

# Modern Organized Agri Food Retailing in India

Dr. S. Balusamy  
Director, SNMV IM

Mrs. P. Chinna Sahaya Rani  
Ph. D Scholar, SNMV CAS

## ABSTARCT

This study examines the modern organized agri food retailing in India. The present system of retail has been able to reach out to millions of consumers not only in the urban areas but also in the remote villages. Since the beginning of the twenty-first century, world agricultural markets have evolved significantly. In emerging economies and developing countries, changes in both income and its distribution have also led to changes in consumption patterns. Market liberalization and changing consumer behaviour have sown the seeds of a retail transformation.

Key Words: Organized Retail, agri food, Consumer Behaviour

## 1. Introduction

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly US\$ 3,600 billion by 2020 from US\$ 1,824 billion in 2017. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space.

Agriculture is the primary source of livelihood for about 58 per cent of India's population. Gross Value Added by agriculture, forestry and fishing is estimated at Rs 17.67 trillion (US\$ 274.23 billion) in FY18.

The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year due to its immense potential for value addition, particularly within the food processing industry. The Indian food and grocery market is the world's sixth largest, with retail contributing 70 per cent of the sales. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (GVA) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment.

### 1.1 Methodology

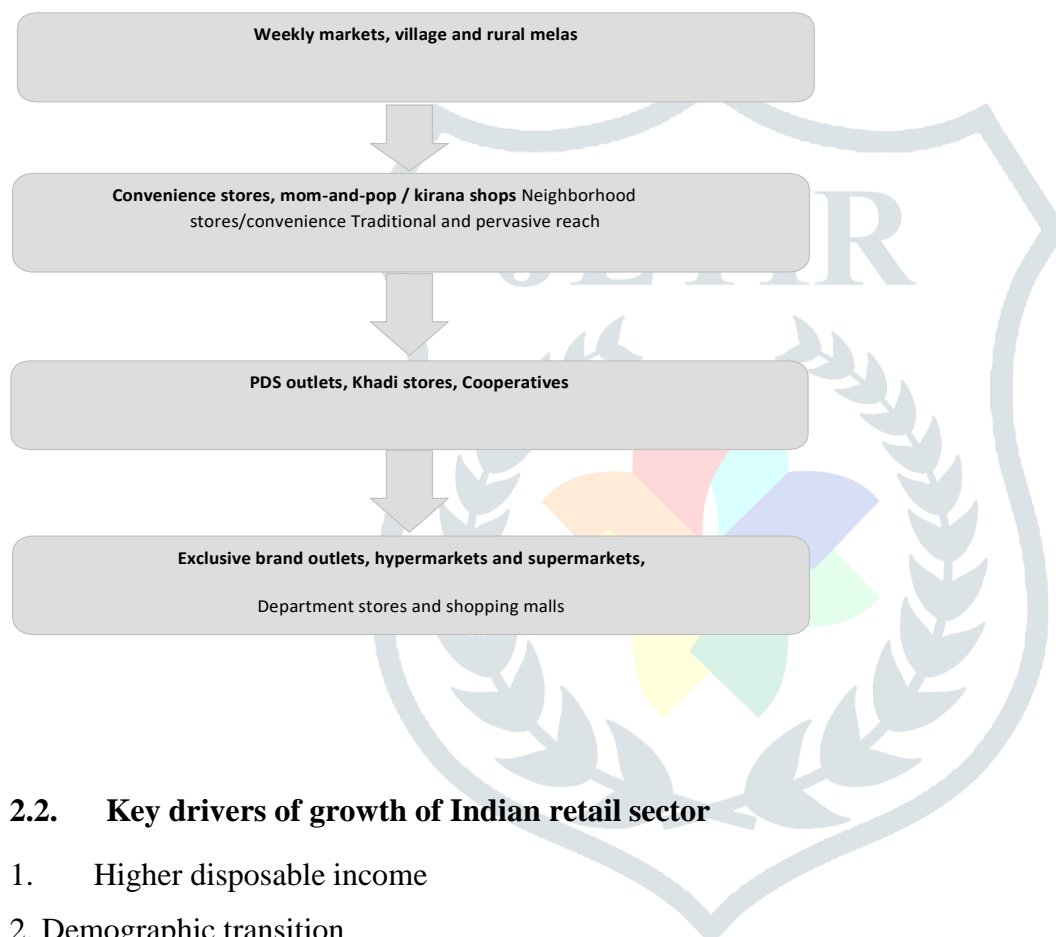
A Secondary research methodology was followed for this research. The data collected through these sources was subject to analyses, followed by suitable interpretation of results and report preparation.

## Secondary data sources

Immense research work has already been done on the retail sector in India. Our research has referred to these sources wherever found suitable.

## 2. Current scenario of Indian food retail industry and future outlook of development of organised food retail

Figure 2.1: Phases in the evolution of retail sector



### 2.2. Key drivers of growth of Indian retail sector

1. Higher disposable income
2. Demographic transition
3. Growing working women population
4. Growth in urban population

## 3. Recent developments in agribusiness

New marketing linkages between agribusiness, large retailers and farmers are gradually being developed, e.g. through contract farming, group marketing and other forms of collective action. Donors and NGOs are paying increasing attention to ways of promoting direct linkages between farmers and buyers within a value chain context. More attention is now being paid to the development of regional markets (e.g. East Africa) and to structured trading systems that should facilitate such developments. The growth of supermarkets, particularly in Latin America and East and South East Asia, is having a significant impact on marketing

channels for horticultural, dairy and livestock products. Nevertheless, “spot” markets will continue to be important for many years, necessitating attention to infrastructure improvement such as for retail and wholesale markets.

### 3.1 Growth of organised food retail

The growth of organised food retail will happen as a result of overall retail growth as well as growth in the share of organised players in food retailing. As discussed earlier, within food only grocery and processed foods are being preferred at organized outlets within A and B class cities, where almost all the organised retailers are based. Consumers have a perception that freshness of non-vegetarian items is higher at unorganised outlets. As we would see later, organised retailers are realizing lesser profits (in many cases incurring losses) in case of food categories. There are also many bottlenecks in the current supply chain of food items, which favour the unorganised retailing of food. Thus, the growth of food retail is likely to be much slower than the growth of organised retailing itself.

#### Forecasted nominal GDP growth and organised food retail (% per year)

Year	Organised food retail growth		
	Most likely	Optimistic	Pessimistic
2009-2010	11.5	14.4	8.63
2010-2011	13.8	17.3	10.4
2011-2012 till 2020	13.9	17.4	10.4

\*NABARD 2011

The projected growth of organised food retailing is more than the total growth of food retail indicating that some share of unorganised food retail will be taken over by organised food retail in the future. However, it is expected to be considerably lesser than the projections on total retail (18-40% per year).

## 4. Infrastructure details of organised retailers (private domain)

### 4.1 Hired infrastructure

Organised retailers including food retailers mostly depend on a third party for retail space, warehouse and logistics and pay rent for their services. However in some cases like PIRL subsidiary company may be assigned the logistics operations. In this section we have presented the details related to hired infrastructure by organised food retailers.

### 4.2 Retail space

Retail space or real estate needs of retailers depend on the type of formats they are operating into. There are several formats existing in India which are described below

## **Malls**

Malls are an upcoming trend in retail market. They form largest share of organised retailing today. They are located mainly in metro cities, in proximity to urban outskirts. Malls in India are of various sizes. A small sized mall may be around 60,000 square feet. While a mall may be larger than 9-10 lakh sft. Typically malls in India are of size 1-3 lakh sft. Malls lend an ideal shopping experience with an amalgamation of product, service and entertainment. All this is under a common roof. Examples include DLF City Center, The Metropolitan and Big Bazaar around Delhi, Crossroads and R-Mall in Mumbai and Spencer's in Chennai. These are revolutionizing the way middleclass Indian consumers shop. These malls have very efficient and effective supply chains which ensure product availability and tracking of the product is feasible easily.

## **Specialty stores**

A specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically under 8,000 sft (Levy, Michael 2006); Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors. Since this format has less diverse product range, it is comparatively easy to manage supply chains.

## **Discount stores**

According to Levy and Weitz, a Discount Store is a retailer that offers a broad variety of merchandise, limited service and low prices. Discount stores offer both private labels and national brands, but these brands are typically less fashion-oriented than brands in department stores. The discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non- perishable goods. The coverage of products in this kind of format is quite extensive and the demand fluctuation is also high. Thus, it offers challenges in managing supply chains effectively.

## **Department stores**

Levy and Weitz defines Department stores as the retail formats that carry a broad variety and deep assortment, offer some customer services, and are organised into separate departments for displaying merchandise. These are the large stores ranging from 20,000 - 50,000 sft, catering to a variety of consumer needs.

They can be further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms.

Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sft) across India. A department store is one of the most complicated retail formats catering to the most diversified set of consumer needs. It becomes very difficult to manage the inventory of so many products and brands.

### **Supermarkets**

As defined by Food Marketing Institute "Supermarket is self-service food store with grocery, meat and produce department and minimum annual sales of \$2 million". These stores are more relevant for organised food retailing. In India, there is growing number of such stores especially in metros and big cities. These are located in or near residential high streets.

Supermarkets can further be classified into mini supermarkets typically 1,000 sft to 2,000 sft and large supermarkets ranging from 3,500 sft to 5,000 sft. having a strong focus on food and grocery and personal sales.

### **Hyper market**

Hyper markets are large formats ranging between 80,000-2,00,000 sft. Its product assortment goes beyond routinely purchased goods and includes furniture, large and small appliances, clothing and many items. The basic approach is bulk display and minimum handling by stores personnel, with discounts offered to customers who are willing to carry heavy appliances and furniture out of the stores. Pantaloon Retail India Ltd. (PRIL) is now emerging as India's first Hyper Market chain. Modeled along the lines of global Hyper Market Chains like Walmart, the Big Bazaar stocks several product categories.

### **Convenience stores**

These are relatively small stores 400-2,000 sft located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

## **5. Risk in Organised Food Retailing**

The food-retailing sector, like other businesses is prone to many risks. Risk is an important consideration of the bankers before financing any sector. In this chapter we have attempted to measure the various aspects related to risk in the business of organised food retailing. We would also try to understand the typical coping mechanisms of the players to prevent these risks as well as the bankers concern for these risks while financing the sector. The following important risks were highlighted in recent reports on retailing coinciding with the economic slowdown.

### 1. **Disappointing footfalls**

A large number of retailers have experienced a drop in footfalls, which is reflected in the slowing Same Store Sales (SSS) growth figures. This also adversely impacts the time taken to break-even for new stores. SSS at some of India's biggest retail groups have become negative for the first time in six years. According to recent KPMG survey in 2009, 70% of the respondents stated that the slowdown had adversely affected their footfalls. On an average in the overall retail sector, year on year net sales growth have declined constantly from 62% in Dec-2005 to 11% in Dec-2008.

### 2. **Liquidity under pressure**

The slowing sales are resulting in lower inventory turnover and increasing working capital requirements for retailers. This in turn has resulted in liquidity pressures for many retailers.

The net working capital in the retail sector was on rise in 2005 from 15 USD million to USD 150 million in 2008. At the same time inventory turnover has shown a declining trend from 2005 at USD 4.5 to about 3.5 in 2008 (KPMG, 2009).

### 3. **Issues related to real estate**

The organised retail space was expected to receive investments to the tune of USD 25 billion over the next 4-5 years (KPMG, 2009). However, significant delays in retail real estate developments and opposition to organised retail has resulted in delay in investments. A large number of retailers have not been able to meet their stated expansion plans currently with higher cost of funds and a slowdown in demand, which is hindering the expansion plans of the retailers.

For example Pantaloon retail's expansion plans got affected. During 2008 about 2.2 million sft was achieved, this was increased to about 4.0 million sft in 2009. The achievement has suddenly declined to 2.0 Mn sft due to increased price of retail space.

### 4. **Funding constraints**

A large number of retailers are highly leveraged and rely on fresh equity funding for growth, which is difficult to come. Financial institutions are increasingly hesitant to finance retailers in the context of falling demand and low profitability.

### 5. **Poor choice of location**

The slow growth risk is due to poor choice of location. In India retail malls tend to appear wherever real estate is available rather than where actually they are needed.

### 6. **Competition with traditional retailers and vendors**

Organised retailers have not been successful in providing the services that match those of Kirana stores. The

true reason is that the business capacity of kirana shop owner and buyers in India is higher.

#### 7. Over reliance on debt funding

The rapid expansion in the retail sector in the recent years was due to largely debt funded. The declining interest coverage resulted in large retailers high leverage and are battling high interest payments.

#### 8. Human resource/skill set risk

Organised retailers face a huge problem of finding the right kind of people to man the stores. Also, the skill shortage is more among those manning the floors rather than at the managerial level.

#### 9. High attrition risk

Attrition is another problem that the organised retailers are currently facing at a huge scale. Though it is experienced at all levels, the big retail brands are facing 40-60% overall attrition rate and 20-30% attrition rate at junior and middle levels. Frontline staff attrition in retail is around 20-30 %.

#### 10. Risks in logistics

Logistics is a major hurdle for the organised retail sector. Logistics cost is an important component in the total cost. While it is 4-5% of the total retail price at the global level, in India it can be as high as 7-10%. Hiring private vehicles causes some inconvenience during peak seasons.

#### 11. Poor infrastructure

Underdeveloped supply chains, lack of strong cold chains, poor warehousing facilities, bad roads have contributed in increase of logistics cost for retailers.

#### 12. Inventory management

Important inventory may result in stock outs for some of the categories where as excess stock for others. Lower inventory turns are likely to have negative impact on ROI and more so far categories where gross margin is quite low like F & v, milk, staples, etc. In addition higher inventory may result in obsolete stock, margin leakages, damages and high carrying costs.

## 6. Conclusion

### Reference:

#### Secondary data sources

Secondary Data Group	Name
	India Retail Report 2009, an images group publication
	India-The Retail Food Sector -USDA GAIN report
	Impact Of organised Retailing On The Unorganised Sector (ICRIER-May 2008)
	Indian Retail: Time To Change Lanes-KPMG (Mar-2009)
	Retail: Market & Opportunity-IBEF
	Global Retail Development Index (GRDI) 2008 and 2009- A. T. Kearney
	Retail Sector-project report by westSIDE- (Apr-2009)

Research Reports	Measuring Impact Of organised Retail On Food Processing Industry- A research report submitted to FDDI (2009)
	The Great Indian Bazaar –organised Retail Come of Ages in India (August 2008)
	Demand Forecasting In The Indian Retail Industry-applied economics course project report (Mar-2008)
	Asian Development Outlook-2010, Asian Development Bank
	Human Resource and Skill Requirements in the organised Retail Sector- National Skill Development Corporation
Student Thesis	Retail Sector In India –(2007-2009 report), ISB&M, Kolkata
	Retail Industry In Global Environment, Directorate of distance education, Annamalainagar
	Impact Of Shopper, Store And Situational Factors On Store Image, Satisfaction And Loyalty Of Customers-student report (2007-2009)
Retail Websites	<a href="http://www.retailangle.com">http://www.retailangle.com</a>
	<a href="http://retail-guru.com">http://retail-guru.com</a>
	<a href="http://www.retailmantra.com">http://www.retailmantra.com</a>
	<a href="http://www.indiaretailing.com">http://www.indiaretailing.com</a>
	<a href="http://retail.franchiseindia.com">http://retail.franchiseindia.com</a>
News-Web based	Times of India
	Hindu Businessline
	The Business Standard
	The Mint
	<a href="http://in.reuters.com">http://in.reuters.com</a>
	The Economic Times
	DNA
	The Indian Express
	Deccan Chronicle
	Deccan Herald
<a href="http://www.hindustantimes.com">http://www.hindustantimes.com</a>	
News-Print based	Times of India
	Hindu Businessline
	The Business Standard
	The Mint
Magazines and Journals on retailing	Retail biz, Bennett, Coleman & Co. Ltd.
	The Marketing Whitebook 2010-2011- Businessworld
	The Marketing Whitebook 2009-2010- Businessworld
Conferences	CII Agri-Marketing Summit – December 15 – 16, 2009, Delhi
	National Retail Summit at Mumbai on 12 January 2010
Government Data	NSSO reports
	National accounts data
	Office of the economic advisor
	Ministry of consumer affairs data
	Registrar of companies data