FOOD RETAIL AND BRANDING IN INDIA

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Back Ground

India has been rather slow in joining the Organized Retail Revolution that was rapidly transforming the economies in the other Asian Tigers. Though with a population of a billion and a middle class population of over 400 millions organized retailing (in the form of food retail chains) is still in its beginning in the Country.

This was largely due to the excellent food retailing system that was established by the neighborhood Kirana (Khandani traditional business) stores that continue meet with all the requirements of daily needs without the convenience of the shopping as provided by the retail chains; and also due to the highly fragmented food supply chain that is cloaked with several intermediaries (from farm-processor-distributor-retailer) resulting in huge value loss and high costs.

This supplemented with lack of developed food processing industry kept the organized chains out of the market place. The correction process is now underway. Big daddies of Indian corporate sectors are now jumping to establish the retail chains across the country. The systems are being established for effective Business-to-Business (farmer-processor, processor-retailer) solutions thereby leveraging the core competence of each player in the supply chain.

Spread of Organized Retailing in India

Organized retailing is spreading and making its presence felt in different parts of the country. With the entry of very large corporate houses like Reliance Fresh, Vishal, AV Birla group, Bharati Walmart joint venture and the existing Biz Bazar, Spencer, Food Mart are also in large scale expansions across the country, the spread of the organized retail is going to reach soon the small populations towns of 1 lac to 5 lacs after covering all big, medium and small cities.

The trend in grocery retailing, however, has stated with a growth concentration in the South. Though there were traditional family owned retail chains in South India such as Nilgiri's as early as 1904, the retail revolution happened with various major business houses foraying into the starting of chains of food retail outlets in South India with focus on Chennai, Hyderabad and Bangalore markets, preliminarily. In the Indian context, a countrywide chain in food retailing has been pioneered by Big Bazar and Reliance fresh only.

Retail Models in India: Current & Emerging

The Indian food retail market is characterized by several co-existing types and formats. These are:

Current
Kirana Stores and Hawkers

1. The road side hawkers and the mobile (pushcart thela variety) retailers.

2. The *kirana* stores (the Indian equivalent of the mom-and-pop stores of the US), within which are:

a. Open format more organized outlets

b. Small to medium food retail outlets.

Emerging the organized retailers

Within modern trade, we have:

1. The discounter (Subhiksha, Apna Bazaar, Margin Free, Reliance Fresh)
2. The value-for-money store (Nilgiris, Big Bazar, Cooperative Stores)
3. The experience shop (Foodworld, Trinethra)
4. The home delivery (Fabmart)
5. Super stores & wide reach stores (Reliance Fresh, Spencer, Food Mart)

Kirana/Grocers/ Provision Stores

Semi-organized retailers like *kirana* (Khandani stores), grocers and provision stores are characterized by the more systematic buying from the mandis or the farmers and selling from fixed structures. Economies of scale are not yet realized in this format, but the front end is already visibly changing with the times. These stores have presented Indian companies with the challenge of servicing them, giving rise to distribution and cash flow cycles as never seen elsewhere in Asia. The model is very antithesis of modern retail in terms of the buyer (retailer)-seller (FMCG) equations. It is not unknown for MNC leaders to link the supply of one line of products to another slower moving line of products. These retailers are not organized in the manner that they could challenge the power of the sellers, most protests have been in the form of boycotts, which really haven't hit any company permanently.

Hawkers 'mobile markets'

This unorganized sector is characterized by the Thela vendors (also known as “mobile market”) seen in every Indian bylane and is, therefore, difficult to track, measure and analyse. But they do know their business these lowest cost retailers can be found wherever more than 10 Indians collect a rural post office, a dusty roadside bus stop or a village square. As far as location is concerned, these retailers have succeeded beyond all doubt. They have neither village nor city-wide ambitions or 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, which are usually illegal and entrenched.

These are highly organized in their own way. Hawking of food products, cooked food and FMCG products is a very interesting model of retailing. Much has been written about these roadside “malls” from social security issues to their nuisance value. However, if you put these hawkers together, they are akin to a large supermarket with little or no overheads and high degree of flexibility in merchandise, display, prices and turnover. While shopping ambience and the trust factor maybe missing, these hawkers sure have a system that works.

Modern trade the organized retailers

Organized retailing is spreading and making its presence felt in different parts of the country. Today the food retail sector in India is about Rupees Fifteen Lakh Crores (USD 250 billions) of which the organised food retail segment is about 2.5 per cent and increasing at a pace of over 25% y-o-y.

To be successful in food retailing in India essentially means to draw away shoppers from, the roadside hawkers and *kirana* stores to supermarkets. This transition can be achieved to some extent through pricing, so the success of a food retailer depends on how best he understands and squeezes his supply chain. The other major factor is that of convenience shopping which the supermarket has the edge over the traditional *kirana* stores. On an average a supermarket stocks upto 5000 to 7000 units against few hundreds stocked at an average *kirana* stores.

Though with excellent potential, India poses a complex situation for a retailer, as this is a Country where each State is a mini-Country by itself. The demography's of a region vary quite distinctly from others. In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. Hence one may find more of regional players competing with nation wide successful retail chains.

It can be observed that the most popular retail format in India is the 'supermarket', beside the corner shop/grocery store. Hypermarkets have very recently come into being and are negligible in number though most retail chains do intend to expand their presence through this format as well very soon. 'Discount chains' are also substantial in number and are growing at a fast pace throughout the country.

Given that organised retail has been registering growth rates of approximately 40 per cent over the last three years, it is expected to grow to about to Rs 90,000 crore in 2010. If projections were to be made considering the current trends in food retailing in India, some years down the line, food and grocery stores will become dominating trade partners for the food industry, which, in turn, will be forced to offer special discounts and trade terms for them to get the shelf space in such stores.

Also, once established, in-store label brands will become a real threat to the industry as manufacturers will have to compete with the store label brands that are generally very price-competitive. As for the spread geographically, strong chances stand that the major chains would spread to the next grade of cities in the country over the next 5 years or so and then progressively start covering every corner of the country. Most chains have already started developing their own unique supply chains that would suit their needs precisely.

Technology Trends

A successful retailer's winning edge will come from sourcing - how best it can leverage its scale to drive merchandise costs down, increase stock turns and get better credit terms from its vendors. There are obvious and hidden areas where costs can be pruned and the benefits of this lower cost of retailing can be passed on to customers as lower prices, which in turn should fuel demand. One way of trimming costs is use of the latest technologies in supply chain, inventory management and use of IT tools to rack the consumption pattern and the changing habits of the consumers.

The present food supply chain in India is full of inefficiencies - a result of inadequate infrastructure, too many middlemen, complicated laws and an indifferent attitude. To combat and improve efficiency in the supply chain Corporate are taking NGO interventions at the farm end in the form of Farm Management Services to ensure quality and timely supply of produce for the operations. The Farmer-Corporate relationship has helped both the farmers and the corporate in bringing the high quality low cost product to the retail shelf. To ease the burden of the corporate in setting up farm management services, several leading NGO bodies have taken up this activity essentially due to the fact that their operations are mostly at the farm end.

The other important aspect of retailing relates to technology. It is widely felt that the key differentiator between the successful and not so successful retailers is primarily in the area of technology. Simultaneously, it will be technology that will help the organized retailer score over the unorganized players, giving both cost and service advantages.

Retailing is a `technology-intensive' industry. Successful retailers today work closely with their vendors to predict consumer demand, shorten lead times, reduce inventory holding and thereby, save cost. Wal-Mart pioneered the concept of building a competitive advantage through distribution and information systems in the retailing industry. They introduced two innovative logistics techniques - cross-docking and electronic data interchange. Today, online systems link point-of-sales terminals to the main office where detailed analyses on sales by item, classification, stores or vendor are carried out online. Besides vendors, the focus of the retailing sector is to develop the link with the consumer. `Data Warehousing' is an established concept in the advanced nations. With the help of `database retailing', information on existing and potential customers is tracked. Besides knowing what was purchased, by whom, during which time of year, festive seasons shopping pattern, all these information are compiled, analyzed and future shelf planning, discount offer or season sales planning is made.

Supplier Retailer Relationships

Traditionally the supplier-retailer relation in India comprised several layers such as the national distributor, the regional C & F , wholesaler and the end retailer. However this scenario is fast changing with the organized retail increasing its presence in the country where the relationship is directly with the manufacturer. However this new model has been affecting the relationships that the manufacturer enjoys with the traditional system which is still the most dominant in the entire retail sector.

However with technology replacing the supply chain and improving distribution and logistics chain, the role of these middle chains would slowly fade away and there will be direct manufacturer retail chain combine to offer each party try to squeeze maximum margins out of the other.

Innovations in Transportation Logistics

The logistics service providers have been innovating several interesting formats and models for the retail sector. As retail chains begin to focus more and more on the retail end, the logistics support would begin to get outsourced. The cold chain involving nationwide cold storages, refrigerated vans to transport food articles and specialized logistic companies offering the fleet for these services to organized sector big retails is now a reality in India in modern retail environment. With IT support logistics service providers would continue to innovate and develop effective distribution systems for the retail sector.

Social Trends:

Changing Social trends in India will fuel growth of food retailing in a country. India is geographically vast and culturally diverse. The ICT revolutions, double income families where husband and wife both are working and more and more Indian women are now moving into education and jobs, packaged food, ready to cook food and shopping convenience in organized retail ambience under one roof would be the increasing replacing the corner kirana shop / traditional grocery shop shopping .

Increased income levels and more women willing to make use of their education by joining work has increasingly affected the shopping pattern that is moving towards fulfilling the need of convenience shopping in the form of Supermarkets (now graduating to Hyper format) home deliveries. Indian consumer is quality and price conscious and this awareness would drive the retailers to rework their supply chain relationships.

Food Safety Issues:

As awareness grows about food safety issues, the need for countries to provide greater assurance about the safety and quality of food also grows. The increase in world food trade and the advent of the Sanitary and Phytosanitary (SPS) agreement under the World Trade Organization (WTO) have also raised interest in food safety requirements. To ensure a strong presence in global markets, India realizes the need to meet these challenges and keep pace with international developments

In India, it has come to the notice of general public of late that very “popular” food companies could also go wayward as far as food-safety and public health issues are concerned. This has triggered off a drive by the public and the Government to put more stringent food safety and public health measures in place while manufacturing, storing and packaging of foodstuffs takes place. Most foodstuffs pass through the organized retail channels on their way to the purchase baskets of consumers and therefore the retailers are beginning to realize the need for food safety and security. Grading and standardization measures are being taken at various stages of the manufacturing, processing, packaging and storing of all kinds of food materials.

To ensure food safety and maintain product integrity from the source to the customer (farm-to-plate) the Food Retailing Companies are establishing a totally integrated infrastructure and services package. This connects and maintains the flow of food from the source (farmers/food growers, farm service centers, market yards, processors and importers) to the customer (food service outlets, food processing units, food retailers and food exporters). This package will help eliminate or prevent identified hazards or reduces them to acceptable levels. This trend is slowly beginning to take shape with the efforts to integrate and consolidate the supply chain in Indian Food Retailing.

The Codex, HACCP (Hazard Analysis Critical Control Point), ISO 22000, Bar coding (adoption of EAN systems) and food-hygiene standards have been increasingly adopted by the food processing units in India as prerequisite for becoming vendor for big retail chains.

Critical issues:

- Do food chains improve the marketing efficiency of agricultural commodities and benefit both the farmer and the consumer?
- Does the marketing arrangement work to the exclusion of the small and marginal farmer or are there ways to include these vulnerable groups of farmers in the production process?
- Will regional specialization induce by food chains lead to unsustainable farming practices by adopting mono cropping etc ?
- What impact will it have on the farmers incomes and sustainability in use of natural resources?
- In an economy like India where the retail Kirana industry employs millions of single man entrepreneurs business , will the development of super markets chains lead to the closure of these Khandani kirana /grocery shops ?
- What about the present distributors, C & F and dealers chain employing millions of people which will surely be extinct business soon making them unemployable?
- Are consumers benefitted by the entry of food chains? or creating big monopolies by forcing closure of thousand of small retails shops?