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Organised food retailing in India-A conceptual framework

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Abstract

The retail sector in India has an ancient history. The sector has shaped up over the years. Indian economy with the growing educated population has brought about a paradigm shift in the scale and scope of the products brought under the organised retailing purview. The food and grocery industry has seen a facelift in the organised retailing sector. The industry is growing both from the international as well as national perspective. The entry of the foreign and domestic players has given wide choice for the consumers.

Keywords: Food, Grocery, Domestic Players, GDP

1. Introduction

India started its Retail Journey since ancient time. In ancient India there was a concept of weekly HAAT, where all the buyers & sellers gather in a big market for bartering. It takes a pretty long times to & step to shape the modern retail. In between these two concepts (i.e. between ancient retail concept & the modern one there exist modern kirana/ mom and pop shops or Baniya ki Dukan. Still it is predominating in

India, so the Indian retail industry is divided into two sectors- organized and unorganized. Retailing is one of the pillars of Indian economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). The retail industry in India is highly fragmented and unorganized. Earlier on retailing in India was mostly done through family-owned small stores with limited merchandise, popularly known as kirana or mom-and-pop stores. In those times, food and grocery were shopped from clusters of open kiosks and stalls called mandis. There were also occasional fairs and festivals where people went to shop.

In the twentieth century, infusion of western concepts brought about changes in the structure of retailing. There were some traditional retail chains like Nilgiri and Akbarallys that were set up on the lines of western retail concepts of supermarkets. The government set up the public distribution system (PDS) outlets to sell subsidised food and started the Khadi Gram Udyog to sell clothes made of cotton fabric. During this time, high streets like Linking Road and Fashion Street emerged in Mumbai. Some manufacturers like Bombay Dyeing started forward integrating to sell their own merchandise. Shopping centres or complex came into existence, which was a primitive form of today's malls.

Since liberalisation in early 1990s, many Indian players like Shoppers Stop, Pantaloon Retail India Ltd (PRIL), Spencer Retail ventured into the organised retail sector and have grown by many folds since then. These were the pioneers of the organised Indian retail formats. With the opening up of foreign direct investment in single-brand retail and cash-and-carry formats, a new chapter unfolded in the retail space. Many single-brand retailers like Louis Vuitton and Tommy Hilfiger took advantage of this opportunity. The cash and-carry format has proved to be an entry route for global multichannel retailing giants like Metro, Wal-Mart and Tesco.

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2 Structure of the Indian market ^[1]

India's population of more than 1 billion may at first glance seem like a tremendous opportunity for retailers, but in reality, it has become their biggest nightmare. Not only does the uncontrollable population pose innumerable problems, its disproportionate density also aggravates the situation. The population of China, at approximately 1.2 billion, is only about 20 per cent higher than that of India while its size approximately 300 per cent more than that of India. Apart from its uncontrollable population, it is the high density of population and the unplanned expansion of its important towns and cities that pose numerous problems in India today.

Table 1: Population and Proportion of Total Retail Market

City Type	Population in crores		Population of total retail market (%)			
	2001	2025	2004	2010	2015	2025
Metroes, Mini Metros and Cities	6.7	13	15	18	20	28
Top Cities, Population > 1 million (27 cities)	3.7	7.2	6	6	7	10
Large Cities Population 0.5to 1 million (32 cities)	2.4	4.5	2	3	3	4
Rest of India 5500 towns + 6 lakh Villages	87.4	115.3	77	73	69	57

(Source: NCAER, CSSO TSMG Analysis (2006))

The social infrastructure in the country too is deficient and has not been developed in an organised manner either. Since retailing is an integral part of the social infrastructure of any country, the haphazard growth of the social infrastructure in India has caused the Indian retail market to grow in a highly fragmented manner over the last five decades.

3 Introduction to Indian food industry

The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year. In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry.

Food & grocery forms the backbone of the Indian retail sector. With an estimated market size of US\$ 320 Bn. (Rs. 20,000 Bn.) the category accounts for about 57% of the total retail market. There are an estimated 8-9 Mn. food & grocery stores (including local kirana shops, hawkers etc.) in India and the sector supports millions of other SME's and MSME's who cater to the demand ^[2].

The food industry, which is currently valued at US\$ 39.71 billion!, is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to US\$ 65.4 billion by 2018. Food and grocery account for around 31 per cent of India's consumption basket.

Accounting for about 32 per cent of the country's total food market, The Government of India has been instrumental in the growth and development of the food processing industry. The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business. It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses,

4 Market size of Indian food and grocery market

The Indian food and grocery market is the world's sixth largest, with retail contributing 70 per cent of the sales. The Indian food retail market is expected to reach Rs 61 lakh crore (US\$ 915 billion) by 2020.

The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 14 per cent of manufacturing Gross Domestic Product (GDP), 13 per cent of India's exports and six per cent of total industrial investment. Indian food service industry is expected to reach US\$ 78 billion by 2018. The Indian gourmet food market is currently valued at US\$ 1.3 billion and is growing at a Compound Annual Growth Rate (CAGR) of 20 per cent. India's organic food market is expected to increase by three times by 2020##.

The online food ordering business in India is in its nascent stage, but witnessing exponential growth. The organized food business in India is worth US\$ 48 billion, of which food delivery is valued at US\$ 15 billion. With online food delivery players like Food Panda, Zomato, TinyOwl and Swiggy building scale through partnerships, the organised food business has a huge potential and a promising future. The online food delivery industry grew at 150 per cent year-on-year with an estimated Gross Merchandise Value (GMV) of US\$ 300 million in 2016.

5 Food retailing in India ^[3]

Globalization and liberalization can have a major impact on the poor through their influence on the agricultural sector terms of trade, availability and cost of inputs, and new investments in the agribusiness sector, including food retail. The role and influence of external initiatives in food production and trade will, as an institutional mechanism, determine the exact impact of globalisation on the poor producers and workers involved in food production and its trade. Retailing presently contributes about 10% of India's Gross Domestic Product (GDP) and 6-7 % of employment.

The retail industry is the second largest employer in India, next to the farming sector. The retail industry provided employment to about 40 million people (rural urban split was about 60-40) of which about 0.5 million were employed in the organized retail sector (all in urban areas). The value of organized retail is expected to grow to Rs 1,000 billion by 2011 with its share going up from 3% to 15-20%. Of the proposed investment (\$25 billion), 60-65% would go in setting up the supply chain for food and groceries (Kalhan, 2007).

From the demand side, major drivers of growth in the retail sector and its constituents have been the changing age structure of the Indian population, rising incomes, increasing

¹ Workshop on Improving Safety and Quality in Food Retail Chain 14th December, 2011 Mumbai.

² Food & Grocery Retail- Industry Trends And Insights; A Report on the Global Trends in Food Retail, Established and Emerging Grocery Formats and Contours of India's Evolving Grocery Market by Baqar Iftikhar Naqvi, Avni Sh Malhotra & Varun Chugh, Wazir Advisors

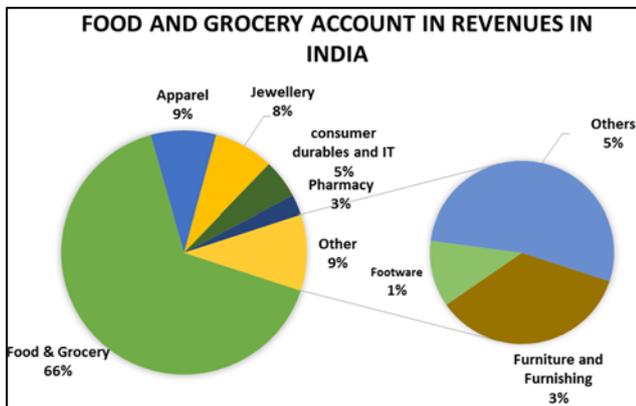
³ Sukhpal Singh and Naresh Singla (2010) Fresh Food Retail Chains in India: Organisation and Impacts, CMA Publication No - 238

number of employed women, changing food habits (increasing popularity of convenience and western foods) and growing health and food quality consciousness among food buyers and consumers. The growth of large food retailing outlets has contributed to this change from the supply side (Cygnum, 2007).

The food retailing industry has annual sales of about \$ 176 billion, a little over half of total retail sales of \$ 330 billion. Over the past few years, the industry had grown at about 10% a year, exceeding the GDP growth rate. It was also estimated that food retailing sector accounted for slightly over 50% of the overall employment, in line with its revenue proportional to the total retail revenue. Food retail outlets account for one third of all retail outlets and 63% of total retail sales.

6 Overview-sector analysis ^[4]

By 2020, food and grocery segment is expected to account for 66 percent of the total revenues in the retail sector, followed by apparel segment. Demand for western outfits and readymade garments has been growing at 40-45 percent annually, apparel penetration is expected to increase to 30-35 percent by 2015.



(Source: Technopak, Indian Retail Market January 2013, Deolitte, A Report on 'Changing trends, gems and jewellery industry by Onicra, Tech Sci Research) www.ibef.org June 2017

7 Historical and geographic patterns of retail modernisation ^[5]

Retail transformation waves in emerging markets (spatial expansion outside North America and Western Europe)
<p>First wave: early 1990s South America, East Asia (outside China and Japan), parts of Southeast Asia (e.g. the Philippines and Thailand), North-Central Europe (e.g. the Baltic states and Poland) and South Africa</p>
<p>Second wave: mid to late 1990s Mexico and parts of Central America, much of Southeast Asia (e.g. Indonesia), South-Central Europe and South Africa</p>
<p>Third wave: early 2000s China, Eastern Europe, Russia, other parts of Central America and Southeast Asia, and India</p>
<p>Fourth wave: late 2000s South Asia (outside India), sub-Saharan Africa (outside countries falling under the second and third waves), and poorer countries in Southeast Asia (e.g. Cambodia) and South America (e.g. Bolivia)</p>
<p>Source: Wrigley and Lowe (2010) based on Reardon <i>et al.</i> (2003)</p>

⁴ Food and Grocery Sector in India

⁵ The Economic Impact of Modern Retail on Choice and Innovation in the EU Food Sector Final Report
 Report by: EY Cambridge Econometrics Ltd. Arcadia International, November 2014

8 Conclusion

The organised retailing with reference to the food products is growing at a very fast pace. The demand for the food products is evidenced by the growing food consciousness, entry of the big players into the organised retailing and so on so forth. The sector has not only contributed to the GDP, it has seen structural changes. The structural changes have been because of the changing food habits, increase in the number of working women, online ordering of the food items and the like. The future holds good prospects for the organised food retailing as this would be a one roof shopping for the shoppers.

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