

ORGANISED RETAIL IN RURAL INDIAN MARKETS: A STUDY

Dr.G.Shashidhar Rao

Associate Professor, Department of Commerce

C.K.M Arts and Science College, Warangal

Abstract:

The face of retailing in India was changed by the emergence of organized retail formats along with a shift in the Indian consumer's attitude. The above figure shows the evolution of the Indian retail market. However, organized retailing in the Indian markets has mostly been in the urban regions and the overall Organized Retail Penetration (ORP) is low at 9.5% (in 2019) showing that a lot of potential still exists. The unorganized retailers hold advantages such as being personal, strong relationships, serving as points of news, offering credit and helping the people in difficult times. Organized retailing offers certain advantages such as operating in a large scale with multiple outlets, being highly efficient and hold high bargaining power over suppliers due to their volume purchases. Development of the rural market began after the Green Revolution when the demand for farm inputs like hybrids seeds and fertilisers began rising. Yet only a small part of the vast rural market remains covered by organized retailers such as DCM Shriram's Hariyali, HUL's Project Shakti and ITC's e-Choupal etc.,

Keywords: Retail, Rural market, Organised, unorganized, production, supplier

Introduction:

With more than 15 million owner manned mom-and-pop stores, India is often called a nation of shopkeepers. This is referred to as unorganized retailing and it refers to the traditional formats of low-cost retailing such as the local corner shops, owner manned general stores, paan/beedi shops, convenience stores, hand carts and pavement vendors, etc. On the other hand, organized retailing refers to trading activities undertaken by licensed retailers who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

The face of retailing in India was changed by the emergence of organized retail formats along with a shift in the Indian consumer's attitude. The above figure shows the evolution of the Indian retail market. However, organized retailing in the Indian markets has mostly been in the urban regions and the overall Organized Retail Penetration (ORP) is low at 9.5% (in 2019) showing that a lot of potential still exists.

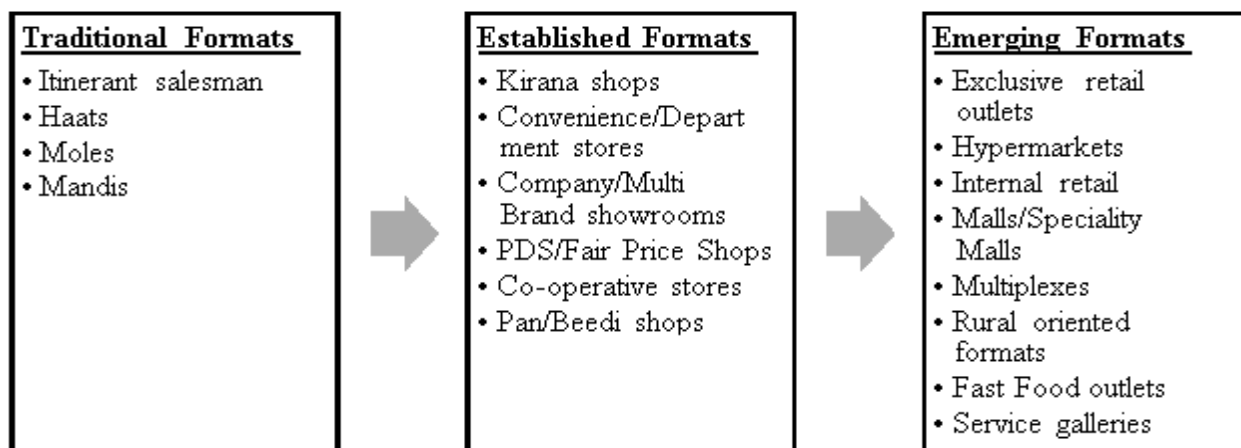


Source:- ICICI Bank (2004 February) White Paper Pitches for Foreign Direct Investment in Retail.

Organized Retailing in Rural Indian Markets

The unorganized retailers hold advantages such as being personal, strong relationships, serving as points of news, offering credit and helping the people in difficult times. Further, they understand the local requirements and offer low prices as they have low overheads. By 2012, urban Indian markets was where 85% of the organized retailing took place in India. However, with a lot of foreign players entering, limited and expensive desirable real estate and foreign investment restrictions have pushed the India’s retail market closer to maturity.

The rural Indian market on the other hand, consists of 833,087,662 people (68.84% of total) living in around 6, 40,867 villages. Development of the rural market began after the Green Revolution when the demand for farm inputs like hybrids seeds and fertilisers began rising. Yet only a small part of the vast rural market remains covered by organized retailers such as DCM Shriram’s Hariyali, HUL’s Project Shakti and ITC’s e-Choupal. The following figure shows the evolution of the different retailing formats in the rural markets:



Organized retailing offers certain advantages such as operating in a large scale with multiple outlets, being highly efficient and hold high bargaining power over suppliers due to their volume purchases. In addition to these advantages, following are some drivers which are fueling organized retailing in the rural markets:

Demand Drivers

- Rising income levels
- Media explosion
- Women empowerment
- Growing aspirations
- Credit availability
- Increase in awareness
- Growing middle class

Supply Drivers

- New entrants
- Existing competition
- Improving infrastructure
- Emergence of new categories
- Innovation
- Government incentives

Scope of the study:

This study looks at various secondary sources of information regarding the major players involved in organized retailing in the rural Indian markets. An analysis of their marketing mix along with their strategies is done and the opportunities and challenges for retailing in these markets are identified. Following are the organized retailing entities covered as a part of this study:

- Warana Bazar
- Godrej Aadhaar
- ITC e-Choupal & Caupal Sagar
- HUL Shakti
- DSCL Hariyali Kisaan Bazaar

1. Warana Bazar

Warana Bazar (WB) was founded in the year 1976 and started operating in 1978 in Warana, Maharashtra. It operates as a consumer co-operative store and has become immensely successful. By 2015, WB had 2 large departmental stores, 55 branches and 3 franchisees in 101 villages spread across Kolhapur and Sangli in Maharashtra in addition to being present in Goa and Karnataka. The yearly turnover reached ₹132 crores with a daily turnover of more than ₹35 lakhs powered by only 610 employees and 24,000 members. The stores provided 30,000 different types of goods across 24 sections. They also eliminated the middlemen by purchasing 70% of the goods directly from the manufacturers or from authorized stockists and agents. The goods were priced cheaper than anywhere else, suggesting an everyday low pricing policy.

In addition to this, innovative ideas have proven to be crucial in the success of WB. They educated the customers about spurious goods and in addition to this, it felicitates the mothers around Warananagar who give birth to a girl

child in order to help improve the sex ratio. Vilas Rao, A training center coined Tatyasaheb Kore Consumers Cooperative Training Centre was also established in 1996 to gain access to trained salesmen.

2. Godrej-Future Group: Aadhaar Stores

Godrej Aadhaar (GA), the agri services cum retail initiative of Godrej Agrovet Ltd., a subsidiary of Godrej Industries Ltd., came into operation in December 2003 by opening a center at Manchar, Pune in Maharashtra. Initially, the Aadhaar stores were owned and operated by Godrej Agrovet itself. After a joint venture with the Future Group in 2008, some company-owned outlets were closed and expanded through franchisees. By 2012, it entered the cash-and-carry business selling to wholesalers and Aadhaar outlets. By 2013, there were 45 Aadhaar outlets in Punjab and Gujarat.

Initially, 1/3rd of the overall sales of Aadhaar outlets came from farm inputs, while the rest came equally from apparel, consumer durables and consumer goods. Since then, the share of farm inputs has decreased and presently, more than 90% of the sales came from groceries and consumer goods. Rekhi says. The new strategies have yielded results, and Aadhaar was looking to break even.

3. ITC Ltd.: e-Choupal & Choupal Saagar

ITC Ltd. Launched e-Choupal and later Choupal Saagar as a part of the e-Choupal initiative. E-choupals are small kiosks across the agricultural regions of India having computers and internet access and run by a Sanchalak (trained fanner). These kiosks enabled the local farmers to obtain information on wholesale prices, good farming practices, and to place orders for agricultural inputs.

In 2004, India's biggest cigarette maker, ITC, opened its first rural hypermarket – Choupal Saagar. By 2007, it had 24 such outlets in the states of Madhya Pradesh, Maharashtra and Uttar Pradesh, and by 2013, 21 of these were earning profits. Though it plans to have 100 such store, ITC has not expanded further yet. Choupal Saagar, is essentially a hub with collection and storage facilities and a unique rural hypermarket offering multiple services all in one place. Choupal Saagars also include farmer facilitation centers with services such as sourcing, training, soil testing, health clinic, cafeteria, banking, investment services, fuel station etc.

Before launching Choupal Saagar, ITC first had to develop the market. This was done by using the ITC e-Choupal linkages to buy agricultural produce from farmers helping them increase their productivity and incomes by removing the middlemen and empowering them. After this, Choupal Saagar stores were launched to sell a variety of products and services including farm inputs, consumer goods and consumer durables, apparel and fuel. These stores were located near the stock points of ITC's e-Choupals, ensuring that there existed 1 Choupal Saagar around 25-30 e-Choupals. The farmers could come in, sell their produce, receive cash and then spend it to buy other products at the same place. Thus, the sustainability of this model was ensured.

ITC then took this model a step further by introducing Choupal Fresh in 2006 in Hyderabad. The Choupal Fresh would complete the supply chain which begins at the e-Choupals by offering the urban consumers fresh fruits, vegetables and other farm products.

4. HUL: Project Shakti

Project Shakti was started to reach the massive under-served rural Indian markets which could not be economically and effectively reached through traditional methods. In these remote villages, HUL identified underprivileged women and trained them to become Shakti Entrepreneurs (SEs) i.e. distributors of HUL products in villages, in the process enabling them to earn a sustainable income through this business. Initially, the women were trained to be entrepreneurs and were called “Shakti ammas”, and in the later stages, this was augmented by the addition of “Shaktimaan” or the male members who helped in the distribution of the HUL products and further increased the income.

Considerable resources are invested by HUL to train the villagers to become entrepreneurs, thus, besides being a sales, distribution and communication initiative, Shakti also serves as a micro-enterprise initiative improving the standards of life and providing employment opportunities. HUL is benefitted as the project helps enhance HUL’s direct rural reach and enables better communication of HUL’s brands effectively in media-dark regions. In 2001, Project Shakti started from 17 SEs in a single state and by 2008, it had grown to more than 45,000 SEs. Additional projects associated with Project Shakti are Shakti Day, i-Shakti Unit and Shakti Vani Programme.

5. DSCL: Hariyali Kisaan Bazaar

DCM Shriram Consolidated Ltd (DSCL) Hariyali stores were started in 2002 selling farm products, groceries and household goods. In 6 years, it operated 300 stores in India and became the largest rural retail chain. Each Hariyali Kisaan Bazaar operated in an area of 20 kmscatering to agricultural land of about 50,000-70,000 acres touching approx. 15,000 farmers. The value proposition was that of “UnnatiGharSansaar and Gaon” providing valuable technical assistance, soil & water testing services, retailing agricultural inputs, facilitating the farmers with credit and providing a platform to the farmers to sell their produce, crop finance, transfer information on weather, price of the products based on demand and supply, all under one roof. It had collaborations with the likes of Tata Agrico, Bajaj Allianz Life, Apollo Pharmacy, Eicher Motors and HDFC Bank.

However, the rural market presents a lot of challenges for organized retailing and not all players have been able to succeed in this venture. Revenues kept on increasing at a good rate but the business was not able to earn a profit which caused DSCL to reevaluate its strategy. First, it slowed down expansion and later it shut down some stores and finally after 10 years of trying, it exited the business. Presently, it sells only petroleum products sourced from Bharat Petroleum at 37 locations in the countryside dropping the revenues but also limiting the losses. An ex-employee of said that the outlet didn’t offer any discounts and, unlike local grocery stores, didn’t sell on credit which might be the main reasons behind its collapse.

Challenges for Organized Retailing in Rural Indian Markets

Typical problems of retailing in rural markets:

- Low disposable incomes
- Illiteracy and low awareness
- Higher overhead costs
- Fluctuating demand that depends on the monsoon
- Diverse buying habits
- Difficulty in competing with mom-and-pop stores

Distribution and Logistics Models

The typical distribution models and hub and spoke model do not always succeed in the rural markets and are very expensive to implement. Taking the example of HUL, taking its huge product portfolio to the remotest of villages was a big challenge. However, the company realized that the conventional hub-and-spoke distribution model which it used to great effect in both urban and semi-urban markets would turn out to be very expensive when penetrating the smaller scattered villages. Hence, it came up with Project Shakti and created local entrepreneurs using self-help groups. This developmental approach made sure that even the remotest of villages could be reached and the market developed without a large investment in the distribution infrastructure.

On the other hand, Haryali Kisaan Bazaar was not successful as it could not implement such cost-effective and innovative distribution models, therefore failing to keep its costs low and earn a profit. The sustainability of organized retailing in the rural markets depends upon the ability of the firms to come up with innovative distribution and logistics models such as using public distribution stores, distribution vans, non-government organizations etc. Yet another example can be taken of ITC's Choupal Sagar which used technology to reduce its costs as well as empower the farmers by enabling them to get better deals for their produce.

Conclusion:

In order to generate sales in the remote rural markets, they must be first developed so that the consumers have the required knowledge to find value from the product and the disposable income to be able to afford the product. Organized retail however, does not help in increasing the rural incomes but only meets the consumption requirements. This makes the business models unsustainable. In order to sustain, the organized retailers must simultaneously work to develop these markets by implementing innovative ideas. Looking at ITC, it did not straight away establish the Choupal Sagar stores, instead ITC focused on developing linkages through its e-Choupal program first. It developed a strong network to buy agricultural products from farmers and improve productivity, helping raise their incomes and in the process, reduce its procurement costs. It was after establishing the e-Choupals

and a certain level of trust with the rural markets that ITC went on to launch the Choupal Sagar stores which sold a variety of products and services to these rural markets. HUL's Project Shakti also ensured sustainability by ensuring the development of the markets through self-help groups called the "Shakti Markets". Similarly, Warana Bazar being a consumer co-operative store also helped in the development of the rural markets. Due to a lack of substantial developmental efforts, organized retailers such as the Hariyali Kisaan Bazar and Aadhar Stores have run into trouble, unable to make profits and sustain the business. While the Hariyali Kisaan Bazar have been reduced to selling fuel products, Aadhar Stores have had to shut down a lot of stores and recreate its product mix. Franchises are an attractive way of expanding organized retail stores as local franchisees are better at maintaining customer relationships as they understand the local consumption patterns better.

References

- Eqbal, D. S. (2012, January). Organized Retailing in India: Challenges and Opportunities. *International Journal of Multidisciplinary Research*, 02(01), 281-291.
- Govt. of India. (2011). Rural Urban Distribution of Population. Census of India 2011.
- Haidar, P. (2015, July). Modern Rural Marketing Network. *Asia-Pacific Journal of Rural Development*, XXV(01), 91-102.
- India Brand Equity Foundation. (2017). Retail Industry in India.
- Jain, V. (2016, August). Challenges for Organized Retailing in India. *International Journal of Research in Commerce & Management*, 07(08), 45-46.
- Poonam Talwar, S. S. (2011, July – Dec.). Retailing Prospects in Rural Market. *International Journal of Computer Science and Communication*, 02(02), 527-529.
- Surajit Dey, D. S. (2012, Nov. – Dec.). Organized Retail in the Rural Markets in India. *IOSR Journal of Business and Management (IOSR-JBM)*, 06(01), 16-25.