Spice

POST GRADUATE PROGRAMME IN AGRIBUSINESS MANAGEMENT

Vol. 1 No. 7 : Nov. 2003

Organized Food Retailing: Few Cases

- Dr.Vikram Singh

The major formats being followed for organized food retailing in India are supermarkets, discount stores, fresh product outlets, specialty stores, convenience stores and off price retailers.

A. Super Markets

1. Food World

Food World is one of the biggest retail chains in India. The RPG group opened the first Food World outlet on May 9 1996 at Chennai, which was a 2400 square feet store. It is the only national chain, having Foreign Direct Investment to the extent of 49% that is permitted in India. Now Food World, operates as a 51:49 joint venture with Dairy Farm International of the Jardine Matheson Group, a US $ 4.5 billion retail giant operating in the Asia-Pacific markets with the requisite experience.

Food World has decided to concentrate more on local areas rather than to go for a nationwide presence in its expansion plans at the beginning. South India was chosen, with focus on Bangalore and Chennai and later in Hyderabad. They identified areas within the city with more than 4000 households in a 2-kilometer radius with an average monthly income more than Rs. 4000. The important variables considered while setting up an outlet are choosing the right location, sourcing the merchandise and recruiting a trained workforce.

A typical store is between 3000-3500 sq. ft. in size and carries about 5500 items. Foodworld handles on average 600 customers per day per store, which translates to 1.5 million transactions per month. It is estimated that the chain serves more than three lakh families.

Ms. Mala Morris, Manager-Marketing of Food World says that as on 1st November 2003, Food World has 89 outlets spread across Tamil Nadu, Karnataka, Andhra Pradesh, Kerala and Maharashtra (Pune). Speaking on the product portfolio, she said that, "Our strategy is to provide all the monthly household requirements under one roof. Our product portfolio includes grocery of all kinds, fresh foods viz., fruits and vegetables in fresh/chilled/frozen form, food that can be directly consumed, food and non-food FMCG products, general merchandise required in homes like buckets, cups, shelves etc. Indian Made Foreign Liquor is also sold at certain outlets." Speaking on the pricing strategy followed, she said, "We follow

Spice is a bi-monthly publication from The National Institute of Agricultural Extension Management (MANAGE), an organisation of the Ministry of Agriculture, Govt. of India.

the strategy to sell around 100-120 items at any point of time at below Maximum Retail Price (MRP) rates. These are generally the key necessary items or the items for which the customer attaches more value. In addition there are also lots of schemes and offers to attract and retain customers." "For procurement we follow a strategy of 'Hub and Spoke". The purchasing for each state is done collectively to reduce costs. The distribution to each outlet is done by Food World in such a way as to reduce the total handling costs."

To source its daily requirement of fruits and vegetables, Food World participates in the early morning auctions at the major wholesale markets and has a set of suppliers who then grade, clean, pack and label the products in time for early morning dispatch to the stores. At peak season, the Fruit & Vegetable shelf in a Food World store stocks around 125 items, making it the widest range available under one roof in this category.

Food World's share of the organized retail market in the cities in which it operates is 62%, clearly a dominant share. The firm expects the number of Food World stores to increase to 125 by 2005. A smaller version, Food World Express is also planned to be launched in future.

2. Nilgiris

Mr. C. Gopalakrishnan, the Managing Director of *Nilgiris* speaks about his chain of organised food retail outlets and retailing in India

About your organization

Nilgiris took birth as a small dairy farm in Ooty in Tamil Nadu in 1905. The present Chairman of *Nilgiris,* Mr. Chenniappan, understood the opportunities before him and started the Bangalore operation in 1939 as a small trader selling butter to the army people. Then he expanded the business in a large scale by establishing a huge dairy farm at Erode in Tamil Nadu in 1962, which was the major step in our growth. *Nilgiris* grew gradually and presently handles 1-lakh liters of milk, 30,000 to 40,000 lobes of bread. In total we sell around 15000 products, out of which 90% are food products. We have 26 super markets spread over different states. Bangalore, Chennai, Coimbatore, Pondicherry, Guntur, Vishakapatnam, Vijayawada and Pune are our major centers of operation. The company's annual turnover at present is around Rs 220 crores.

What is your supply chain strategy?

We get products from the local markets and also overseas. We import different products from different countries. For instance we import soya milk from Thailand, honey from New Zealand, sauces, chickpea, and green pea from the USA and many more. We get products like bottled food items and canned foods from the importers. Apart from this we have six distributors in the APMC's who supply us the food products which match our quality parameters. *Nilgiris* also gets wheat from local dealers in Punjab, which is ground to flour and sold to our customer. Thus we maintain a viable supply chain and ensure continuous availability to our customers.

Why do you prefer importing food product?

The only reason behind our strategy of importing food products is to provide choice. We import various food products and give at various ranges to our customers.

How does *Nilgiris* get its edge over the other organised food retailers?

We believe in customer service and better quality of products. We assure our customers with good quality products as they expect, which provide us with the edge over our competitors.

Have you ever experienced any slump in your business? If yes, how did you overcome it?

We have never experienced major falls in our business. But our business may go down when a new player enters the business. People visit their shops to know about them for few days. Having understood that our service is better they will come back to us and we retain them as our permanent customers.

Please give an insight on the organised food-retailing sector in India?

In India, shandies and smaller shops will exist forever as it provides employment to many families. On the other side organised food retailing too would grow at a larger scale and the consumers would get quality products as they aspire for from the different organised food retail outlets spread across the country.

What are the problems faced by the organised food retailers in India?

Organised food retailers like us, face many problems in running our business smoothly and profitably. The major one is the laws laid by the government. Laws should be amended and made friendly for the organised retailers. The non-availability of land in different cities for opening outlets is the next. Government can help us to obtain land for opening more and more supermarkets like *Nilgiris.* Maximum Retail Price (MRP) is another restriction on organised retailers. A product like water bottle is sold at the same price at a petty shop and at an organised food retailing shop like *Nilgiris*. We spend money on refrigeration, and electricity and other services. Having spent more, we realise the same money as the petty shop owner. So MRP must be removed. It is no more relevant as the country has no scarcity. Let the customer buy the product at his choice. Let the shop owners decide the price for the products, which they sell. The excise duty, which is imposed on imported food products, is another restraint on growth. Government has to relax the duty rates and aid the businessmen. A simple mechanism has to be evolved for tax collection. Above all, me as an organised food retailer welcome the implementation of VAT in all the states.

Where do you see *Nilgiris* five years down the line?

Five years down the line *Nilgiris* will become a national player with international exposure in the business of organised food retailing. Our brand will be spread all over the country and we will continue to provide quality products to our customers. By December 2004 we aim at increasing our outlets to fifty. We plan to extend our business to the states of Kerala, Punjab, Haryana and cities like Delhi, and Mumbai.

B. Discount Stores

1. Margin Free Markets

Margin Free Markets is the largest retail chain in the state of Kerala and one of the leading retail chains in India. The first outlet of this chain started functioning on 26th January 1994 at Thiruvananthapuram. There are currently more than 275 franchisees of Margin

Free Markets spread all over south India. The outlets are franchises and are not actually owned by the chain. The Consumer Protection & Guidance Society currently control margin free markets, which is a registered charitable institution that started functioning in 1993. The consumers are assured of quality, quantity and the fair price of the goods sold through the Margin Free Markets. Any retailer can upgrade his shop into a Margin Free outlet, by sending in an application to this society. If his application is accepted, he has to make the necessary investment required.

These shops deal in the entire gamut of goods required by a home for its monthly consumption, viz., grocery, food and non-food FMCG items, fruits and vegetables, consumer goods & house hold articles. Margin Free outlets are typical discount stores, offering one-stop-shop convenience and self-service facility at significant discount to its customers. Most of these customers, in time turn out to be its permanent customers, by taking discount cards, which permit them to obtain larger discounts than the non-card holders. The necessity to offer protection against the rising prices gave birth to the idea of 'Margin Free Markets'. An enthusiastic entrepreneur named Mr. N. Ravikumar conceived the idea. The idea turned out to be an instant success in Kerala especially because Kerala is more of 'consumer' state than a 'producing' state.

Kerala depends on her neighbouring states for her consumer needs. Due to the large number of intermediaries involved and the transportation costs, the prices are high and there is a wide fluctuation in prices of groceries, fruits and vegetables. Groceries and FMCG goods are brought directly from the production units of the neighboring states. In the process of direct purchase from farmers and manufactures, the intermediaries are removed and a part of the margin or 'profits' earned is disbursed among the consumers. The distribution to the different outlets under the chain is taken as a collective responsibility and is done with the objective to reduce the total transportation costs.

2. Subhiksha

Chennai-based Subhiksha started its service in 1997. Beginning its journey from a single departmental store, at present this retail chain has 143 stores spread across length and breadth of the Tamil Nadu and Pondicherry, and has earned a total turnover of Rs 235 crore in 2002-03. Subhiksha expects to close the current fiscal with a total turnover of Rs 290 crore. According to Mr. R. Subramanian, the Managing Director of Subhiksha Supermarket and Pharmacy, the chain expects to earn a total turnover of about Rs 1200 crore in 2008-09 as it plans to expand to other larger metros like Bangalore, Delhi, Bombay and Ahmedabad. The retail food and pharmacy chain plans to have 550 stores in the next five years with an anticipated investment of about Rs 145 crore for the expansion plan.. Under the first phase of expansion, they plan to open 50 stores in Bangalore during the period from April to December 2004. The second phase of expansion will see setting up of 140 stores in

Delhi, which would take place in 18 months from April 2004. They also plan to expand to Mumbai by setting-up 140 stores, and about 80 stores in Ahmedabad. The aim of Subhiksha, is to setup an outlet every 2 km in residential areas, where the average monthly income is more than Rs 4000.

The retail outlets under this chain are mainly organised on the concept of a discount store that meets all the monthly household needs of a family. Subhiksha not only serves its customers through its outlets alone but also meets their demands through the home delivery concept and currently, the company makes around 16,000 deliveries every month. It is also planning to expand the number of outlets in Tamil Nadu to 135 by the end of this year from the current 104 across 23 cities and towns in the state. In Chennai itself Subhiksha has 60 outlets. The retail company would also expand the number of its warehouses to 15 across the five states from the present two in one state and will employ around 8,000 people over the next three years. Its current staff-strength is around 1,500.

C.Fresh Food Outlets

1. Namdhari's Fresh

Namdhari's Fresh, a subsidiary of Namdhari seeds is involved in the production, distribution and export of fresh vegetables and fruits. It is growing gradually to become the leader in organized retailing of fresh vegetables and fruits. Namdhari's Fresh, grows vegetables and fruits in its own fields and green houses. To meet the growing demand for fresh vegetables it also out sources produce from over 2000 growers. Procured vegetables are transported in refrigerated trucks to the air conditioned grading halls where they are graded hygienically and packed in bulk and consumer packs and distributed through its own outlets spread all over the city of Bangalore. Namdhari's Fresh, also packs vegetables, garden fresh and exports it to European countries. Thus by amalgamating both self growing activities and outsourcing from large number of farmers Namdhari's Fresh aspires to become a successful organized food retailer.

2. Safal

The Fruit and Vegetables unit of the National Dairy Development Board (NDDB) was set up in 1988 with the objective of ensuring a direct link between the farmers and the consumers. The aim is to ensure that the customer gets the highest quality produce. The processed products of the unit are marketed with the brand name 'SAFAL'. The Safal Group acts as the link between the farmer and the consumer in a procurement process that benefits both. The farmers get the most remunerative price and the consumers get the best produce at a reasonable price. A large and ultramodern central distribution facility was set up to handle fresh and frozen fruits and vegetables. Initial cleaning, grading, sorting is done followed by cooling to ensure the freshness till the product reaches the consumers.

Specially designed modern retail outlets, the first of their kind in India, have been set up at various localities in Delhi and Mumbai to market good quality fruit and vegetables at reasonable prices directly to the consumers. 279 specially designed modern retail outlets have been set up in and around Delhi to market fresh and frozen fruit and vegetables, directly to the consumers. Each shop caters to large number of customers, with a capacity to sell 1,600 kilos of fruit and vegetables a day. The shops are equipped with electronic machines that automatically weigh the produce and print item wise bills.

3. HOPCOMS

The city of Bangalore has a population of over 6 million. During the last four decades the population of the city grew by 600%. This increasing population has a huge demand for the agricultural products. To cater the needs of the people in Bangalore, Department of Horticulture of the Government of Karnataka took an initiative in 1959 and formed The Horticulture Producer and Cooperative Marketing Society (HOPCOMS) with farmers as members. The prime objective of HOPCOMS is to promote and encourage the development of horticultural produce. This is achieved by selling horticultural produce through retailing and by providing cold storage and marketing assistance to its members. The Cooperative also provides training, technical advice and agricultural inputs to its members (farmers). The society has gradually grown big and presently it has 11,680 member farmers.

HOPCOMS has set up retail outlets throughout Bangalore, Bangalore Rural, Mysore, Mangalore, Tumkur, Hassan and Kolar districts. There are around 239 outlets in Bangalore. In addition there are around 150 outlets located in the other districts of Karnataka. These outlets are small, leased from the respective civic bodies at nominal rates and the average number of employees per outlet is four. HOPCOMS collects the horticultural produces directly from its member farmers as per the prefixed quota and sells them in these outlets. Direct procurement of vegetables eliminates the intermediaries, and consequently, a remunerative price is paid to the farmers. The farmer gets more than 70% of the consumer's price when he sells his produce to the HOPCOMS. Even when the price falls during the glut seasons, HOPCOMS assures a minimum price to its member farmers. It also pays the farmers on the day of transaction and thereby eliminates the need for credit, which is prevalent in private business. The selling price to the consumers' too is also estimated to be about 10% less than the prevalent retailers' price. It spends around Rs. 10 lakhs a day for the purchase of vegetables and fruits. Sales have steadily increased from around Rs 10 million in 1992-1993 to reach above Rs 400 million in 2000-2001. Sale of vegetable account for 91% of the total sales whereas chemicals formed 6% and the remaining is from sales of seeds and fertilizers. By its effective retailing business HOPCOMS earned a gross profit in each year of operations. It also has cold storages for preservation of vegetables during the peak season.

To reduce its high overhead costs, HOPCOMS had decided to expand its operations by establishing more retail outlets and introducing new products. HOPCOMS lacks managerial sustainability. The management team, although paid by the organisation, usually consider themselves as government employees rather than the staff of a competitive business unit.

Members do not demand accountability from the employees, as their capital contribution is only 8% of the share capital. To make the society managerially viable the members should take active interest in he management. The organisation can place its members in different managerial positions and ensure complete transparency in the system. By bringing in some changes in to the system, as discussed above HOPCOMS can emerge as a leader in the organised food retailing in the state of Karnataka and in the whole country.

4. Rythu bazaar

Farmers in India realize less profit due to middlemen intervention. To free the farmers from the clutches of middlemen, the Government of Andhra Pradesh had came out with a new concept of establishing farmers markets called "Rythu bazaar". The concept of Rythu bazaar benefits both the producer and the consumer. Farmer brings the produce and sells directly to the consumers and realizes better profits. On the other hand consumers get fresh vegetables and other produces at reasonable prices as the market operations are free from middlemen who increase the prices to many folds. Rythu bazaar was first established in 1999. Presently there are 97 Rythu bazaars spread all over the state of Andhra Pradesh.

The Government officials guide the farmers in forming the proposed bazaar. After studying the need of setting up a Rythu bazaar the State Government allots money to the Agricultural Produce Market Committees which in turn release money for building all the basic infrastructures like shops, electricity, parking and storage facilities required for the Rythu bazaar. Rythu bazaar is well organized from the district level to the individual market level. The farmers sell their produce directly to consumers at rates that are above the wholesaler's rate and below the retailer's rate in a particular area. Nominal cess is collected from the farmers who have their stalls in the Rythu bazaar. Every farmer in the bazaar sells his produce as a retailer and realize expected profit.

These Rythu bazaars are stated to attract around one-lakh quintals of vegetables every week. As per Andhra Pradesh State Department of Marketing estimation, over 6,000 farmers avail the benefits of this direct marketing facility. The total turnover from vegetables and other essential commodities in these middlemen free markets is about Rs 7.5 crores per week.

To improve the performance of Rythu bazaars the Government of Andhra Pradesh had initiated many steps. To avoid the middlemen, it suggested adequate participation of farmers in the activities of these bazaars. The management of Rythu bazaars is entrusted to the Joint Collectors at the district level, who in turn manage through Estate Officer and horticulture consultants. To help the farmers to store their unsold produce the State Government is to build zero energy storage units with appropriate capacity. Agricultural Produce Market Committees are to provide the required funds for providing infrastructures like shops, electricity, parking and storage facilities from their own funds. Rythu bazaar can be opened only if an acre of land is available and 250 vegetable growers are willing to attend the bazaar.

D. Speciality Stores

1. MTR

It was way back in 1976 that MTR (Mavalli Tiffin Room) ventured into the business of retailing of groceries and other household general items by opening a Departmental store. Because of the popularity gained by the company by this period of times, the MTR Group did not face much problems in making the consumers to readily accept the products sold by its Departmental Store. Taking this lead now it has grown leaps and bounds. The firm now has 3 stores in Bangalore, that solely deals in its products.

Officials at MTR say, with a view to make the products available, products are designed in all sizes-small, medium and big according to the needs of end users. Target customers of the group are mainly the working women. MTR has opened its exclusive retail outlet in Bangalore in 2001 and currently has three outlets. The company plans to open one unit in Chennai. With the basic strategy of making the product available to the target customers, MTR also distributes its products through various departmental stores and convenience stores.

With a wide range of product categories and with a consistency in good quality products, MTR has made its successful presence in the South India and also in countries like U.S.A, U.K., Gulf, Far East (Singapore, Malaysia), Australia etc. MTR brands in some categories hold market leadership in the South of India. After being highly successful in South India, MTR decided to tap the Western and Northern markets of India. The number of working women are more here and it has launched a number of new products aimed at the western and northern markets. Though the entry of multinationals was feared by many domestic industries, MTR with its deep penetration of outlets feels otherwise. *Mr. Sadananda Maiya, Managing Director of MTR says "I basically believe that the entry of MNCs will hardly have any impact on Indian food business for the simple fact that it is highly difficult to change the food habits. From my experience, I have observed that tradition and climatic conditions in a particular geographical territory will determine the food habits of an individual. However, in line with the trend, we have been offering various 'ready-to-eat' range of products."*-

Such a strong remark highlights the extent of consumer satisfaction that the MTR brands have been able to achieve in a span of three decades from its beginning.

SPICE is Published by :

The Director General,

National Institute of Agricultural Extension Management (MANAGE)

Rajendranagar, Hyderabad - 500 030, India.

Tel : + 91 (0) 40 24016702 - 706,

Fax : + 91 (0) 40 24015388

Website: www.manage.gov.in

Editor-in-Chief
Shri. A.K. Goel

Series Editor
Dr. Vikram Singh