a sizable portion of their advances portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of banks. In this context, there is a need for putting in place a system / procedure for realistic valuation of fixed assets and also for empanelment of valuers for the purpose.

2. Banks may be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

(a) **Policy for valuation of properties**

i) Banks should have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.

ii) The valuation should be done by professionally qualified independent valuers i.e. the valuer should not have a direct or indirect interest.

iii)The banks should obtain minimum two Independent Valuation Reports for properties valued at Rs.50 crore or above.

(b) **Revaluation of bank's own properties**

In addition to the above, the banks may keep the following aspects in view while formulating policy for revaluation of their own properties.

i) The extant guidelines on Capital Adequacy permit banks to include revaluation reserves at a discount of 55% as a part of Tier II Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and banks have in place a comprehensive policy for revaluation of fixed assets owned by them. Such a policy should inter alia cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc.

ii) As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The banks should adhere to these principles meticulously while changing the frequency of revaluation / method of depreciation.

(c) **Policy for Empanelment of Independent valuers**

i) Banks should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.

ii) Banks may prescribe a minimum qualification for empanelment of valuers. Different qualifications may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualification, banks may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

3. Banks may also be guided by the relevant Accounting Standard issued by the Institute of Chartered Accountants of India.

4. Please acknowledge receipt to the Regional Office concerned of Reserve Bank of India.

Yours faithfully,

(B P Vijayendra)
Chief General Manager

RBI/2008-09/494

DNBS.PD/ CC.No. 142 / 03.05.002 /2008-09 June 9, 2009

All NBFCs

Dear Sir,

Accounting for taxes on income- Accounting Standard 22- Treatment of deferred tax assets (DTA) and deferred tax liabilities (DTL) for computation of capital

NBFCs were advised vide DNBS (PD) C.C. No. 124/ 03.05.002/ 2008-09 dated July 31, 2008 that in terms of Accounting Standard 22, the tax effects of timing differences are included in the tax expense in the statement of profit and loss as deferred tax assets (DTA) (subject to the consideration of prudence) or as deferred tax liabilities (DTL) in the balance sheet.

Further that the balance in DTL account will not be eligible for inclusion in Tier I or Tier II capital for capital adequacy purpose and that DTA being an intangible asset, should be deducted from Tier I Capital.

2. In this connection it is further clarified that

a) DTL created by debit to opening balance of Revenue Reserves or to Profit and Loss Account for the current year should be included under 'others' of "Other Liabilities and Provisions."

b) DTA created by credit to opening balance of Revenue Reserves or to Profit and Loss account for the current year should be included under item 'others' of "Other Assets."

c) Intangible assets and losses in the current period and those brought forward from previous periods should be deducted from Tier I capital.

d) DTA computed as under should be deducted from Tier I capital:

(i) DTA associated with accumulated losses; and

(ii)The DTA (excluding DTA associated with accumulated losses) net of DTL. Where the DTL is in excess of the DTA (excluding DTA associated with accumulated losses), the excess shall neither be adjusted against item (i) nor added to Tier I capital."

3. NBFCs shall comply with all instructions as above and also contained in the circular dated July 31, 2008 in this regard meticulously.

Yours sincerely

(P Krishnamurthy)
Chief General Manager-In-Charge

RBI/2008-09/484

DBOD. No. BP. BC. 135 /21.04.012/2008-09 May 26, 2009
The Chairman / CMD / MD / CEO
All Scheduled Commercial Banks (excluding RRBs)

Dear Sir,

Relaxation to trade and industry in the state of Jammu and Kashmir

Please refer to our circular DBOD.No.BP.BC.89/21.04.012/2007-2008 dated June 03, 2008 extending the period of concessions/

credit relaxations to borrowers / customers in Jammu and Kashmir up to 31 March 2009. It has been decided that the concessions/credit relaxations to borrowers/customers in the State of Jammu & Kashmir, as laid down in our Circular No. DBOD.No.BP.BC.77/21.04.012/2003-2004 dated April 21, 2004, will continue to be operative for a further period of one year, i.e., up to March 31, 2010.

2. Suitable instructions may please be issued to your controlling / branch offices in this regard.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager

RBI/2008-09/484

DBOD. No. BP. BC. 135 /21.04.012/2008-09 May 26, 2009
The Chairman / CMD / MD / CEO
All Scheduled Commercial Banks (excluding RRBs)

Dear Sir,

Relaxation to trade and industry in the state of Jammu and Kashmir

Please refer to our circular DBOD.No.BP.BC.89/21.04.012/2007-2008 dated June 03, 2008 extending the period of concessions/ credit relaxations to borrowers / customers in Jammu and Kashmir up to 31 March 2009. It has been decided that the concessions/credit relaxations to borrowers/customers in the State of Jammu & Kashmir, as laid down in our Circular No. DBOD.No.BP.BC.77/21.04.012/2003-2004 dated April 21, 2004, will continue to be operative for a further period of one year, i.e., up to March 31, 2010.

2. Suitable instructions may please be issued to your controlling / branch offices in this regard.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager

RBI/2008-09/504

RPCD.CO.RRB.BC No. 13705/03.05.90-A/2008-09 June 18, 2009
All Regional Rural Banks

Dear Sir,

"Controlling Office" renamed as "Regional Office"- RRBs

Please refer to paragraph 2 and 2.3 of our Master Circular on Branch Licensing - Regional Rural Banks (RRBs) RPCD.CO.RRB.No.BL.BC.07/ 03.05.90-A/2008-09 (RBI/2008-09/36) July 1, 2008 read with Circular RPCD. CO. RRB. BC. No. 101/ 03.05.90-A/ 2008-09 dated May 4, 2009, on the captioned subject.

2. We have been receiving queries from certain sponsor banks as to whether RRBs can convert their "Area Offices" into "Regional Offices".

3. It is clarified that "Controlling Office", for all purposes, includes "Area Office", and the instructions contained in our circular dated May 4, 2009 are applicable to "Area Office" also. Accordingly, the words "Controlling Offices/ Area Offices" referred in paragraph 2 and 2.3 of our aforesaid Master Circular may be replaced by the words "Regional Offices".

4. Please acknowledge receipt to our Regional Office concerned.

Yours faithfully,

(B.P.Vijayendra)
Chief General Manager

Central Board of Direct Taxes

NEW TDS AND TCS PAYMENT AND INFORMATION REPORTING SYSTEM- NOTIFICATION NO. 858(E), DATED 25th MARCH, 2009 PUBLISHED IN OFFICIAL GAZETTE

CIRCULAR NO. 02 / 2009, DATED 21-5-2009

The details are available on the website of the department i.e. www.incometaxindia.nic.in

Local Body and its management of costs – A policy Framework

This paper aims at understanding the importance of local body in India's development process and highlights on the way how it can ensure best services to each citizen of its area by implementing a transparent expenditure management system within it. Development in the country through performance activity of Local Body can not be ensured without proper application of a regulatory mechanism. A structured cost management system is the kind of regulation which is ideal in providing methods for utilizing resources, ensuring best services at lowest cost and endowment for a vibrant local government.

Biswanath Das*

Dr. Sutapa Das (Dhar)**

1. Introduction

Local Bodies are more accountable to local citizens and are more appropriate to local needs and preferences. These institutions are meant for grass root level planning and implementation of a number of utility services. *The Eleventh Five Year Plan (2007-12) of India reiterates the objective of removal of regional imbalance through participatory planning process at the grass root levels.*(IIR,2008) Accordingly it has become pivotal to the development plans to promote these institutions as a way to foster both local democracy & development with effectiveness & inclusiveness.

Also the Primary objective of the National eGovernance Plan (NeGP) that has been approved by the Government of India in May 2006 was to "*make all government services accessible to the common man in his locality, throughout common service delivery outlets and ensure efficiency, transparency & reliability of such services at affordable costs to realize the basic needs of the common man*". *(11th Plan,2008,Vol.I).* And to fulfill the NeGP objectives it has become urgent for Government of India to formulate various policies that ensure minimum leakage and cost effective deployment of local resources.

* F.I.C.W.A , Practicing Cost Accountant
E-mail: dgmasso@yahoo.com

** M.A (Eco) Ph.D, Research Fellow
E-mail: sutapadas 2003@yahoo.com

With the continuous growth of population and increased need of amenities, the Panchayats and Urban Local Bodies (ULBs) face heavier demands for the provision of a host of necessary public services and need to accept two important steps – utilize the existing funds appropriately along with the objectives of mobilizing their own resources and reduce the expenditure on major items through analyzing the actual cost of each items of its expenditure.

And these two objectives can be achieved through introduction of a systematic costing system within each local body in India, guided by a proper regulatory mechanism that can also ensure its performance activity.

The purpose of the *second part* of this study is to analysis of basic structure of Indian local bodies. The third part identifies the nature of problem regarding the actual accounting rules and practices followed by the Local Bodies in India, while the *fourth part* gives an elaborative structure of cost accounting measurement system that can be applied to their activity and utility services and the *fifth part* gives some suggestion for its implementations.

2. An overview

2.1 The concept

The term "local Bodies" refers to such institutions of Government which carry on the local affairs Viz , Corporations, Municipalities, Notified area committees, Town Area Committees, District Boards, Panchayats etc. *They are the local self-Government at the third tier of governance in administrative and geographical vicinity.* Entry 5 of List II (State List) of the Seventh Schedule to the constitution of India refers to Local bodies as institutions created by State governments.

The Republic of India along with its 28 states and 7 union territories comprises of 3723 urban local bodies and 237824 rural local bodies. (Table1).These local governments are known as Panchayats in rural areas and municipal corporations, municipalities and nagar panchayats in urban areas

2.2 Structure

The form and structure of the local self government in India since post independence is based on Lord Ripon's Resolution on local self government adopted in May 1882. The current structure of these bodies has remained essentially the same till now, although problems and areas of services have vastly increased. Since Independence State Governments of India has been wary of strong Local Governments and in 1989 the 64th and the 65th Amendment Bills were tabled in the Parliament to strengthen rural and urban local bodies but failed. The issue was not raised again till 1992 due to political reasons when it appeared as the 73rd and 74th Amendment Bills which made it mandatory for the state governments to create Panchayati Raj Institutions in Rural areas and Municipalities in urban areas.

Chart 1

2.3Activities

Panchayats and municipalities are now constitutional bodies forming third tier government to the federal polity of India. In order to enable these institutions function as self-government the seventy-third and seventy-forth Amendment Bill relating to local bodies, introduced the 11th schedule of the constitution(Article 243G) that explicitly requires the states to devolve powers & authority on Panchayats lists 29 subjects and the 11th Finance Commission of India arranged classification of function based on this list. 12th Schedule of the constitution (Article 243W) provide illustrative list of 18 subjects for the devolution of the functions to the municipalities. The two lists of these subjects are as under: -

11th Schedule of the Constitution (Article 243G)

Core functions

I. Drinking water
II. Roads, culverts, bridges, ferries, waterways & other means of communication.
III. Rural electrification, including distribution of electricity
IV. Health & sanitation, including hospitals, primary health centre and dispensaries
V. Maintenance of community assets

Welfare functions

VI. Rural housing
VII. Non-conventional energy sources
VIII. Poverty alleviation programmes
IX. Education, including primary &secondary schools
X. Technical training & vocational education
XI. Adult &non-formal education

Chart 1
Political structure of Local Bodies at State level

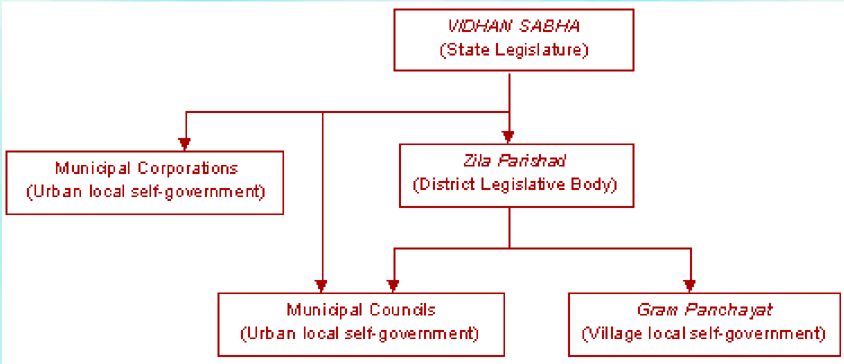


Table1:-Types and number of local bodies in India

Levels of Rural Local Bodies	Numbers	Levels of urban Local Bodies	Numbers
Gram village Panchayats(including village councils & boards)	23,650	Municipal Corporations	109
Panchayat Samities	6,795	Municipalities	1,432
Zilla Panchayats	531	Nagar Panchayats	2,182
Autonomous District Councils	9		0
All Rural Local Bodies	2,37,824	All Urban Local Bodies	3,723

Source:-Twelfth Finance Commission Report

XII. Libraries
XIII. Cultural activities
XIV. Family welfare
XV. Women & child development
XVI. Social welfare, including welfare of the handicapped & mentally retarded
XVII. Welfare of the weaker section &in particular, of the schedule castes and Schedule tribes
XVIII. Public distribution system

Agriculture & allied

XIX. Agriculture, including agri-cultural extension
XX. Land improvement, implementation of land reforms, land consolidation & soil conservation
XXI. Minor irrigation, water management and watershed development
XXII. Animal husbandry, dairying & poultry
XXIII. Fisheries
XXIV. Social forestry & farm forestry
XXV. Minor forest produce
XXVI. Small-scale industries, including food processing industries
XXVII. Khadi, village & cottage industries
XXVIII. Fuel & fodder
XXIX. Markets & fairs

12th Schedule of the Constitution (Article 243G)

I. Urban planning including town planning.
II. Regulation of land use and construction of building.
III. Planning of economic and social development.
IV. Roads and bridges.
V. Water supply for domestic, industrial and commercial purposes.

VI. Public Health, sanitation, conservancy and solid waste management.

VII. Fire services.

VIII. Urban forestry, protection of the environment and promotion of ecological aspects.

IX. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.

X. Slum improvement and up gradation.

XI. Urban poverty alleviation.

XII. Provision of urban amenities and facilities such as parks, gardens and playgrounds.

XIII. Promotion of culture, educational and aesthetic aspects.

XIV. Burials and burials grounds; cremations , cremation grounds and electric crematoriums

XV. Cattle ponds, prevention of cruelty to animals.

XVI. Vital statistics including registration of births and deaths.

XVII. Public amenities – street lighting ,parking lots , bus stops and public convenience.

XVIII. Regulation of slaughter houses and tanneries.

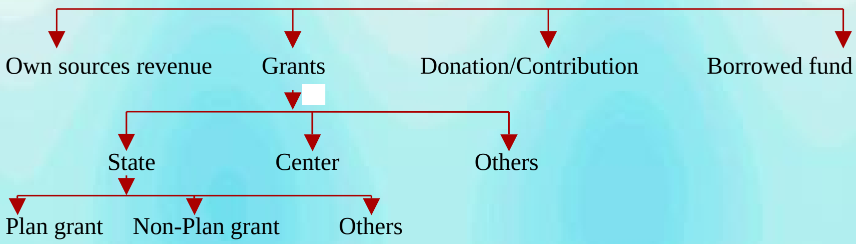
3. Assessment of financial requirement

Local governments contain huge spending needs due to the socio-economic composition of the local population and also because of the high cost of providing a given local service. The chart 2 gives a general idea of sources of finance that are assigned to local bodies.

In India the overall taxation base of the local bodies is so poor that they derive over 90% of their revenues from grants-in-aid.(IIR,2007) Thus grants and aids from central & state

Chart 2

Sources of Finance of LBs



government are the mainstay of the financial requirement of LBs and they depend exclusively on both the higher governments to meet their development & operation expenses.

The first assessment of the financial needs of local bodies was undertaken by the 11th Finance Commission of India under the provision of the 73rd & 74th Amendments on a full-fledged basis. A grant of Rs 10000 crores was recommended for maintenance of civic services including primary health, family welfare, education and other public utility services for the years 2000-05 by the 11th Finance Commission. The division of the grants in aid was in the ratio 80:20 for the Panchayats and the Municipalities. The reason for such division that the Commission explained is that the ULBs had greater access to tax and non-tax resources of their own & therefore the PRIs require substantial support. The Commission also fixed that the amount of grant was to be distributed on the following criteria and weights.

1. Population 40 percent
2. Index of decentralization 20 percent
3. Distance from highest per capita income 20 percent
4. Revenue effort 10 percent
5. Geographical area 10 percent

The 12th finance commission on local bodies recommended a total grant of Rs 25000 crores for the years 2005-10.The table 2 gives the total amount of grants provided by both of the Commissions to the rural and urban Local bodies for the present decade.

4. Cost Accounting System

4.1 Nature & scope of the cost accounting system

Recently lack of developed cost based accounting system has been identified by multilateral agencies (the World Bank, OECD, UNCTAD) as one of the major obstacle to economic development. (UN,2000) Absence of any ascertainment of activity-wise cost means that expenditure incurred for all activities is totally unknown. But these are the information most urgent for maximizing utility of services and to develop performance level. Without the knowledge of cost structure, its allocation and range of requirement, the LBs cannot determine which areas of services are more urgent and expensive or attempt to restrict costs, or curb those activities which make little contribution. Thus cost information and knowledge of cost behavior is essential at all levels of the local government so as to make themselves managed and developed and to keep accountability regarding,

- Maintenance of financial resources & controlling corruption.
- Responsiveness to the need of local people. (being at the closest level of the people)

Table 2

Total grants to local bodies during 2000-2005 and 2005-2010 (Rs. Crore)

Particulars	Urban	Rural	Total
11th FinanceCommission	2,000	8,000	10,000
12th FinanceCommission	5,000	20,000	25,000

- Answerability for the efficient and effective use of public resources
- Finally their responsibility to the decision making authority.

These accountabilities would also on the whole ensure transparency & performance measurement through a check on the possibility of misuse of power.

4.2 Importance of introducing improved system of cost accounting

LBs often complain of the scarcity of the central and state funds and also fail to mobilize sufficient own source of funds. On the other hand widening resource gap also results from increasing costs of providing these services coupled with shrinking budgetary support. *The budgetary System of India is specifically based on fund management i.e on how much but remained absolutely silent on how best.* An improved system of Cost management system will not only analyze the correctness of the declared financial crisis but also reduce the expenditure on major items through analyzing the actual cost of each major item of its expenditure.

The current system of accounting and the nature of problems faced by LBs in their performance level are as follows-

- The existing LBs have intended merely to meet the accounting and reporting needs of huge expenses they are to execute, but lacks in keep activity-wise financial records.
- LBs are unaware of the usefulness of keeping service-wise accounting & cost reports for control and decision making process.
- LBs keep inadequate information system and an insufficient service structure.
- LBs lack skilled personnel infrastructure to implement existing accounting rules & regulations.
- LBs do not realize the need for sophisticated system and management guidance.

The unit cost of each activity needs to be measured cost component wise in order to correctly ascertain and target the expenditure reduction strategies. This would involve the following key initiatives:-

1. To find the cost parameters of various services rendered by the Local bodies.
2. To ascertain the actual cost of services per unit
3. Recovery of actual user charges that will lead to proper maintenance of assets.
4. To impart Training to the key personnel with a view to increase the knowledge base and also enable the LB Authorities to make cost benefit analysis of the various services.
5. To provide Suggestion to the Local bodies for implementation of Cost Reduction plan, if any.
6. Review the existing accounting procedure and system of collection of data and information.
7. Identification of *Cost Centres* in the LBs with proper division of *Activity Cost Centres* and *Service Cost Centres* .
8. Identification of units available in the LBs so that each task /services/ activities could be measured in terms of unit cost such as, cost of supplying a kl of water, cost of collection for each thousand of rupees of property tax etc.
9. Use of standard Cost Accounting Terminology in the Cost Accounting System of LBs so that the terminology used remains in conformity with the Cost Accounting Standards issued by the ICWA of India for *adoption of uniform Cost Accounting System in all ULBs and inter-municipality comparison for performance measurement.*

Thus improved system of cost accounting would permit the LBs to manage their activities better, would allow them to access finance more easily and would assist them in properly calculating the exact amount of resources they need.

LBs should also adopt essential measures to lower the operational cost of their services, such as water supply, street lightening, waste collection etc. To do this the first step is to collect essential data for evaluating the actual amount of services used for delivering the civic services.

4.2.1 Designing formats of Cost sheets for each activity / services.

Ascertainment of unit cost of each activity and services should be based on the figures of budget, actual of current Year and the corresponding previous year.

At the beginning, to keep unchanged the existing codes used by the Accounts department of Local Bodies, as much as possible, for *synchronization of Cost and Financial Accounts in the accounting system*, so that no additional cost involved in implementation of Cost Accounting System.

Reconciliation of *Surplus/(deficit) of revenue expenditure over income* obtained from existing set of records in the financial accounts is also essential with the *summed up activity wise Income / Expenditure of the services arrived at in the activity base cost sheets* under Cost Accounting Records.

4.2.2 Reviewing the existing accounting procedure / codification and system of collection of data and information.

In the present system of conventional accounting, Municipalities and Panchayats in India are unaware of what the fund they receive for their expenditure budget or the actual cost they incur in performing the services. Consequently they are not in a position to improve their financial problems or improve their quality of services. Similarly LBs were not so far under any obligation to maintain activity/service cost centre wise expense/revenue records. But the existing system of classification of expense/revenue heads in the LBs needs to be modified for Cost Accounting implementation.

The analysis of the expenses / revenues as per needs of ascertaining unit cost of each activity is required up to the extent it is permitted by existing set up. In the codification system, scope of activity/service cost centre wise recording of expenses / revenue is necessary. The expenses thus analyzed, regrouped and re-clubbed, are identified with the activity /service cost centre wise as much as possible from the codes / existing system.

4.2.3 Identification of Cost Centres in the LBs with proper division of *Activity Cost Centres* and *Service Cost Centres*.

After reviewing the existing activities and accounting system of any specific Local Body, the expenses & revenues are identified and allocated & apportioned to the core Activity / Service Cost Centre and referred to specific Proforma/Schedule. The arrangement can be set in tabular form (Table 3).

The expenses /revenues under Financial Accounts are linked up and identified as much as possible with the above Activity & Service cost centres to ascertain unit cost / revenue of each services. Such expenses /revenues are placed in the cost sheets of Activity Cost centre - Water / Public Health / Conservancy / PWD / Crematorium / Tax & Assessment /Street Light / Govt. Programme and Cost sheets of Service cost centres – General / Establishment / Accounts / Cash.

The cost and revenue of Service Cost Centre are further allocated / apportioned to different Activity Cost Centre, explained later on.

Table 3

I. Activity Cost Centre	1. Water	Ref –Proforma - A
	2. Conservancy	Ref –Proforma - B
	3. Tax & Assessment	Ref –Proforma - C
	4. Public Health	Ref –Proforma - D
	5. Crematorium	Ref –Proforma - E
	6. PWD	Ref –Proforma - F
	7. Street Light	Ref –Proforma - G
	8. Govt. Programme	Ref –Proforma - H
II. Service Cost Centre	(a) General/Establishment	
	(b) Accounts	Schedule No.-
	(c) Cash	S1, S3 & S-5

4.2.4 Identification of measurable units for each Service /activity

Selection and Identification of units remains available with the Local Bodies so that each task /services/activities could be measured in terms of unit cost such as, cost of supplying a kl of water, cost of collection for each thousand of rupees of property tax etc. On the basis of this available data with the LBs, the measurable units for each activity are chosen (Table 4).

4.2.5 Checking of the terminology already in use in the Cost Accounting Standards issued by ICWA of India

Adoption of Cost Accounting Standard and Checking of the terminology already in use in the Cost Accounting Standards are needed for ascertaining the cost of local services and preparation of cost statement on a consistent & uniform basis and with a view to keep conformity and avail comparability of the same with that of previous year and with the other Local bodies. It will help Local bodies to provide data for inter-Local bodies' comparison for performance measurement. Subsequently it will also guide the Regularity Authorities for better transparency in the local body governance and fixation of Tariffs of services, if necessary, in uniform basis within municipalities/ Panchayati Raj Institutions.

4.2.6 Glossary in costing system in the Local Bodies

A. Cost Centre – Unit for accumulating cost. In case of LBs, different functional areas are chosen as cost centre. Cost centre are divided into two types – Activity Cost Centre and Service Cost Centre

B. Activity Cost centre: Functional area engaged in activities. The following are the Activity Cost Centre and activities involved thereon illustrated in Table 5.

C. Service Cost Centre: Functional area engaged in support service to perform activities of the Local body mentioned in the Twelfth Schedule

Table 4

	LBs' Activity	Unit for Measurement of Cost
1	Water	Per Kilo Litre
2	Conservancy/Solid Waste Collection & Disposal	Per Ton
3	Tax & Assessment	Collection per each Rs ' 000
4	Public Health	Per Capita
5	Crematorium	Per Head
6	PWD	Per Asset Value each Rs.' 000
7	Street Lighting	Per Km

in the Constitution. The following are the Service Cost Centre and activities involved thereon illustrated in Table 6.

4.2.7 Formulation of Cost sheets for each activity.

Proforma cost sheets for each activity, that to be maintained by the LBs has four parts. The contents of each part are stated in Table 7.

4.2.8 Methodology of maintaining Activity wise Cost Sheet

1. Recurring operation and maintenance expenses, exclusively identified for a particular Activity / Service cost centre, are to be allocated to the respective cost centre.
2. Periodical Expenses, like salary & wages, allowance booked for a particular Activity / service cost centre, are to be allocated to respective cost centre.
3. Similarly revenue incomes, exclusively identified for a particular Activity / Service, are to be recorded in respective cost sheets.
4. Separate records for Revenue expenses and per capita expenses are to be maintained at all cost centre.
5. Asset Register is to be maintained at respective cost centre. If an asset is identified for a particular cost centre, the same is to be allocated to that cost centre. If it is used by more than one cost centre, apportionment of depreciation of that asset is to be done on the ratio of expenditure of the concerned cost centre, or/otherwise on the basis of ratio provided by the technical personals.

4.2.9 Steps to be followed for Preparation of Cost Sheet

Broad outline of basic principles, to be followed for preparation of Activity -wise Cost Sheets have already been explained. The following are the steps for preparation of Activity Base Cost Sheets.

Table 5

	Activity Cost Centre	Functional Area / Activities
1	Water	Supply of water to citizen, House connection, Water tank for drinking water, Shifting of Ferrule, Ferrule washing, related water works
2	Conservancy /Solid Waste Collection & Disposal	Septic tank clearing, removal of garbage, Sanitation, Vector control spraying, Sewerage
3	Tax & Assessment	Collection of taxes, Trade/Food / Riksha License, Assessment & Mutation
4	Public Health	Public health services along with implementation of Govt. Health programme , Issue of Birth / Death Certificate, Ambulance Service , Maternity & Dispensary
5	Crematorium	Crematorium Activities, Burning Ghat & Burial Ground
6	PWD	Repair & maintenance of municipal Assets, Building, Roads, Play ground, drains etc.
7	Street Lighting	Maintenance of Street Lighting
8	Govt. Programme	Implementation of Govt. Programme like , Mid day meal ,BPL, SJSRY ,NOAPS, Sarbhasikha , Shishubikash etc.

Table 6

	Service Cost Centre	Functional Area / Activities
1	General	General Administration, all kinds of planning, Establishment Store etc.
2	Accounts	Processing of Bill Payment, Budget preparation, Finalization of Annual Accounts etc.
3	Cash	Sale of Form, Cash receive /payment, banking transaction

Table 7

Part A	Relates to *Quantities / Technical / Statistical Information* of the Activity for current and previous year, which contains: - 1. Infrastructure of the Activity cost centre such as for water activity (1) Number of pumps (2) Capacity of Reservoir (3) Number of water tank (4) Manpower etc 2. Quantative information for the period such as for water activity (1) Number of water connection (2) Raw water received (3) Total Population etc. 3. Technical information for the service such as (1) Power consumption (2) Standard Consumption capacity rate per capita etc
Part B	Relates to *Revenue information* of the activity – which includes actual figure of current and previous year to ascertain revenue per unit and also budgeted figure of current year for comparison, for example in water activity followings are to be included for revenue per KL: - 1. Amount receipted for connection charges separately from commercial building, house etc 2. Sale of drinking water 3. Charges against Ferule washing etc.
Part C	Relates to *Cost information* of the activity for actual figure of current and previous year to ascertain cost per unit and also budgeted figure of current year, such as in water activity followings are to be included for Cost per KL: - 1. Periodical operation cost of the period – Salary & wages, Depreciation, Insurance 2. Variable & other operation and maintenance cost of the activity. etc.
Part D	Relates to *Summary of Cost /Revenue per unit & per capita/ performance indicator*, such as in water activity followings are to be included: - 1. Total Revenue and Cost as per Part B & C 2. Revenue and Cost per unit 3. Revenue and cost per capita etc.

Step 1 : Periodical Expenses like salary & wages, allowance allocated for a particular Activity / service cost centre and recurring operation and maintenance expenses exclusively identified for a particular Activity / Service cost centre are to be allocated / recorded to the Cost Sheet of respective cost centre as specified in para 4.2.3 & 4.2.6

Step 2 : Similarly revenue incomes exclusively identified for, are to be grouped / classified /allocated to concerned Cost Centre and set in the respective Proforma of Activity Cost Sheets - A,B,C,D,E,F,G,H and other common Revenue Grants /Contribution / Subsidies etc. are to be set in Schedule No. "**S-1**".

Step 3: Finally total expenses/ income of service centers are to be apportioned to activity cost centres on the ratio of total cost of activity cost centers (Ref schedule no .**S-1, S-2, S-3, S-4, S-6, S-7,S-8)**. The details are in Table 8.

Step 4 : Reconciliation of *Excess of revenue expenditure over income* obtained from existing set of records in the Financial accounts with the *summed up activity wise Income / Expenditure of the services arrived at in the activity cost sheets* under Cost Accounting System (Ref Schedule no. **S-8**).

A specimen of cost sheet for Water Supply **(Proforma-A)** and summery sheet of all activity-wise income expenditure as per cost accounts **(Proforma-I)** have been appended at the end of the article.

5. Conclusion and suggestion

A number of important conclusions can be achieved from this study which will carry importance within the area of policy formulation.

Indian economic reform without reform in Local Governments may fail in bringing overall development within the country. The study emphasizes four important reasons for introducing a cost effective reform process in LBs that is imperative for the growth of the country at the grass root level. These are,

- for a spiraling local governance
- a transparent accounting practice
- a proper utilization of public fund, and finally

Chart 3

Broad Outline of Allocation & Apportionment

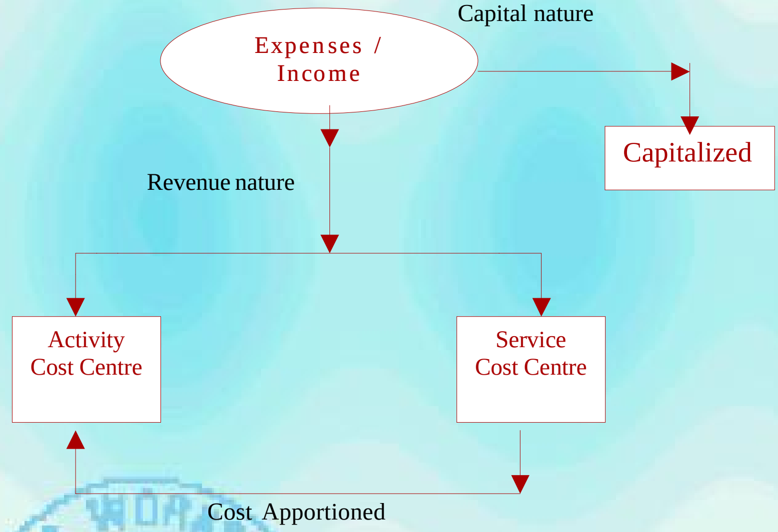


Table 8

	Schedule No	Contents
1	S-1	Apportionment sheet of *General Revenue* i,e Grants / contributions/ subsidies etc. to Activity Cost Centres.
2	S-2	Basis of apportionment and distribution of *Common incomes* to Activity Cost Centres shown in schedule – S-1
3	S-3	Apportionment sheet of General *Periodical Expenses* i,e Group insurance / Pension gratuity / P.F / Fixed overhead etc. of service cost centres etc. to Activity Cost Centres.
4	S-4	Basis of apportionment and distribution of *periodical expenses* of service cost centre – General/Cash/ Accounts/Establishment to Activity Cost Centres shown in schedule S-3
5	S-5	Apportionment sheet of General *variable and other operation & maintenance expenses* i,e Telephone/ electricity/ office contingency / fuel/ bank charges /printing & stationery /legal charges etc. of service cost centres etc. to Activity Cost Centres.
6	S-6	Basis of apportionment and distribution of *variable and other operation & maintenance expenses* of service cost centre – General/Cash/ Accounts/Establishment to Activity Cost Centres shown in schedule S-5
7	S-7	Activity and service cost centre wise *Fixed Asset and depreciation allocation schedule* .
8	S-8	Reconciliation of Cost & Financial Accounts

- to improve the current practices of pricing and cost recovery

The trend of development that is witnessed throughout the world since 1990s is to put emphasis on transfer of responsibilities to the local bodies with the objectives of strengthening local governance. The present study argues for a change in the policy affairs of the Local Bodies and recognizes that efficiency, effectiveness and proper utilization of resources are the key governance prerequisites for attaining best performance in local service delivery and are extremely essential for handling financial crisis in LBs. And these governance objectives can be achieved through an extensive use of improved management of costing system and proper implementation of the procedure in all local governments of the country. Good local governance will ensure not only delivery of quality services but also support sustainable local development & facilitate outcomes that enrich the quality of life of local citizen.

Thus the study aimed at developing a cost- effective management system for LBs. Till now our planning process lacks any study of evaluation of core utility services in which millions of Rupees are spent. The formulation of activity wise cost sheets is nothing but an evaluation process. Reform in accounting practices of LBs is essential to reflect the true cost of service delivery & ensure transparency in the revenue system. It provides scan report of each activity in detail cost component wise, like composition of total cost by segregating period cost and operation & maintenance cost, with a comparison of corresponding previous year figure and also with budgeted figure and also prerequisite for benchmarking the areas where reduction of cost is effective.

Activity based cost data is also significant for performance evaluation of LB's through comparison of its cost component with that of other LBs' especially while following the strategy of reducing O & M Costs .

The other conclusion of the study is concerned with the fund management. The ever increasing burden of fund requirements by LBs has already made the Government of India unable to afford the fund flow. Also overall lack of adequate transparency in cost information reflects & reinforces low accountability in utilization of public funds. The culmination of activity based audited cost data will essentially supply information on fund utilization by the LBs to the Government of India, who provides the fund & also help the later in making decision about the future allocation of resources.

Revenue support of LBs cannot be strengthened without better cost recovery and commercialization of local services. Maintenance of cost data and discloser of cost of each service by the LBs would help Government in fixing the user charges and also the amount of subsidies. It has been suggested by many of the states of India to the Eleventh Finance Commission that rate structure of user charges should be revised regularly to keep pace with inflation to recover the O & M costs of providing these services and LBs should have the power to fix the rate.

The overall conclusion of the study is that it is imperative to create a sense of cost consciousness among LBs to maintain their efficiency and performance. A number of countries are now in progress to analyze the methodology on estimation of costs of different utility services. Government of India should also take various courses of action in order to help LBs in this accounting area.

Hopefully since the post decentralized period several initiative policies have been devised for the LBs emphasizing a cost effective reform process within it. A task force has been set up by C&AG of India in 2002 which suggested for improving the present management systems of LBs through introduction of a cost accounting system. Recently an Expert Group constituted by Ministry of Corporate Affairs, Govt. of India felt the rationality of instituting a systematic cost information mechanism in non-profit organizations inclusive of LBs (Recommendation No.39, in the review of cost accounting Records Rules, Cost Audit Report Rules & Cost Accounting Standards)

The Eleventh Five Year Plan put priority on increasing financial base of LBs to create efficient pricing of services and initiated reform measures under JNNURM which aimed at developing transparency and accountability in governance and a modern transparent budgeting, accounting and financial management systems and also fixation of tariff and cost audit for core municipal services (11th Plan, 2008, Vol.III)

The cost of institutional and managerial inefficiencies should not be patronized and loaded on user charges. LBs should function as a self government while fixing user charges, but within the framework of an independent regulatory authority.

While fixing cost based user charges for the recovery of operational & maintenance charges of Local Bodies, regularity authority should help in ensuring best services to the citizen at the lowest cost to measure the cost effectiveness with which each rupee is spent.

Maintenance of Activity wise cost records and its audit would allow the regularity authorities to access sensitive operation details of LBs regarding different service delivery and making policy decisions related to fixation of user charges so that it covers at least the operational & maintenance cost of services .

Finally for better implementation of costing system a number of schemes can be suggested. These are,

1. To insert activity wise code in the existing codification system in order to ascertain cost of each activity more accurately from the system itself.
2. Preparation of budget - activity & service cost centers wise.
3. Proper monitoring of the budget head at the time of vouching, so that expenditures / revenues are correctly accounted for in the concerned activity and service cost centre.
4. Management information system should be based on updated data generated from the *Proposed Activity base Costing System.*
5. If any adverse variance revealed from the cost sheet, Corrective action should be taken immediate through concerned department.
6. Experts should duly audit cost Sheets at least for every alternative year to monitor the system.

References

1.	Govt. of India (2007)	Expenditure Budget 2007-08,Vol 2
2.	Govt. of India, Planning Commission (2008)	Eleventh Five Year Plan 2007-12,Vol I & III
3.	Govt. of India, Planning Commission (2009)	A Hundred Small Steps. Report of the Committee on Financial Sector Reform.
4.	Govt of India Min. Of Finance(2004)	Indian Public Finance Statistics,2003-04
5.	Govt of India(2007)	India Infrastructure Report 2007
6.	Govt of India(2008)	India Infrastructure Report 2008
7.	OECD (2007)	OECD Economic Surveys. India. Academic Foundation. Indian Edition.
8.	Sehgal R.L & R Asthana(2002)	Financing Pricing & Cost Recovery of Urban Infrastructure. Bookwell Publicaions
9.	Sing,Dr Hosiar (1997)	Local Government (India, .Britain, France & America) Kitab Mahal. Allahabad.
10.	Sury,M.M(ed) (2005)	Finance Commission of India I to XII New Century Publication.
11.	The World Bank (2004)	Fiscal Decentralization to rural Governments in India. Oxford University Press
12.	United Nations (2000)	International Accounting & Reporting issues. Review
13.	Govt of West Bengal,(2004)	State level Seminar on Property Tax & Municipal Accounting Practices Reforms. Part II. Municipal Affairs Dept.

Proforma - A

Name of the Local Body ……………….

Cost Sheet for Water Supply

Financial Year………

A Quantities / Technical Information

Sl	PARTICULARS	Unit	Actual	
			Current Year	Previous Year
1	**Infrastructure / Capacity**			
	(a) Storage Capacity of Water	KL		
	(b) Water Treatment Capacity	KL		
	(c) Number of Pumps	No/HP		
	(d) Number of Pump House	Nos.		
	(e) Number of Water Tank	Nos.		
	(f) Manpower during the year	Nos.		
	(h) Net Fixed Asset as on …….. ... (Ref Sch. 6)	Nos.		
2	**Production**			
	(a) Raw Water received during the year	KL		
	(b) Raw Water available for supply	KL		
	(c) Water Treated during the year	KL		
	(d) Output of the Treated Water during the year	KL		
	(e) Loss of Water/ Internal Consumption	KL		
3	**Consumption / Sale**			
	(a) Sale / Consumption (Bulk Water)			
	(1) Domestic	KL		
	(2) Industrial	KL		
	(3) Governments	KL		
	(4) Others (Tankers etc.)	KL		
	(5) Internal consumption	KL		
	(6) Loss of water / Free Connection	KL		
	(b) Sale / Consumption (Treated water)			
	(1) Domestic	KL		
	(2) Industrial	KL		

	(3) Governments	KL		
	(4) Others (Tankers etc.)	KL		
	(5) Internal consumption	KL		
	(6) Loss of water / Free Connection	KL		
4	Total Population in the Local body	KL		
5	Standard Consumption. rate per capita	KL		
6	Actual Consumption rate per capita	KL		
7	Loss of Water per Capita per day (7) - (6)	KL		
6	(a) Nos. of Water Connection in Commercial Bldg	Nos.		
	(b) Nos. of Water Connection in domestic area	Nos.		
	(c) Nos. of Water Connection in Govt. sector	Nos.		
	(d) Nos. of Water Connection in Industrial Area	Nos.		
	(e) Nos. of Water Connection in other areas	Nos.		
	f) Total Nos. Water Connection (a) to (e)	Nos.		

B Revenue Information

Code	PARTICULARS	Schedule No.	Budget	Actual	Revenue per **KL**	
			C.Y Rs.	C.Y Rs.	C.Y Rs.	P.Y Rs.
	1. Connection charges from water supply (Nos.)					
	2. Sale of Water to Commercial Bldg.					
	3. Sale of Water / Tanker (in KL)					
	4. Ferrule washing / Change of Ferrule					
	5. Meter Rent					
	6. Other receipts.					
	7. Revenue Grants, Contributions and Subsidies	**S-1**				
	Total Revenue Income					

C Cost Information

Code	PARTICULARS	Schedule No.	Budget	Actual	Cost per **KL**	
			C.Y Rs.	C.Y Rs.	C.Y Rs.	P.Y Rs.
	1.Operating Expenses					
	(**A**) Periodical Cost					
	1. Salaries & Wages-Pay & Allowance					
	Overtime Allowance					
	Ex-gratia/ Festival Relief					
	2. Depreciation	**S-7**				
	(**B**) Utility Cost					
	1. Electricity and Power					
	2. Fuel					
	(**C**) Other Operation & Maintenance Cost					
	1.Repair & Maintenance					
	2.Stores & Consumables					
	3.Office Contingency					
	4.Misc Charges					
	5.Water Cess					
	6.Casual Workers					
	2.Allocation & Apportionment of Common Expenses.					
	1. Periodical Cost	**S-3**				
	2. Other Operation & Maintenance Cost	**S-5**				
	Total Revenue Expenditure					

D Total Revenue Income and Expenditure from Water Supply

SL	PARTICULARS	Unit	Budget C.Y	Actual C.Y	Revenue/Cost per **KL**	
					C.Y	P.Y
1	Total Revenue including subsidies	Rs.				
2	Total Expenditure of Water Supply	Rs.				
3	Excess of Revenue over Expenditure **(1 -2)**	Rs.				
4	Total Population Strength	Nos.				
5	Revenue per capita	Rs.				
6	Expenditure per capita	Rs.				
7	Excess of Revenue over Cost per Capita **(^{3}/4)**	Rs.				

Proforma - I

NAME OF THE LOCAL BODY:……………………..

Activitywise Income & Expenditure Statement as per Cost Accounts for F.Y …….

(A) Activitywise Total Income / Expenditure

Cost Centre Code	Name of the Activity	Proforma No.	Current Year			Previous Year		
			Income	Expenditure	Sur / (Defi)	Income	Expenditure	Sur /(Defi)
			(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
			(1)	(2)	(3) =(1)-(2)	(4)	(5)	(6)
01	Water	A						
02	Conservancy	B						
03	Tax & Assessment	C						
04	Public Health	D						
05	Crematorium	E						
06	Public Works	F						
07	Street Lighting	G						
08	Govt. Schemes	H						

(B) Activitywise Unit Cost / Expenditure per Capita

Cost Centre Code	Name of the Activity	Proforma No.	Unit of Mesurement (U M)	Current Year		Previous Year		Increase(+)/Decrease(-) over Preveous Year	
				Cost per Unit (Rs.)	Expenditure per capita (Rs.)	Cost per Unit (Rs.)	Expenditure per capita (Rs.)	Cost per Unit (Rs.)	Expenditure per capita (Rs.)
01	Water	A	KL						
02	Conservancy / Solid Waste	B	MT						
03	Tax & Assessment	C	Per Assessee						
04	Public Health	D	Per Head						
05	Crematorium	E	Per Body						
06	Public Works	F	Assets per Rs ' 000						
07	Street Lighting	G	Km						
08	Govt. Schemes	H	Per Beneficiary						
Total Expenditure per Capita									

(C) Notes on Cost Accounting System : Schedule No - **S** - **9**

(D) Reconciliation of Cost and Financial Accounts : Schedule No - **S** - **8**

Proforma and Schedules referred to herein form an Integral Part of the Statement.

Place…………	Cost Accountant	CFO	Chairman
Dated :……….	Membership No.	Name of the Local Body	Name of the Local Body

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

MANAGEMENT DEVELOPMENT PROGRAMMES 2009-10

DATES	TOPIC	VENUE	STATUS & FEE (Rs.) Non-Res. NR	Residential SR	TS
MAY, 2009					
21-22	International Financial Reporting Standards (IFRS)	Delhi	8,000		
JUNE, 2009					
09-12	Recent Trends in Financial Management	Ranikhet (Nainital)		26,000	
09-12	Contract Management	Ranikhet		26,000	
18-19	International Financial Reporting Standards (IFRS)	Chennai	8,000		
23-26	Finance for Jr. Finance and Accounts Officers and Non-Executives (F&A)	Ooty		26,000	
23-26	Service Tax, VAT, TDS & FBT	Ooty		26,000	
Last Week	Advanced Financial Management	France, Germany, Netherlands & Switzerland			
JULY, 2009					
14-17	Advance Tax, TDS and FBT*	Puducherry (Pondicherry)	12,000	26,000	24,000
14-17	Internal Auditing for Effective Management Control*	Puducherry	12,000	26,000	24,000
23-24	International Financial Reporting Standards (IFRS)	Kolkata	8,000		
29-31	Corporate Tax – Planning, Compliance and Management*	New Delhi	12,000		
AUGUST, 2009					
06-07	International Financial Reporting Standards (IFRS)	Mumbai	10,000		
19-21	Contract Management*	New Delhi	12,000		
24-28	Strategic Financial Management	Dubai		1,30,000	
SEPTEMBER, 2009					
01-04	Financial Risk Management	Port Blair		30,000	
09-10	Service Tax	Delhi	8,000		
11	VAT	Delhi	4,000		
16-18	Management of Taxation - Service Tax, VAT, Excise, TDS & FBT*	Bangalore	12,000		
OCTOBER, 2009					
06-09	Finance for Jr. Finance and Accounts Officers and Non-Executives (F&A)	Goa		26,000	
06-09	Service Tax, VAT, TDS & FBT	Goa		26,000	
21-23	Cost Control and Cost Effectiveness*	Hyderabad	12,000		
27-30	Global Convergence of Accounting Standards & IFRS*	Kochi (Cochin)	12,000	26,000	24,000
NOVEMBER, 2009					
03-04	Financial Management for NGOs & Autonomous Bodies	Delhi	6,000	18,000	
11-13	Advance Tax, TDS & FBT	Chennai	12,000	32,000	
11-13	Internal Auditing for Effective Management Control	Chennai	12,000	32,000	
17-27	Advanced Financial Management	Singapore, Kualalumpur & Bangkok		2,05,000	

DATES	TOPIC	VENUE	STATUS & FEE (Rs.)		
			Non-Res.	Residential	
			NR	SR	TS
DECEMBER, 2009					
02-04	Management Audit and Performance Optimisation*	Kolkata	12,000		
08-11	Corporate Tax - Planning, Compliance & Management	Shirdi		26,000	
08-11	Corporate Finance including IFRS	Shirdi		26,000	
17-18	Project Appraisal and Management	Delhi	8,000		
JANUARY, 2010					
05-08	Recent Trends in Financial Management*	Lonavala	12,000	26,000	24,000
05-08	Finance for Jr. Finance and Accounts Officers and Non-Executives (F&A)	Lonavala (Maharashtra)		26,000	
FEBRUARY, 2010					
03-05	Contract Management	Delhi	12,000		
09-12	Management of Taxation - Service Tax, VAT, Excise, TDS & FBT	Bhubaneswar		26,000	
09-12	Corporate Finance including IFRS	Bhubaneswar		26,000	
17-19	Foreign Exchange Risk Management	Delhi	12,000		

* Joint Programmes with Department of Public Enterprises, Government of India. (Confirmation Awaited)

NR - Non-Residential Programmes (Fee includes course fee, course material, lunch, tea/ coffee etc.)
Res. - Residential Programmes (Fee includes course fee, course material, accomodation, all meals and visits)
SR - Fee on single room basis
TS - Fee on twin sharing basis
CEP Credit Hours - [For 1 Day Prog. – 4 Hours] [For 2 Days Prog. – 6 Hours] [For 3 Days & more Prog. – 8 Hours]

For Kind Information

★ For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

★ For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.

★ For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.

★ The Payment of the Fee is to be made by Cheque / DD in favour of **'The Institute of Cost and Works Accountants of India' payable at New Delhi.**

★ **Details for ECS Payment :** State Bank of India, Lodhi Road Branch, New Delhi - 110 003
Current A/c No. : 30678404793 MICR Code : 110002493 IFSC Code : SBIN0060321

LIST OF EXCLUSIVE TAILOR-MADE IN-HOUSE PROGRAMMES OFFERED BY THE INSTITUTE

- Accounting Standards
- Activity Based Costing and Management
- Advance Tax, Tax Deduction at Source & FBT
- Capital Budgeting and Investment Decisions
- Corporate Tax - Planning, Compliance and Management
- Cost Accounting Records and Cost Audit
- Contract Management
- Corporate Taxation
- Cost Analysis
- Cost Control and Cost Effectiveness
- Cost Management
- Costing for Engineers
- Evolving from Manager to Leader
- Finance for Junior Finance and Accounts Officers and Non-Executives (F&A)
- Financial Management
- Financial Management for NGOs and Autonomous Bodies
- Financial Management for Non-Finance Executives
- Financial Risk Management
- Foreign Exchange Risk Management
- Global Convergence of Accounting Standards and IFRS
- Import-Export Procedures and Documentation
- Information Systems Audit
- Internal Audit for Effective Management Control
- International Accounting Standards
- International Financial Reporting Standards (IFRS)
- Management Accounting
- Management of Taxation
- Managerial Effectiveness
- Materials Management
- Orientation Programme for Executives/ Non-Executives
- Project Cost Management
- Project Management and Project Financing
- Service Tax
- VAT
- Valuation and DCF Modelling using Excel

LIST OF ORGANISATIONS BENEFITED FROM ICWAI EXCLUSIVE IN-HOUSE PROGRAMMES

- Airports Authority of India
- Bhakra Beas Management Board
- Bharat Aluminium Company Ltd.
- Bharat Heavy Electricals Ltd.
- Bharat Sanchar Nigam Limited
- CAG Office, New Delhi
- DCM Limited
- Delhi Tourism & Transportation Development Corp. Ltd.
- Delhi Transco Ltd.
- Department of Personnel and Training, Govt. of India
- Department of Posts, Govt. of India
- Directorate General of Quality Assurance (DGQA), Ministry of Defence, Govt. of India
- Engineers India Ltd.
- GAIL (India) Ltd.
- Hindustan Copper Limited
- HUDCO Ltd.
- IBP Company Limited
- Indian Air Force
- Indian Farmers Fertiliser Cooperative Ltd.
- Indian Oil Corporation Limited
- Indian Railways
- Indian Renewable Energy Development Agency Ltd.
- IRCON International Ltd.
- KRIBHCO Ltd.
- Mahanagar Telephone Nigam Ltd.
- Maruti Udyog Ltd.
- MMTC Ltd.
- Ministry of Tourism, Govt. of India
- National Academy of Customs, Excise and Narcotics
- National Academy of Defence Accounts
- National Aluminium Co. Ltd.
- National Highways Authority of India
- National Seeds Corporation Ltd.
- Naval Headquarters, Government of India
- Nepal Electricity Authority, Kathmandu, Nepal
- Nepal Telecom Co. Ltd., Kathmandu, Nepal
- Nuclear Power Corporation of India Ltd. (RAPS)
- O.N.G.C. Ltd.
- Ordnance Factory Board
- Oil Industry Development Board
- Power Finance Corporation Ltd.
- Power Transmission Corp. of Uttarakhand Ltd.
- RITES Limited
- Rural Electrification Corp. Ltd.
- Satluj Jal Vidyut Nigam Ltd.

ABOUT THE INSTITUTE

The Institute of Cost & Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in Cost and Management Accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

- ★ To promote the knowledge of Cost and Management Accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.
- ★ To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.
- ★ To create knowledge through research both applied and conceptual relevant to management accounting and its underlying disciplines so as to disseminate such knowledge through publications.

For further details and Registration please contact :

Shri D. Chandru, Addl. Director (PD&P)
The Institute of Cost and Works Accountants of India
Professional Development and Programme Directorate
ICWAI Bhawan, 3 Institutional Area, Lodi Road, New Delhi - 110 003
Phones : 011-24622156, 24618645 (D) 011-24643273 (M) 09818601200
Tele-Fax : 011-43583642 / 24622156 / 24618645
E-mail : mdp@icwai.org Website : www.icwai.org

President
SHRI KUNAL BANERJEE
Vice President
SHRI A.S. DURGA PRASAD
Chairman, Continuing Education Programme Committee
Dr. SANJIBAN BANDYOPADHYAYA

EASTERN REGION

3 Days Seminar of IFRS

EIRC of ICWAI organized a 3 days seminar on International Financial Reporting Standard (IFRS) at its own auditorium at 84. Harish Mukherjee Road, Kolkata-700 025 during 29th 30th and 31st May, 2009.

The programme was inaugurated on 29th May, 2009 at 9.30 AM by Shri R. Misra, Director Finance, Heavy Engineering Corporation, Ranchi who was Chief Guest of the Programme. Inaugural Session was also graced by Guest of Honour Shri I. N. Chatterjee, Executive Director of Jindal Drilling and Industries Ltd., Shri Debashis Saha, Chairman, EIRC, Shri Manas Kr. Thakur, Vice-Chairman, EIRC and Shri Pallab Bhattacharya, Treasurer, EIRC.

The Program was intended to give an overview of Application of IFRS in Indian Scenario. The program focussed more on concepts that are relatively new under Indian GAAP and on topics which by and large potentially impact the net worth and profit or loss under more common situations. Additionally it was intended to give overview on select other topics across the spectrum. Considering the fact that lot of challenges are faced during the first time implementation, a session was dedicated on sharing implementation experience by various consultants and users both large and SME.

Nationally renowned experts having in-depth knowledge, experience and expertise about the IFRS had addressed the program. The galaxy of speakers included Shri Dipankar Chaterjee, Sr. Partner, L B Jha & Co., Shri Ashis Bhattacharyya, IIM, Kolkata, Shri Amit Lodha from Ernst & Young, Shri Sanjay Bhattacharyya, reputed tax consultant, Shri Bhaskar Sarkar, Director, KPMG India Pvt. Ltd., Shri Abhijit Bandyopadhyaya, Partner, Deloitte Haskins & Sell, Shri Mrityunjay Acharya, Sr. Manager–Taxation and Head of Internal Audit Balmer Lawrie & Co. Ltd., Dr. Anirban Ghosh, Professor, Netaji Subhas Open University etc.

Delegages from different Public/ Private Sectors and practicing members participated in the programme. The seminar was very much interactive and the participants appreciated the value addition.

CUTTACKBHUBANESWARCHAPTER

Faculty Meeting for further Improvement of Oral Coaching

Faculties, Managing Committee members and staff of the Chapter met on 29th March, 2009 to make a detailed discussion on various issues to bring on further developments and rigor in oral coaching. Considering the increasing number of student strength and their expectations, the Managing Committee decided to discuss many relevant issues with the faculties and sought their active co-operation and support.

All the faculties and Managing Committee Members shared their personal views and opinions and drawn a road map for further development of the Oral Coaching imparted by the Chapter. Vice Chairman, CMA. S. K. Sahoo & Hon' Director (Oral Coaching) CMA. A. K. Swain coordinated and conducted the meeting. CMA, D Saha, Chairman, EIRC of ICWAI also shared his valuable suggestions to bring in further refinement in the Oral Coaching process.

42nd Oral Coaching Class Inaugural Function

The Chapter organized an inaugural function for the 42nd batch of Oral Coaching on 05.04.09 at its conference hall. CMA D. Saha, Chairman, EIRC of ICWAI, CMA D. K. Das, CMA K. K. Sastry, CMA N. Mohapatra all past Chairman's of the Chapter and CMA L. D. Sahoo senior member of the Chapter were the quests of the occasion and addressed the newly enrolled, who participated in large numbers.

CMA A. K. Swain, Hon' Director (Oral Coaching) coordinated the whole program. CMA Shri S. P. Padhi, Chairman, CMA S. K. Sahoo, Vice Chairman, CMA, M. R. Lenka, Chairman P. D. Committee, CMA S. K. Sahoo and CMA S. P. Kar also addressed and encouraged the students with their advice and guidance.

CMA S. K. Samanta, Secretary of the Chapter extended the vote of thanks.

Seminar on "Corporate Governance-Exceptions and Expectations"

A seminar on **"Corporate Governance-Exceptions and Expectations"** was organized by the Chapter on 10.04.2009 at it's conference hall.

Mr. K. N. Ravindra, Company Secretary, NALCO Ltd. presented the paper in the seminar and elaborated the following important issues like Qualification of independent directors, Board room practices, Role of promoters in the appointment of independent directors, Appointment & fixation of remuneration of independent directors, Evaluation of performance of director, Tenure and reappointment of directors, Setting of good governance procedure, Dependence on promoters w.r.t appointment, remuneration of Auditors, Lack of transparency in corporate financial reporting by suppression of facts.

WESTERN REGION

WIRC-ICWAI Students' Felicitation Programme

WIRC had arranged Students' Felicitation Programme on Saturday 9th May 2009 at Sydenham College Auditorium, Churchgate, Mumbai for all the students from Mumbai who have completed Inter and Final Examination in December 2008.

Mr. S. Venkatraman, Controller of Accounts, Mahindra & Mahindra Ltd, was Chief Guest for the programme.

AURANGABAD CHAPTER

Falicitation function for successful students organized by Aurangabad Chapter

The results of December-2008 exams of ICWA Course were very encouraging for Aurangabad Chapter. 60 students passed the Foundation Course, and 43 & 50 students were successful in Intermediate and Final course respectively.

To celebrate this achievement & to boost moral of the students, a function was organized by Aurangabad Chapter. Shri Ram Bhogle (Chairman, Nirlep Group, Aurangabad) was the Chief Guest and CMA R. N. Bhave–(Group CFO & Head of Strategy, ACG Worldwide) was the Guest of Honour on the occasion.

CMA S. P. Bhangale, Chairman of the Chapter welcomed the Chief Guest and narrated the activities of the Chapter. CMA S. R. Pimple introduced the Guests to the audience and CMA A. R. Joshi Chairman, Training Committee briefed about the achievements of the training committee.

PUNE CHAPTER

On 16th May 2009, Under Continuing Education Programme of our Institute, Pune Chapter of Cost Accountants organised a Training Programme on "Activity Based Management" by eminent faculty-Shri Rajendra Patil, B.E. (Polymers), FICWA, a practicing Management Accountant.

Shri Rajendra Patil explained briefly

- Basic concepts of Activity Based Costing and Activity Based Management
- Approach, outcome and limitations of Traditional Costing and significance of application of Activity Based Management.
- Its necessity in present Decision Making Process and practices of the Management

He further made the complex subject understandable with a well developed model of Activity Based Management, inclusive of vital steps like Activity based cost calculation, its analysis and ultimately appropriate action taken.

NORTHERN REGION

LUDHIANA CHAPTER

The Managing Committee of Ludhiana Chapter of Cost Accountants has been reconstituted with the office Bearers for the year 2009-10 :

R. C. Singal (Ex Chairman)	Patron (Member)
Sanjeev Jain	Chairman
V. K. Jain	Vice Chairman
Shiv Kumar Jindal	Secretary
Ratti Ram Mainh	Joint Secretary & Treasurer

LUCKNOW CHAPTER

The following office bearers have been elected for the year 2009-10 :

Aman Malviya	Chairman
Mahendra Singh	Vice-Chairman
Shailendra Paliwal	Secretary
Hemendra Soni	Treasurer

SOUTHERN REGION

BANGALORE CHAPTER

The following office bearers were elected to the Managing Committee of the Institute of Cost and Works Accountants of India, Bangalore Chapter, for the year 2009-10 :

M. R. Krishna Murthy	Chairman
Dattatreya	Vice Chairman
N. Shiva Kumar	Secretary
A. V. Jayarama	Treasurer

HYDERABAD CHAPTER

The following office bearers were elected to the Managing Committee of the Institute of Cost and Works Accountants of India, Hyderabad Chapter, for the year 2009-10 :

G. Narayan Rao	Chairman
S. P. Sarma	Vice Chairman
A. S. Nageswar Rao	Secretary
B. L. Kumar	Treasurer

MANGALORE CHAPTER

Proceedings of the Members' Meet of the Mangalore Chapter of the S.I.R.C. of the Institute of Cost & Works Accountants of India held on Thursday, the 28th May 2009, at the Karnataka Bank Auditorium, Kodialbail, Mangalore-575003 at 4.00 P.M.

The Mangalore Chapter of the SIRC of the ICWAI conducted the Members' Meet on Thursday, 28/05/2009 at 4:00 PM.

Sri G. N. Venkataraman, Central Council Member, Sri A. Om Prakash, Chairman of the SIRC, and Sri A.V.N.S. Nageswara Rao, Vice-Chairman of the SIRC, were dignitaries for the occasion. The programme was inaugurated by the dignitaries on the Dais by the lighting of the Lamp.

Sri A.V.N.S. Nageswara Rao, Vice-Chairman of the SIRC of the ICWAI, said that there was a dire necessity for increase in the number of members and that for this purpose new initiatives were being undertaken by the Institute. He said that the new initiatives included provision of guidance and financial assistance to 'C' grade Chapters for conducting career guidance programmes as well as for conducting programmes for benefit of members.

Sri A. Om Prakash, Chairman of the SIRC of the ICWAI, said that Chapters has two important functions providing Coaching to students and conducting professional Development Programme but that most of the Chapters concentrated only on the Coaching aspect whereas the professional development aspect was not being covered as that would result in greater visibility for the profession in the corporate world. He spoke about the new initiatives being undertaken by the ICWAI for increasing member strength such as providing financial assistance to local chapters for advertising the Oral Coaching of the ICWAI course and other programmes for benefit of the members. He said that scope for Management Accountants had increased manifold. He also said that the ICWAI had also obtained the recognition from IMA, US, whereby a member can obtain the membership of IMA by paying the prescribed Membership Fee, and CIMA, UK, which exempted 11 papers for the ICWAI students requiring them to sit for only 4 papers to qualify, Indian being the only country which enjoyed such exemption. The ICWAI had also introduced Certified Accounting Course (CAT), entered Memorandum of Understanding with Government of Oman to set-up an Institute based on ICWAI there.

Sri G. N. Venkataraman, Central Council Member, the ICWAI, said an Expert Committee Group had looked into the utility of Cost Auditing and Accounting Rules at present and had made recommendations for making the report useful for all users. He informed the Members that the Draft Report was available in the website for valuable suggestions and comments of members thereon by June 23, 2009. The Report also recommended making Cost Audit and Accounting provisions compulsory for all companies subject to a monetary ceiling. He gave the information regarding the CAT, its fees structure, eligibility to take the course and the scope of the course to the students.

Mr. Gregory Fernandes, Member, presented the vote of thanks.

PALAKKAD CHAPTER

The following new office bearers for the year 2009-2010 were elected by the member of Palakkad Chapter of ICWAI at its meeting held on 06/06/2009 :

E. Madhavan	Chairman
M. K. Ramakrishnan	Vice Chairman
N. N. Paremeswaran	Secretary
C. S. Hariharan	Treasurer

TIRUCHIRAPPALLI CHAPTER

The following members have been elected as Management Committee Members for the year 2009-2010 :

Dr. M Shiek Mohammed	Chairman
Jayaraman G	Vice Chairman
Murugesan J	Secretary
Arumugam A	Asst. Secretary
Sankar V	Asst. Secretary
Panneerselvam E	Treasurer

Cancellation of Registration under Regulation 25(1) of CWA ACT, 1959

Registration Numbers Cancelled
for December-2009 Examination

Upto
ERN/029257
NRN/025474
SRN/057259
WRN/039154
RSW/074492
RAF/005798

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 30th June-2002) as above but desire to take the Institute's Examination in December-2009 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, shall remain valid as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of The ICWA of India, payable at Kolkata.

Arnab Chakraborty
Director of Studies

Date : 29th June, 2009