

INDIAN FOOD RETAIL SECTOR IN THE GLOBAL SCENARIO

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(The figures indicated with reference to revenues of unlisted companies are based on press information and other sources of information that are not published and therefore, may not be accurate)

GLOBAL RETAILING INDUSTRY

The latter half of the 20th Century, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form. The reasons why supermarkets have come to dominate food retailing are not hard to find. The search for convenience in food shopping and consumption, coupled to car ownership, led to the birth of the supermarket. As incomes rose and shoppers sought both convenience and new tastes and stimulation, supermarkets were able to expand the products offered. The invention of the bar code allowed a store to manage thousands of items and their prices and led to 'just-in-time' store replenishment and the ability to carry tens of thousands of individual items. Computer-operated depots and logistical systems integrated store replenishment with consumer demand in a single electronic system. The superstore was born.

On the Global Retail Stage, little has remained the same over the last decade. One of the few similarities with today is that Wal-Mart was ranked the top retailer in the world then and it still holds that distinction. Other than Wal-Mart's dominance, there's little about today's environment that looks like the mid-1990s. The global economy has changed, consumer demand has shifted, and retailers' operating systems today are infused with far more technology than was the case six years ago.

Saturated home markets, fierce competition and restrictive legislation have relentlessly pushed major food retailers into the globalization mode. Since the mid-1990s, numerous governments have opened up their economies as well, to the free markets and foreign investment that has been a plus for many a retailer. However, a more near-term concern, has been the global economic slowdown that has resulted from dramatic cutback in corporate IT and other types of capital spending. Consumers themselves have become much more price sensitive and conservative in their buying, particularly in the more advanced economies.

From an operational point of view, active practitioners have voiced their opinion that retailer concerns in 2003 have turned to deflation, lack of pricing power, global over-capacity, low interest rates, economic stagnation, slump in world tourism and declining consumer confidence. But, even before the global economic slowdown that forced retailers into monitoring costs more effectively, technological advances were a way of life in retail organizations. Technology has become the real enabler for retailers over the last six years. Supply chain innovations for retailers were particularly strong in the second half of the 1990s and have continued into today. With all the emphasis on technology and cost-cutting, a major thrust of retailers continues to be demand-based:

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finding new markets through globalization efforts. Four years ago, more than half (53 per cent) of the top 200 retailers operated in only one country. Today, only 44 per cent remain single-country merchants. This globalization trend can only intensify in the years ahead. The benefits of increased sales and greater economies of scale are too large to be ignored.

The global retail industry has traveled a long way from a small beginning to an industry where the world wide retail sales alone is valued at \$ 7 trillion (Source:2003 *Global Retail Report, Deloitte Touche Tohmatsu*). The top 200 retailers alone account for 30% of worldwide demand. Retail sales being generally driven by people’s ability (disposable income) and willingness (consumer confidence) to buy, compliments the fact that the money spent on household consumption worldwide increased 68% between 1980 and 2003. The leader has in-disputably been the USA where some two-thirds or \$ 6.6 trillions out of the \$ 10 trillions American economy is consumer spending. About 40% of that (\$ 3 trillions) is spending on discretionary products and services. Retail turnover in the EU is approximately Euros 2000 billion and the sector average growth looks to be following an upward pattern. The Asian economies (excluding Japan) are expected to grow at 6% consistently till 2005-06. Positive forces at work in retail consumer markets today include high rates of personal expenditures, low interest rates, low unemployment and very low inflation. Negative factors that hold retail sales back involve weakening consumer confidence.

World’s Top 15 Retailers

Rank	Country of Origin	Name of Company	Formats	Retail Sales In 2001 (US\$ MILLION S)	Countries of operation
1	US	Walmart	Discount,Hyper market,Supermarket,Superstore,W arehouse	217799	Argentina,Brazil,Canada ,China, Germany,Mexico, Puerto Rico, S.Korea,UK,US
2	France	Carrefour	Cash&Carry, Convenience, Discount, Hypermarket, Supermarket	61565	Argentina,Belgium,Brazil,Chile,China,Columbia, Czech Rep,France,Dominican Repub,Greece,Indonesia, Italy,Japan,Madagascar, Malaysia,Mauritius,Mex ico,Morocco,Oman,Poland,Portugal,QatarRomania,Singapore,Slovakia,Spain,South Korea,Switzerland,Taiwan,Thailand,Turkey,UA E.
3	Netherlands	Royal Ahold	Cash&Carry, Discount, Drug,	57976	Argentina,Brazil,Chile, Costa Rica,Czech

			Convenience, Hypermarket, Specialty, Supermarket		Rep,Denmark,Equador, El Salvador,Estonia, Guatemala,Honduras, Indonesia,Latvia, Lithuania,Malaysia, Netherlands,Nicaragua, Norway,Paraguay, Peru,Poland, Portugal,Slovakia, Spain,Sweden, Thailand,US
4	US	Home Depot	DIY,Speciality	53553	Canada,Mexico,Puerto Rico,US
5	US	Kroger	Convenience, Discount, Speciality, Supermarket, Warehouse	50098	US
6	Germany	Metro AG	Cash&Carry, Department, DIY, Hypermarket, Specialty, Superstore	43357	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep, Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Switzerland, Turkey, UK, Ukraine, Vietnam
7	US	Target	Department, Discount	49355	US
8	US	Albertson's	Drug, Supermarket, Warehouse	37931	US
9	US	Kmart	Discount, Superstore	36151	US
10	US	Sears	Department, Mail Order, Specialty	35843	Canada, Puerto Rico, US
11	UK	Safeway	Supermarket	34301	UK, US, Canada
12	US	Costco	Warehouse	34137	Canada, Japan, Mexico, PuertoRico, S.Korea, Taiwan, UK, US
13	UK	Tesco	Convenience, Department, Hypermarket, Supermarket, Superstore, Specialty	33614	Czech Rep, Hungary, Malaysia, Poland, Rep.of.Ireland, Thailand, S.Korea, Slovakia Taiwan, Thailand, UK, US

14	US	JCPenney	Department, Drug, Mail Order	32004	Brazil, Mexico, Puerto Rico,US
15	Germany	Aldi Einkauf	Discount	31310€	Austria, Australia, Belgium, Denmark, France, Germany, Luxembourg, Netherlands, Rep.Of.I Ireland, Spain, UK, US.

Source: 2003 Global Retail Report, Deloitte Touche Tohmatsu

The Far East Experience:

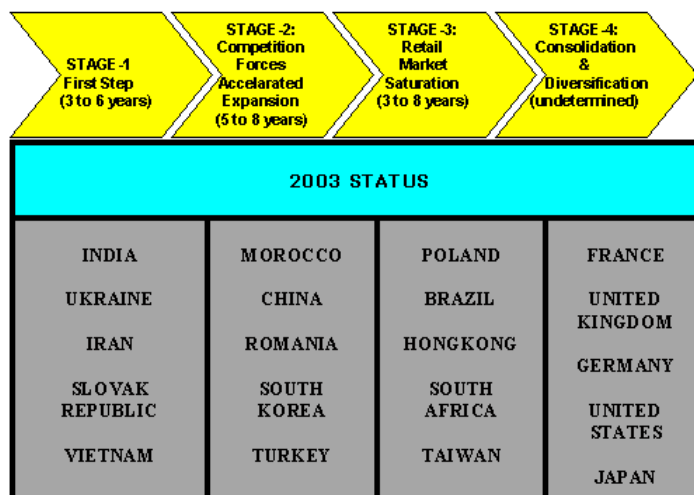
The Food Retail Industry in the Far East has evolved into what could be called ‘the breeding ground’ for emerging models with countries like Singapore being the home to some of the big players in the industry in these parts of the world. The presence of all the major players of the retailing industry is found in Singapore. Singapore has 2 hypermarkets, one run by Carrefour and the other by Giant Hypermarket, part of Dairy Farm International. According to the government, there are slightly more than 11,000 market stalls operating in 150 markets located all across Singapore Island. The markets further spread to China, Thailand, and Malaysia thanks to the major support that the local governments provided in creating the necessary regulatory framework in establishing their presence. Singapore, Malaysia and Thailand not only fueled the retail industry within the country, but also attracted hordes of tourists to experience the shopping “experiences” that they created in these islands. The markets are now saturated with no additional space for a new entrant and are expected to consolidate within the next few years.

Apart from Singapore, which is a more recent development, **Japan** enjoys an active spot on the retailers’ map. The retail industry is as huge as US\$ 1088 Billion, with a split of US\$ 594.8 Billion in the non-food segment and US\$ 493.2 Billion in the food-retailing sector. The leaders in sales are Ito-Yokado, Aeon, Daiei, Takashimaya, and Uny, in that order. Several retailers, however, have made recent improvements in their warehousing and distribution technologies to make their presence felt in the Japanese market. Convenience stores, which are small and suitable in a country where land is very expensive, continue to do well. Food, in fact, has been one of the few sectors that have experienced growth over the last several years. A period of shake up in the industry is likely now that Wal-Mart has entered Japan. Numerous smaller, less efficient retailers may become takeover targets. The entire Japanese retail sector will likely undergo some form of restructuring over the next decade as a result of overcapacity, dismal profits and the Wal-Mart factor. In Mainland China, the retail markets have mushroomed over the years of intense economic development to a very considerable size. The total volume of retail sales for consumer goods and food increased by 10.6 percent in China over the last couple of years which shows tremendous growth. Consumer spending has held strong. A decade ago, the top five retail enterprises in China were all traditional merchandise companies, but now the top five are mainly supermarkets and chain stores. The world is enamored with China’s potential and opportunities. But in medium-sized and small cities and rural areas, traditional retailing methods, such as department stores and local

retailing networks, will be sufficient, as consumption is lower. **In Indonesia**, Wet markets and supermarkets remained the major distribution channels for food products. Although these retail sub-sectors also offered non-food products, such as household goods, food products remained dominant in terms of the number of items. Wet markets' distribution of food products tended to be much greater than non-food as these retail channels mainly provided fresh produce. Conversely, supermarkets had an almost equal distribution, with food taking up the greater proportion. On the other hand, the distribution of non-food products benefited from both food and non-food retailers. For example, some food retail formats offered non-food items, such as supermarkets, hypermarkets, and convenience stores. These retail outlets provided some basic non-food products, such as toothpaste, soap, or detergent. However, non-food retail outlets rarely provided food items, except certain department stores or druggists. **In Malaysia**, a majority of food retailer outlets offer food and non-food items, with at least a 70:30 distribution. The traditional food distribution system in **Thailand** is through so-called 'wet markets' which sell fruits, vegetables, meat and fish, together with small 'mom and pop' food stores which distribute dry goods. However, the rapid growth of the economy, particularly during the decade before the financial crisis began, has led to dramatic changes in the structure of the food-retailing sector. Modern supermarkets, superstores, hypermarkets and convenience stores developed at breakneck pace to service the growing middle class with their demand for more sophisticated food stores and a greater variety of products many of which were imported.

FOOD RETAIL IN INDIA

Though with a population of a billion and a middle class population of over 300 millions organized retailing (in the form of food retail chains) is still in its infancy in the Country. India has been rather slow in joining the Organized Retail Revolution that was rapidly



transforming the economies in the other Asian Tigers. This was largely due to the excellent food retailing system that was established by the *kirana* (mom-and-pop) stores that continue meet with all the requirements of retail requirements albeit 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 underway and 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. The trend in grocery retailing, however, has been slightly different 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 is yet to be established as lots of Supply Chain issues need to be answered due to the vast expanse of the country and also diverse cultures that are present.

Retail Models in India: Current & Emerging

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

1. The road side hawkers and the mobile (pushcart 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.

Modern trade - the organized retailers

Within modern trade, we have:

1. The discounter (Subhiksha, Apna Bazaar, Margin Free)
2. The value-for-money store (Nilgiris)
3. The experience shop (Foodworld, Trinethra)
4. The home delivery (Fabmart)

While the focus of this note is on modern organized retail trade, we hereunder present insights into the smaller, semi and unorganized retailers.

Hawkers - 'mobile supermarkets'

The unorganized sector is characterized by the lari-galla vendors (also known as "mobile supermarket") 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.

Kirana/Grocers/ Provision Stores/Mom-and-Pop Stores

Semi-organized retailers like *kirana* (mom-and-pop 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 cashflow 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.

INTEGRATION OF FOOD INDUSTRY - THE KEY DRIVER OF FOOD RETAIL IN INDIA

India is world's second largest grower of fruits and vegetables after Brazil and China. While the agriculture sector has witnessed several leaps of innovation and technological advancements, the processing sector is still in its infancy. Even with less than 4% processing of fruits and vegetables, the Food Processing Industry sector in India is one of the largest in terms of production, consumption within India, export and growth prospects. The government has accorded it a high priority, with a number of fiscal reliefs and incentives, to encourage commercialisation and value addition to agricultural produce; for minimising pre/post harvest wastage, generating employment and export growth. As a result of several policy initiatives undertaken since liberalisation in early 90's, the industry has witnessed fast growth in most of the segments. In the following few paragraphs, it can be noted that the processed food market for India is vast and the amount of scope that retail chains would be exposed to is phenomenal taking into consideration the demographics and raise in standards of living. Retailers could through the market with all these processed and packaged foods with their private labels.

With the emergence of the big private corporates, NGOs (Non-Government Organisations) and Government organizations into the food processing scene, India is making big in-roads into the Food Processing Industry. These corporates and NGOs have reached out to the farmers and provided them with timely advice and help in the upgradation of farm practices with valuable inputs on various areas of farming from sowing to harvesting which includes quality seed procurement, manures, fertilizers and pesticides etc. Some of the successful models are that of ITC's e-choupal a model that helps the soyabean farmers in contract producing for ITC for its commodity trading business. The PEPSI experimenting with Punjab farmers in growing the right quality tomato for its tomato purees and pastes. Some of the leading food retail chains working with farmers for contract growing greens for supply to their retail outlets etc etc. These successful models are being replicated with required changes all over the country and the food industry is getting integrated more strongly.

India has also seen a flurry of food chain majors like McDonalds, Pizza Hut and Kentucky Fried Chicken finding their place among the Indian consumers. The trend still follows for food chains in India to spread to almost all cities and towns.

These advancements have revolutionised the integration of the Indian Food Industry and has played a vital role in solving, to a large extent, major supply chain issues that prevailed. The trend is that these successful institutional intervention models be replicated and spread in all segments of the food industry far and wide through the country that benefit all the incumbents of the chain evolve. This finally helps the retailer as his supply chain becomes much leaner and vertically integrated. He is in a position to offer a wide variety and highest degree of convenience to his customer.

ECONOMY

Economic growth at over 5.5% over the last eight years, forex reserves of over \$100 billions and a stable government has helped India to look more progressively towards future. The economic development was largely attributed to its dominance in the Information Technology Sector in the global market place and its large English speaking population that made it the ideal choice for back office operations for MNC's world over. The manufacturing sector also provided its might to the economic development by going global hitherto restricting to export of raw materials or intermediaries that has not graduated to supply of end product be it Pharmaceuticals or Consumer Vehicles. All this has translated in higher income levels and more surpluses for the middle class segment that is getting ploughed into the retail sector; again fueling the economy to higher levels. The last five years have seen the PPP of average Indian middle class (over 300 millions) go up several times unleashing the power of purchasing. The retail sector was the greatest beneficiary. The need for a shopping experience combined with the convenience of shopping for the upwardly mobile middle class has been on the major factors for retail boom in India.

THE INFORMED CONSUMER

Over the years, the increasing literacy in the Country and the exposure to developed nations via satellite television or by way of the overseas work experiences, the consumer awareness has increased on the quality and the price of the products/services that is expected. Today more and more consumers are vocal on the quality of the products/services that they expect from the market. This awareness has made the consumer seek more and more reliable sources for purchases and hence the logical shift to purchases from the organized retail chains that has a corporate background and where the accountability is more pronounced. The consumer also seeks to purchase from a place where his/her feedback is more valued.

EVOLUTION OF ORGANIZED RETAILING

Retailing, one of the largest sectors in the global economy, is going through a transition phase in India. 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, convenience stores and fast-food chains.

The traditional grocers, by introducing self-service formats as well as value-added services such as credit and home delivery, have tried to redefine themselves. However, the boom in retailing has been confined primarily to the urban markets in the country. Even there, large chunks are yet to feel the impact of organized retailing. There are two primary reasons for this. First, the modern retailer is yet to feel the saturation' effect in the urban market and has, therefore, probably not looked at the other markets as seriously. Second, the modern retailing trend, despite its cost-effectiveness, has come to be identified with lifestyles.

In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. In a sense, this trend is already visible with the emergence of stores with an essentially 'value for money' image. The attractiveness of the other stores actually appeals to the existing affluent class as well as those who aspire to be part of this class. Hence, one can assume that the retailing revolution is emerging along the lines of the economic evolution of society.

It was only in the year 2000 that the economists put a figure to it: Rs. 400,000 crore (1 crore = 10 million) which is expected to develop to around Rs. 800,000 crore by the year 2005 - an annual increase of 20 per cent. Retailing in India is unorganized with poor supply chain management perspective. According to a recent survey by some of the retail consulting bodies, an overwhelming proportion of the Rs. 400,000 crore retail market is UNORGANISED. In fact, only a Rs. 20,000 crore segment of the market is organized. As much as 96 per cent of the 5 million-plus outlets are smaller than 500 square feet area. This means that India per capita retailing space is about 2 square feet (compared to 16 square feet in the United States). India's per capita retailing space is thus the lowest in the world (*source: KSA Technopak (I) Pvt Ltd, the India operation of the US-based Kurt Salmon Associates*).

Currently the retail landscape is filled with Supermarket chains with over 1000 outlets all over the country to increase to around 5000 by the 2005. The success of a couple of Hypermart's indicate the evolution of hypermarkets in the country prominent among them are Giant, Metro, Big Bazaar models. While the average bill value at a supermarket is in the range of Rs.300 per bill, the average bill amount at a Hypermarket is in the range of Rs.750-1000, indicating that the model is in tune with the global models where the average spend is increasing with the shopping experience.

Impact of Organized Retail

Organized retailing is spreading and making its presence felt in different parts of the country. The trend in grocery retailing, however, has been slightly different 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 1905, the retail revolution happened with the RPG group starting the Foodworld chain of food retail outlets in South India with focus on Chennai, Hyderabad and Bangalore markets, preliminarily. The experiment has reaped rich dividends and the group is now foraying into other territories as well. Owing to the success of Foodworld model of RPG group, several new models such as Trinethra, Subhiksha, Margin Free and others have made their foray into this sector albeit at regional levels. Today the food retail sector in India is about Rupees Ten Lakh Crores (USD 200 billions) of which the organised food retail segment is about 1 per cent and increasing at a pace of over 20% 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 SKU's 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 we may find more of regional players and it would take enormously long time before nation wide successful retail chains emerge. This is the main reason as to why the successful retail chains in the country today operate at regional segments only and are not aiming at nation wide presence, atleast for the time being.

In the organized retail industry, the gestation periods are long, institutional funding is difficult, and there is none or little Government support. But the belief among top retailer chains in the country is that the industry will see large investments coming once the current ban on foreign direct investment is lifted. But that could be two-three years away. Food and grocery retailing is a tough business in India with margins being very low, and consumers not dissatisfied with existing shops where they buy. For example,

the next-door grocery shopkeeper is smart and delivers good customer service, though not value.

As of now, while Chennai has about five organised food and grocery retail chains, other big cities such as Delhi, Bangalore, and Mumbai average only two-three such chains. Almost all food retail players have been region-specific as far as geographical presence is concerned in the country. To illustrate with examples, the RPG Group's FoodWorld, Nilgiris, Margin Free, Giant, Varkey's and Subhiksha, all of which are more or less spread in the Southern region; Sabka Bazaar has a presence only in and around Delhi; names such as Haiko and Radhakrishna Foodland are Mumbai-centric; while Adani is Ahmedabad-centric. Industry topography in India is such that spreading presence across cities is a tough call. As pointed out by many experts, organised food and grocery retailing chains going national requires significant investments. Retailing within this sector is not just about the front-end, but involves complex supply chain and logistics issues as well.

The trend and mindset of the present retailer chains in India can be best understood by studying FoodWorld as an example, which came in first in the food and grocery retailing sector. The chain has no plans to venture beyond the Southern region just yet. Current plans are to focus on the Southern markets and achieve saturation. The intention is that by 2005, they could look at the other regions. Subhiksha, a Chennai based discount chain, too wants to be the principal store of purchase for at least 40 per cent of all consumers living within 500-750 meters of the store, that is, within walking distance. This makes the point very clear that the strategy among most existing retail chains of various formats is to completely saturate the markets where they are already established players and then move on to virtually untouched areas where the challenge of sourcing resources and extending their supply chain model to best suit the size and expanse of the market would be a challenging task.

Meanwhile, the RPG group plans to take its new formats such as Giant Hypermarkets national over the next three years. Grocery is a large component of this format, but not the only one. To elaborate on the hurdles of going pan-Indian, fundamentally, the way a basic grocery retailing model works is that the high set-up costs in terms of setting up buying/ distribution infrastructure is gradually amortised over a larger number of stores. The back-end costs without distribution centre costs, or what in retail jargon is called retail administration costs, should stabilise at around 2.5 per cent to 3 per cent of sales.

It can be explained that the obstacles of looking at a pan-India model for grocery are several. Given the federal nature of the country, the weak infrastructure and the major variances in eating habits in different parts of the country, one will have to replicate the retail administration costs for at least each region and therefore the gestation period of the project becomes huge. However, if a model is in place where the upfront store revenues scale very rapidly, then it is possible. Therefore, if one is to attempt a pan-Indian grocery foray, it will have to be in the hypermarket format with its attendant investment numbers and risk profile.

If a close look is taken at the nature of the Indian Retail Markets, it can be seen that there is so much potential to extract from individual regions, that players are in no tearing hurry to spread out. Based on a recent study by a renowned government institution in India, in the six major metros, Delhi has the highest per capita consumption of food and grocery, among supermarkets. Chennai, "the mecca of retailing", comes at fourth place. This shows the high potential the sector presents. Chennai has some five supermarket chains, and each of these are doing well for themselves. So there is enough scope to expand even in one single city in India.

Sabka Bazaar, a supermarket chain restricted to Delhi alone, is now generating sales of about Rs 11 crore from its 19 stores which best illustrates the potential of each individual city. This explains the reason for delay in intentions of retailers to spread far and wide.

Pantaloon Retail (India) Ltd, which operates two types of retail formats, made its maiden foray in food and grocery retailing in North India in mid-2003. Big Bazaar, Pantaloon group's discount store chain, has taken off to a roaring start in Delhi. The Pantaloon Big Bazaar in Delhi is the sixth for the group, and the first in North India. It has been found that existing Big Bazaar stores in cities such as Hyderabad, Bangalore and Mumbai attract average footfalls of 20,000 to 25,000 per day, more so during weekends. While Big Bazaar is essentially a discount store retailing product categories ranging from food and grocery to apparel to footwear to home and interior products, food and grocery retailing forms a significant part of the chain's business. Typically, while food and grocery retailing does well at the beginning of the month, the apparel sector sees maximum off take during festivals.

It can be observed that the most popular retail format in India is the 'supermarket', beside the corner shop/grocery store/'mom and pop' 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 through the country, predominantly, in the southern region.

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 Rs 35,000 crore in 2005, and close to Rs 70,000 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. Replicating the success stories of the big names of the Western nations may still be a distant dream for Indian food and grocery retailers, but at least the winds are blowing in the direction of growth.

Decadal Analysis of the Food Retail Sector

Retailing is a sunrise industry in India with many challenges like exclusion of small farms, management of processing and distribution chains. Evolution of super markets and fast food chains is a recent phenomenon in India. Various demand and supply side factors have contributed towards this growth.

Supply Side:

The liberalization of the economy in the 1990s led to a boom in the “Consumer Goods” Industry with reductions in custom duties and shift from quota to tariff based system. Entry barriers on multinationals were largely removed after which Food Industry majors like Kellogg’s, Heinz, Tropicana, etc., entered the Indian food industry. This gave rise to tremendous development of sophisticated supply chain & logistics which eventually and gradually has led to the growth in the food processing & packaging industry

Demand Side:

The increase in the income levels of middle & higher income groups in the 1990s coupled with the reduction in poverty levels was a major factor in contributing to the increase in demand for high quality food retailing services. Changing consumer lifestyles with the steep increase in time value, wide spread change in the Indian family structure from vast Joint Hindu families to more manageable nuclear families and increasing level of quality awareness has also helped the cause of the Food Retailing industry considerably. Another major factor that has accelerated the growth of the Indian Food Retailing Sector has been the advent of cable television and the increasing instances of overseas travel by Indians for various reasons.

Government Policy on Food Retailing - India

100 % FDI in retailing is not allowed per se, foreign retailers can operate in India through joint ventures, where the Indian partner is an export house, Franchising/Local manufacturing/Sourcing from small-scale sector, Cash and carry operations. The McKinsey report states FDI will help the retail businesses to grow from the present \$200 billion to \$460-470 billion by 2010.

Growth of supermarkets in most developing countries (Brazil, China, etc.) took off in the 1990s after FDI was allowed in this sector which is not the case in the Indian scenario. Retailing is not regarded as an industry very few banks are willing to invest in this sector. The shortage of warehousing facilities, cold storage and large scale processing units has obstructed the growth of the Food Retailing Industry in India. As Supply chain is fragmented & marked by existence of large number of intermediaries, organized retailing has been a very tough proposition. India is still in the second and third party

logistic provider mode while fourth party logistic models have become global standards for logistic providers. Retailing is subject to a plethora of laws and regulations at central, state and municipal/local levels, some of which have been listed below:

- Restrictive zoning legislation limits availability of land for retail/ commercial purposes
- Restrictions on interstate movement of food grains deprive farmers from getting remunerative prices.
- Restrictive Labour laws
- Urban land ceiling regulations, restrictions on shop opening timings, requirements for shops to close once a week
- There is no uniform tax structure - multiple layers of taxes.

EMERGING TRENDS

Likely Transformation of the Supply Chain:

To counter the unbeatable advantages of convenience of a hop, skip and a jump access and home delivery, organized retailers seem to have just one option - offer attractive prices to the consumer. A successful retailer's winning edge will therefore 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 if the pressure points in the long, often unnecessary, supply chain for produce and staples can be identified and suitably dealt with. The food supply chain in India is full of inefficiencies - a result of inadequate infrastructure, too many middlemen, complicated laws and an indifferent attitude.

Corporate and NGO interventions at the farm end in the form of Farm Management Services are emerging to ensure quality and timely supply of produce for the operations. The Farmer-Corporate relationship has helped both the farmers and the corporates 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.

We feel that these farmer-corporate models would be replicated and extended to all the farm end products. With the emergence of Private Label, we would soon find even the retail chains to work with the farm community in developing a efficient supply chain and to leverage on the cost advantage at both ends.

Supplier Retailer Relationships

Traditionally the supplier-retailer relation in India comprised several layers such as the national distributor, the regional 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. The issue of differential pricing is being taken up at several forums and the growing dissatisfaction among the traditional retailers is being addressed by the manufacturers. However we see that in the long term, the role of a national distributor would slowly fade away or get restricted to the rural/ upcountry regions.

The supplier-retailer relationship would come under severe pressure as each party would 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 of now, organized retail chains in India do not, by far, outsource logistical requirements, they develop their own network. This was basically due to the fact that the supply-chain was still in its infancy stage, which has begun to mature and the systems are being well defined. As retail chains begin to focus more and more on the retail end, the logistics support would begin to get outsourced. The logistics service providers have begun to come out with innovative customized solutions for the retail chains such as GATI's model for distribution of Alphonso mangoes throughout the country with the Information Technology support.

We see that the logistics service providers would continue to innovate and develop effective distribution systems for the retail sector.

Formats

Currently the retail sector in India is populated with the traditional mom-and-pop stores and some 1000 odd supermarkets under organized retail chains. A daring few ventured into the Hypermarket segment with successful results and this format is being fast replicated by other players. This experience indicates that the Indian consumer has matured to the next level of shopping experience. Given the Indian conditions and the vast diversity a single format may not be possible for the national presence, but region specific formats may evolve.

An interesting observation is that of lack of presence of organized retail chains in the rural/semi-urban centers as over 60% of Indian population is still in these parts. An ideal "no frills" model to start with, would be ideal for the rural markets, this would help to take them to the next level of supermarket experience.

Social Trends:

Social trends of a country have impact on the scheme of growth of food retailing in a country. India is country that is vast geographically and diverse culturally. This has taken its toll on food retailing with retailers having to adapt to the local cultures and palates of the area in which they have established or plan to establish. This is a major reason for many or most retailing chains restricting their operations to a certain part of the country. But the trends now are slowly moving towards cultural integration where people of all states and diametrically opposite cultures tend to try out foods and materials of other states and communities. This movement towards social integration would make it very feasible in the near future for retailing chains and erstwhile local chains to spread across the country.

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.

A recent analysis shows that countries go through a distinct food consumption evolutionary pattern. In the first stage the focus is on obtaining basic dietary inputs, the second stage focuses on improving and building basic foods, before moving to the third stage of adding premium food to the diet. Most of urban India has already moved to the third stage and it is a great avenue for food retailers, if they could slowly introduce the rest of India to it. The future would witness creation of specific models/formats one for the upwardly mobile urbanite and the other for the rural markets. Also since the taste habits change from place to place in India, there would emerge a leading

Online Retailing

The single most important evolution that took place along with the retailing revolution was the rise and fall of the dotcom companies. A sudden concept of 'non-store' shopping emerged, which threatened to take away the potential of the store. More importantly, the very nature of the customer segment being addressed was almost the same. The computer-savvy individual was also a subsegment of the 'store' frequenting traffic. Internationally, the concept of Net shopping is yet to be proven. And the poor financial performance of most of the companies offering virtual shopping has resulted in store-based retailing regaining the upper hand. Other forms of nonstore shopping including various formats such as catalogue/mail order shopping, direct selling, and so on are growing rapidly. However, the size of the direct market industry is too limited to deter the retailers. For all the convenience that it offers, electronic retailing does not suit products where 'look and see' attributes are of importance, as in apparel, or where the value is very high, such as jewellery, or where the performance has to be tested, as of consumer durables. The most critical issue in electronic retailing, especially in a country such as ours, relates to payments and the various security issues involved.

However, using the internet to be able to source products and also check for availability of stock among stores of retail chains has been proven to be effective and cuts down on wastage by a vast amount. It makes logistical support very easy and efficient. The trend in India is such that usage of the electronic medium for business purposes and integrating it into the systems is increasing. This would slowly spread into the retailing sector as well. It has already started in the case of some large retail houses where the affects are here to see. This again would result in the supply chain getting leaner and vertically integrated. Though the initial costs to implement these systems are high, in the long run it results in cost reduction where this privilege can be passed on to the final consumer.

Impact of Technology

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. It is quoted that everyday at least 500 gigabytes of data are transmitted via satellite from the 1,200 point-of-sales counters of JC Penney to its corporate headquarters. 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 and by whom, information on softer issues such as demographics and psychographics is captured.

Retailing, as discussed before, is at a nascent stage in India. Most organized players have managed to put the front ends in place, but these are relatively easy to copy. The relatively complicated information systems and underlying technologies are in the process of being established. Most grocery retailers such as Food World have started tracking consumer purchases through CRM. The lifestyle retailers through their 'affinity clubs' and 'reward clubs' are establishing their processes. The traditional retailers will always continue to exist but organized retailers are working towards revamping their business to obtain strategic advantages at various levels - market, cost, knowledge and customer. With differentiating strategies - value for money, shopping experience, variety, quality, discounts and advanced systems and technology in the back-end, change in the equilibrium with manufacturers and a thorough understanding of the consumer behaviour, the ground is all set for the organized retailers.

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 is 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 would have to establish 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, importers) to the customer (foodservice 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 (The Hazard Analysis Critical Control Point) and food-hygiene standards have been adopted by the Bureau of Indian Standards, the national standards body in India. Food processing units are being encouraged to adopt these systems on a voluntary basis.

Organizations like VOICE (Voluntary Organization in the Interest of Consumer Education) have undertaken the responsibility to document the existing level of implementation of National Laws concerning labeling and packaging of imported food products, to analyze and compare with the Indian made food products and similar imported food products in terms of adherence of the National Laws, to prepare a well-documented campaign kit for the consumer groups in India on the study to sensitize and build awareness among consumers on seeking and demanding mandatory information on all packaged food products.

Food Labeling In India With Special Reference To Codex Guidelines:

Food retailers have realized that they should have a fairly good understanding of the general concepts, role and functions of labeling of food products in view of the various

kinds of foods available in the market. Consumers in Indian markets are now only buying products that are labeled and the labels should contain true information about the product, safety and its quality having the required standard that may not threaten the health or safety of any single individual. Knowledge of food standards for labeling as prepared by national (PFA) and international authorities (Codex) is essential for food retailers.

The Codex Alimentarius Commission body implements the joint FAO-WHO food standards program, the purpose of which is to protect the health of consumers and to ensure fair practices in the food trade. In view of this, it is pertinent to follow its rules and regulations in matters of food safety and labeling. The decisions made by Codex have profound effects on economics and the health and well beings of citizens around the world. The fact that 165 nations are members of Codex and this membership represents 98 percent of the world's population further illustrates the great influence Codex has.

Most retailers in the organized food retailing industry in India have begun to insist on labeling that has to be standardized as awareness among consumers has increased considerably. Standards on labeling have become mandatory with a specific mention of the name of the food item, and date of manufacture and storage instructions. Where the scope of Codex Standard is not limited to pre-packaged foods, a provision for labeling of non-retail containers may be included. In such cases, the provision may specify that information on provisions shall be given either on the container or in the accompanying documents, except that the name of the product, lot identification, and the name and address of the manufacturer or packer shall appear on the container.

Annexures:

1. India's Top Food Retailers

Food World

FoodWorld has become India's largest and fastest growing supermarket chain. Today, over 89 stores offer customers a variety of brands at a very reasonable price. FoodWorld in India, is an alliance between the RPG Group in India with Dairy Farm International of the Jardine Matheson Group. Food World aims at establishing 100 stores all over Tamil Nadu, Andhra Pradesh, Karnataka and Maharashtra by mid-2004 with a turnover of Rs.500 crores.

Trinethra is a supermarket chain that has predominant presence in the southern state of Andhra Pradesh with 66 stores spread over 8 districts of the state. Their turnover was Rs. 78.8 crores for the year 2002-03. This figure is expected to touch the Rs.100 crores mark by 2003-04. The Trinethra group came into being as a single store in the year 1986. They plan to saturate their presence through out the state of Andhra Pradesh before venturing into two more southern states of the country. The group plans to venture into the lower level regions like smaller towns and mandals by using the franchisee-model. They are also very clear that they would be setting up three hypermarkets in the state soon.

Apna Bazaar, the Rs 140-crore consumer cooperative society with a customer base of over 12 lakh, plans to cater to an upwardly mobile urban population – a first for the 55-year-old chain that has mostly been identified with the 'middle class'. The plans include trimming and training the workforce, opening new outlets and focusing on the FMCG sector. Now, the cooperative has 80 outlets in Mumbai, Thane and the neighbouring Konkan region. It has recently opened its first shop outside the state in Goa . The revenue target for 2003-04 is Rs 150 crore. The chain plans to remain open all days of the week and this itself is expected to fetch about Rs 10 crore a year.

Big Bazaar – Pantaloons

After Bangalore, Hyderabad and Kolkata, BIG Bazaar, a division of Pantaloon Retail (India) Ltd has stretched its brand to Mumbai by opening three hyper markets in the city. Offering discounts ranging from 5 per cent to 60 per cent, discount stores is still a nascent concept in India. Big Bazaar launched its stores in Bangalore, Hyderabad and Kolkata in 2001. Marking an investment of Rs 10 crore into this new division, Pantaloon is expects to record the highest turnover from its Mumbai stores to the tune of almost Rs 80 crore from Mumbai alone within the first year of operations. But the turnover from its other Big Bazaar stores in Bangalore, Hyderabad and Kolkata is Rs 50 crore this year. Big Bazaar claims to be India's first chain of hypermarket discount stores.

Margin Free

The Kerala-based Margin Free discount stores, the 'pure retail' chain with arguably the largest presence in the country. The retail store chain is uniformly spread across the 240-odd Margin Free franchisees in Kerala, Tamil Nadu and Karnataka. Margin Free draws inspiration from the undying loyalty of its customers who have wholeheartedly welcomed all its growth plans in the past. Margin Free plans to open huge hypermarkets (50,000sq.ft each) in Ernakulam, Thiruvananthapuram and Kozhikode in the immediate future.

Subhiksha

The Chennai-based retail food and pharmacy chain **Subhiksha** supermarket and pharmacy is in expansion mode. It plans to go national and have 400 stores in the next two years. Currently, Subhiksha has a strong presence only in Tamil Nadu and Pondicherry with over 150 stores. The decision to expand outside Tamil Nadu, is because the city has reached saturation and also, the purchasing power is high in larger metros. Subhiksha stores sell household items and medicines at significant discount to normal prices. The retail chain earned a total revenue of Rs 235 crore in 2002-03. The first Subhiksha store was opened in Tiruvanmiyur in Chennai in March 1997. Today, the chain has about 164 outlets in Tamil Nadu and Pondicherry. In 1997-98 Subhiksha was making a turnover of Rs 12 crores and a profit of Rs 10 lakhs. In 2003 it has grown to Rs 224 crores turnover and Rs 3 crores profit. Major plans are on in Karnataka to open 40 stores in Bangalore in the next nine months and another seven stores in Mysore in the same period. In all, it is intended to open at least 250 stores by 2005. The group is looking at extending operations in Karnataka and also venturing into the Maharashtra, Andhra Pradesh and Gujarat markets.

Nilgiris

Muthusamy Mudaliar opened a small bunk shop in Ooty. That was in 1905 and the beginning of a long story in procurement and customer satisfaction. In 1936, the shop moved to Bangalore with its registered office on Brigade Road, a small shop exactly where the huge mother store is now located. The first expansion happened when Muthusamy Mudaliar's son Chenniappan, also the chairman, established Nilgiris as a modest store carrying Nilgiris' own products, mostly dairy and bakery. Eventually, it evolved into a supermarket when Mr Chenniappan visited the U.S. and Europe and was influenced by the old supermarket concept in the west. This chain has now blossomed to cover a vast region in South India with 26 outlets and annual sales of about Rs.2300 Millions. They plan to open an additional 30 outlets in their next phase of expansion.

MTR

The **MTR** Group of Companies promoted by the family of MAIYAS took birth in the year 1924 with the commencement of a Restaurant in Bangalore. Later in 1976, **MTR** ventured into the business of retailing of Groceries and other household general items by opening a Department Store. **MTR** first brought out a packaged, processed food product. Subsequently, efforts were made to extend the distribution of the above products to few other prominent Retail Stores in Bangalore, such as Nilgiris, Vijaya Bakery, Shivananda Stores, Home Needs etc. The response was found to be very encouraging in terms of sales of the above products. Consequently, a major step with respect to marketing was taken by the Group in the year 1983. It was during 1983 that **MTR** appointed Distributors in Bangalore, Madras, Hyderabad and Vijayawada with a view to capture business opportunities in the said markets.

Janatha Bazars & HOPCOMS

Cooperative Departmental stores were started with Government patronage in the early 1960's at a time when shortage of basic goods was the order of the day. Poor marketing strategies hindered their progress in the field. Total membership - 11,680 farmers, with 100 tonnes of horticultural produce being traded per day in eight districts. In 1998, each cooperative society was made independent, sixteen of which were subsequently federated at the state level, as members of the Karnataka Horticulture Federation.

Presence of MNC chains

Metro AG

Opened its first Indian outlet in Yeshwanthpur, Bangalore on a sprawling 6,500 square metres area. Proposed to open one more centre in Bangalore during November 2003. Capital expenditure for these two centres is Rs.176 crores (35 million euros). Employ 300 local people and head quarter will employ 750 local people.