



Organized Retailing: The Emerging Opportunities in Agribusiness

-Dr. Vikram Singh

Organized Retailing in the last decade has emerged as one of the sunrise industries in India, closely following the Information Technology and Biotechnology industries. The boom in the sector started after the liberalization measures were initiated in 1991 in the country. Several large chains have entered the bandwagon and have achieved fair to significant success. Indian retailing has evolved over the past decade, from largely an 'informal' and disorganised marketplace to an increasingly corporatised industry, at least in the urban India. With the increased popularity of food retailing in an organised way this sector has thrown up a wide range of opportunities for Indian agribusiness.

Philip Kotler in his book on Marketing Management defines Retailing as all the activities involved in selling goods or services directly to final consumers for personal, non-business use.

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With warm regards,

(Vikram Singh)

Current Status of Retailing in India

The size of the retailing industry in India is estimated to be in the order of Rs. 7200 to 8100 billion (US \$ 160-180 billion), with organised retailing estimated to be approximately 2 % (Rs 160-180 billion) of the total retailing industry in the country. Food and grocery retailing is estimated to contribute to around 50% (Rs 3500-4000 billion) of the total sales from retailing. The number of total retail outlets in the country is estimated to be around 12 million. The retail sector is the second largest employer of the country after agriculture. According to the National Readership Survey of 1999, 6.6% of the urban adults and 2% of the rural adults are estimated to be shop owners.

Total retail sales area in India is estimated at 328 million sq meters in 2001. So the average retail selling space works out to be below 30 sq metres per outlet. However, the trend towards larger outlets is expected to increase the average retail space per outlet.

A T Kearney, Global Retail Development Index, 2003, ranks India as the 5th among the 30 emerging markets for new retailers to enter. The Indian retail market is estimated to have a sales of around US \$ 160-180 billion (Rs 7200 to 8100 billion) and is estimated to be growing at above 5 % annually. A CII-McKinsey study estimates that if the growth rate is kept at around 6-7%, the market would reach around US\$ 300 billion by 2010. However, if the existing supply chain constraints are removed, real estate markets made more organised and tax structure rationalised, retailing in India has the potential to grow as large as US \$ 450 – 500 billion by 2010.

Globally retailing is done in a more organised way than it is done in India. In the United States, almost 80 % of the retail sales are under the control of the organised retail sector. In other countries the

corresponding figures are: Western Europe - 70 %, Brazil and Argentina - 40 %, Korea and Taiwan - 35 % and 20 % in Malaysia, Thailand and China.

Origin of Modern Retailing in India

Retailing, which is one of the largest sectors in the global economy, is going through a transition phase in India. However the Indian retail sector is still in a nascent stage. Organised retailing still contributes to only about 2% of the total retailing in the country.

Now a question that would arise is what constitutes Organised Retailing. Mr. Raghu Pillai, the Managing Director of Food World, which is one of the leading organised food retailing chain in India says that, *“Organised Retailing presupposes a retailers’ ability to manage or more importantly influence a set of supply chain variables in a commercially viable and sustainable way”*. Efficient management of the supply chain to ensure the profitability of the entire chain, large outlets with modern ambiance and facilities, a wide product profile, self service facilities etc are generally the features of a modern retail store. Organised retailing aims at providing an ideal shopping experience for the consumer based on the advantages of large-scale purchases, consumer preference analysis, excellent ambience and choice of merchandise. However, there are no single formats, designs, facilities or product portfolios that can be identified as the success formula and as a general rule differentiation between chains is necessary to increase viability.

For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/ grocery chains. The Indian food retail market is still in stage-1, which represents the ‘First Steps’ in the Stages of Maturity of Modern Retail Food Market. The stages of this progression and the position of the other major countries are given below:

Stages of Maturity of Modern Food Retail Markets

Stage 1 First Steps (3-6 Years)	Stage 2 Competition forces accelerated expansion 5-8 Years	Stage 3 Retail market saturation (3-8 Years)	Stage 4 Consolidation and diversification (undetermined)
2003 Status			
India	Morocco	Poland	France
Ukraine	China	Brazil	United Kingdom
Iran	Romania	Hong Kong	Germany
Slovak Republic	South Korea	South Africa	United States
Vietnam	Turkey	Taiwan	Japan

Source: A T Kearney

Largely in the post independence period, Indian retailing has been unorganised, to the most part untouched by corporate business principles. When the economy started to be opened in the 1980s the situation began to change slowly. Emergence of retail chains was at first witnessed in the textiles sector, with companies like Bombay Dyeing, Raymond, S. Kumar’s and Grasim, opening their own outlets. Titan then successfully created a retailing concept, by establishing its series of elegant showrooms. The later half of the nineties has been a witness to a fresh wave of entrants in the retailing business. The new chains have not been restricted to textiles and garment sellers but there have been entrants from various fields of commerce. FoodWorld and Subhiksha in food and Fast-Moving Consumer Goods; Musicworld and Musiccafe in music; Viveks and Vijay sales in the consumer durables etc were the beginners. Now the number of players and the variety of formats and product categories reflect variety.

The Key Drivers

The changes in the nation’s social structure like, improvement of the Indian economy, consumerism, urbanisation, profusion of brands have been the main causal factor for the development of these modern formats. Indian food buying behaviour is gradually changing in response to the changing social structure. The increasing number of nuclear families, double-income households and working women, greater work pressure and increased commuting time have put the consumers under constant time pressure. The other equally important factors in the changing Indian landscape are the increasing influence of children, gradual acceptance of frozen, semi-processed and processed foods by the Indian consumer, the growing influence of television in decision making and improvement in literacy rates. As the modern housewife starts shopping for herself she appreciates and welcomes:

- ❖ a pleasant shopping environment;
- ❖ convenience of one-stop shopping with wider product portfolio at a single location;
- ❖ speed and efficiency in processing;
- ❖ more information;
- ❖ better quality and hygiene; and
- ❖ discount too if possible.

The improved income and the increased purchasing power of a larger section of the Indian population makes the opening of outlets, which provide the whole bunch of these improved services a viable opportunity.

The Current Scenario

The change in the social formats has led to the development of modern retail outlets, mainly in the southern parts of the country. Chennai, Bangalore and Hyderabad are developing as the hub of organised retail in India. The culture is spreading to the other parts of the country too, with the western and northern parts of the country too providing good opportunities currently.

Different players are trying out different formats. A successful fully Indian or 'swadeshi' model in Indian retailing is yet to be developed. The models, which are highly successful in certain areas of the country, are able to achieve only moderate success in certain other areas. The major formats being followed for organised food retailing in India are:

Supermarket: Relatively larger-low cost, low margin, high volume, self service operation designed to serve total need for food, laundry, and household maintenance products. E.g.: Food World, Nilgiris, Shoppers Stop

Discount Store: Standard merchandise sold at lower prices with lower margins and higher volumes. True discount stores regularly sell merchandise at lower prices and mostly national brands. E.g. Margin Free Markets, Subhiksha

Fresh Product outlets: Outlets selling fruits and vegetables in value-added packing. These outlets generally cater to the higher segment of the society. E.g. Namdhari and Safal

Specialty Stores: Narrow product line of an individual food-processing firm. E.g. Haldirams, MTR

Convenience Store: Relatively small store located near residential area, open long hours seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices. E.g. Outlets near petrol pumps, cinema halls etc.

Off-Price Retailer: Merchandise bought at less than regular wholesale prices and sold at less than retail.

Challenges Before Organized Retailing in India

Government restrictions on FDI

Organised retailing in India is yet to get an industry status. The consequence is quite obvious. 100%

Foreign Direct Investment (FDI) is not permitted in retailing in India. Ownership of retail chains is allowed only to the extent of 49%. The Food World chain is one such venture, with an ownership pattern of 51:49 between RPG and Dairy Farm International, Hong Kong. Foreign players can enter the wholesale sector, in the cash and carry format. The Metro chain has recently entered the country as a 'cash and carry' outlet. A branch has been opened in Bangalore and a second would be opened very soon in the same city.

The fear that the small-scale retailers will be displaced is delaying the FDI approvals. On the other hand, without the FDI, the sector is deprived of access to foreign technologies that is imperative for faster growth. The Government has allowed FDI in direct marketing, but has reservations about extending it to the retail sector. Retailing is a 'technology-intensive' industry. Under the liberalized regime of the WTO the 'Protected nature' of an industry may do more harm than good. In the short-run the Government may succeed in protecting the domestic industry, but in the long run we would be losing too many opportunities and technological innovations. This, in addition would also block any attempt by the domestic industry to become competitive internationally.

Lack of a uniform tax

The country requires a uniform tax system for the organized retailing. The lack of this stands as an obstruction to the setting up of a truly national chain. The present chains, in spite of claiming to be national chains are restricted to certain regions of the country. Players are confined to state barriers. Since retailing is essentially a business of supplying commodities to locations far from production units, a differential tax system in different states is surely turning to be a hindrance to faster development of this Industry. A central tax system becomes more imperative in a country like India where, the regional disparity in production of commodities is high.

Lack of adequate infrastructure

Players are forced to set up their own infrastructure, as there are few independent logistics solution providers. Entrepreneurs to invest in infrastructure development for different stages of the supply chain are also limited.

Dominance of the unorganized sector

The unorganized sector has dominance over the organized sector in India, especially because of the low investment needs. In India, organized retailing is only 2% of total retailing of worth US\$ 180 billion. This is playing at multiple levels. For instance, the reason for low number of discount stores in India is an effect of the dominance of the unorganised sector. The manufacturers' have high bargaining power in the pricing of products as a result of this small scale of operation of retailers. The lobbying by the unorganised sector is also the main reason for the Government of India's restrictions on 100% FDI in retailing in the country.

Low operational size

The number of retail outlets in India is more than the number of outlets in most of the other countries, small size retail outlets dominate the Indian scene. 96% of the outlets are lesser than 500 sq ft. The retail chains of India are also smaller than those in the developed countries. For instance, the superstore food chain, Food World is having only 52 outlets whereas 'Carrefour-Promodes' has 8800 stores in 26 countries. The volume of sales in Indian retailing is very low, which is only \$180 billion. Even the largest players have a turn over of only US \$ 140 million, which is very small by the global standards. India with second largest population in the World and a fast growing economy has huge untapped potential of organized retailing, which is not given its due weightage by the government.

Labour employment problems

Organized retailing is a 24 X 7 active business. However, this is much restricted currently in India because of the labour rules and regulation. The sector is unable to

employ retail staff on contract basis. This makes it difficult to efficiently manage employee schedules especially for 365-day operations. The industry has to take special clearance for extended working hours and even seven days working from the Labour department. However, in the recent budget government has relaxed norms on employment of contract labour, which is expected to benefit the industry.

Government Initiatives for Improvement of the Sector

Apart from allowing FDI into the industry, Government should consider providing incentives and amending labour laws etc. Shortage and high cost of real estate, tenancy legislation and high property tax etc. are the another areas to be concentrated by the Government. Government should relax such laws and make available property at reasonable prices.

Government should introduce a Single Window System at the local Government level to clear the multiple number of licenses and complex regulations. Government should also introduce uniform taxation all over the country to relax the laws that are restricting the inter-state flow of goods.

Conclusion

Organised retail is sure to fulfill its potential in the Indian sub continent and to provide more and more opportunities to the Indian investors. The unfulfilled demand of the Indian consumers for quality products at the right price and environment with the perfect service and ambiance will fuel the growth of the Indian retail industry. The different service providers would also get a level playing field in such an environment. Change in the Governmental stance would be of course required for realising the full potential of this vibrant sector.

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