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Indian food retail: Hurdles & challenges of food retail

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Abstract

Retail is the largest private industry globally but still in its nascent stage in India. In our country, modern food retail formats are still limited to a few cities or regions. Food retail industry is not supported by modern food distribution and logistics solutions. 40% of the perishable foods produced in the country get rotten during transportation due to the absence of an efficient cold chain. Lack of Foreign Direct Investment (FDI) status has largely limited capital investment in supply chain infrastructure, which is a key for development and growth of food retailing and has also constrained access to world-class retail practices. India is one country, but in reality it has 28 very different markets each with its own tastes and shopping habits, understanding this diverse market and the constantly evolving consumer is the biggest challenge.

Keywords: Domestic retails, hurdles in retail, key challenges in food retail

Introduction

The Retail Market scenario

The retail sector in India is highly fragmented and organized retail, which is estimated at 4% of the total market, is at a very nascent stage. The traditional channel consists of 'mom-and-pop' stores known as 'kirana' stores, owner-manned general stores, paan/beedi shops, convenience stores, hand-cart and pavement vendors, wet markets and employs about 40 to 50 million people. Of the 12 million traditional retail outlets in India, some 7.3 million sell FMCG and 41% of these are in urban India.

Sales in the kirana stores are typically over the counter, and the shopper cannot browse or touch the brands before buying. The kirana stores continue to perform well despite the increase in competition from modern retail chains, owing to their excellent customer service and ability to provide branded goods at low prices.

GD expects the value of the world's grocery market to increase by a third over the next five years, reaching \$11.8 trillion by 2020. Low income countries will see the fastest growth but lower-middle income countries are the greatest contributors to global growth, driven predominantly by India, Indonesia and Nigeria. Rising prosperity has a bigger positive impact on global grocery sales than population growth or urbanization.

Total retail sales in India are to grow from Rs 18,610.12 billion in 2011 to Rs 36,900.64 billion in 2015, according to the Business Monitor International (BMI) India Retail Report. Strong underlying economic growth, population expansion, the increasing wealth of individuals and the rapid construction of organized retail infrastructure are key factors behind the growth.

Modern retail in India

Since the mid 1990s, India's grocery sector has started to evolve from a traditional to a modern retail market. Currently, Foreign Direct Investment (FDI) up to 51% is allowed only in single-brand retail with government approval. However, in the wholesale cash-and-carry segment, up to 100% FDI is allowed. The Indian government wants to promote FDI at the back-end of retail activity such as logistics, cold chain and technology so that it also helps traditional retailers.

Owing to the restrictions on FDI, the modern retail sector is currently biased towards domestic retailers. Wal-Mart has announced its intention of launching multiple formats of stores in this market and has announced its tie-up with Indian business house Bharti Enterprises. Carrefour, Tesco and Auchan have also announced their intentions of entering the Indian market in the medium-term.

Domestic retailers in India

Multi-format retailers Pantaloon and Reliance lead the way with over 1,300 stores (Table 1) between them, closely followed by RPG and Aditya Birla Retail. Subhiksha had developed a strong presence in the southern states of Kerala and Tamil Nadu, however its future is somewhat uncertain as stores were closed in March 2009 due to financial problem.

During the brief period when FDI was allowed in retail, Hong Kong's Dairy Farm launched a chain of supermarkets under the Foodworld name in partnership with RPG Enterprises. Subsequently, retailer Shoprite launched a hypermarket in Mumbai through a franchise agreement, and

Metro Group now has three Cash & Carry outlets in the wholesale segment where 100% FDI is allowed. Another international retailer of note is Spar International; India is one of its key markets for expansion.

With the expanding middle and upper class consumer base, there will also be opportunities in India's tier II and III cities. Propelled by the increasing disposable income, the food sector has been witnessing a marked change in consumption pattern. Driven by the growth of organized retail coupled with changing consumer habits, food retail sector in India is set to more than double to Rs 7050 billion by 2025, according to a report by KPMG.

Table 1: Top Grocery Retailers in India 2008

Retailer	Fascia/s	Market entry date	Format/s	No of stores
Pantaloon Retail	Food Bazaar, Pantaloons, Big Bazaar, KB's Fairprice, Central Mall	2002	S, O, H, D	693
Reliance Retail*	Reliance Fresh, Reliance Mart	2006	C, H	688
RPG	Spencer's Hyper, Spencer's	1996	H, S	420
Aditya Birla Retail	more. for you, more. MEGASTORE	1986	S, H	251
Dairy Farm	Foodworld, Health & Glow	1999	S, H&B	74
Trent	Star India Bazaar	2004	H	4
Spar International	Spar	2004	H	3
Shoprite	Shoprite	2004	S	1

* Reliance also operates a number of non-food fascias.
Key: S – Supermarkets, H&B – Health & Beauty, H – Hypermarket, D – Discount, C – Convenience, C & C – Cash & Carry, O – Others

Source: IGD estimates, retailers 2008

General hurdles in Retail

IGD research shows that 73% of shoppers say they are ultimately responsible for their own diet. This is encouraging, and perhaps surprising, news for food and grocery businesses who may feel under pressure to do more in this field.

Nearly four in ten (37%) of shoppers say they go into stores with healthy intentions but believe they are tempted by the availability of less healthy options. In the same research, 38% say they wish some unhealthy products were withdrawn from food stores. Interest, engagement and confidence vary by shopper group, particularly driven by age and socio-economic background. For example, 83% of older shoppers (over 65-year-olds) believe they can identify healthy food compared to just two thirds (67%) of people aged 35-44.

However, the industry isn't completely off the hook. Overall, the results reveal that many shoppers want food and grocery companies to do some things differently. There is a clear opportunity for food companies to increase shopper satisfaction on health. But it's a particularly divisive topic, intensifying both the reward for getting it right and the price of getting it wrong. So how can the industry find the right mix of personal and industry responsibility in shopper choice and lead its customers towards their health goals?

Opportunities for SMEs, niche producers and new products from established food companies to develop the following:

- Unique listings allow retailers to differentiate themselves in a competitive market.
- More choice for shoppers creates more options for category management. It is possible to optimize the store for health and wellbeing as well as financial benefit.

Strategy in action

Tesco has taken a blended and strategic approach to its brand story on health, including widespread reformulation in a key category and a bold move in remerchandising its till-point displays:

- Sweet-free checkouts since the start of January 2015
- The retailer has been working with suppliers to reduce sugar across its soft drinks range
- Tesco's Eat Happy Project aims to "help children build a healthier, happier relationship with food"

Greggs is well-known for its pies and pastries but the food-to-go retailer's Balanced Choice range offers shoppers everything from falafel flatbreads to strawberry and granola yoghurts. With each Balanced Choice product containing no more than 400 calories, Greggs has fundamentally redesigned its total customer offer.

Retailing as an industry in India has still a long way to go. To become a truly flourishing industry, retailing needs to cross the following hurdles:

- ✚ Automatic approval is not allowed for foreign investment in retail.
- ✚ Regulations restricting real estate purchases, and cumbersome local laws.
- ✚ Taxation, which favors small retail businesses.
- ✚ Absence of developed supply chain and integrated IT management
- ✚ Lack of trained work force.
- ✚ Low skill level for retailing management.
- ✚ Intrinsic complexity of retailing-rapid price changes, constant threat of product obsolescence and low margins.

The retailers in India have to learn both the art and science of retailing by closely following how retailers in other parts of the world are organizing, managing and coping up with new challenges in an ever-changing market place. Indian retailers must use innovative retail formats to enhance shopping experience, and try to understand the regional variations in consumer attitudes to retailing.

One of the key impediments is the lack of FDI status. This has largely limited capital investments in supply chain infrastructure, which is a key for development and growth of food retailing and has also constrained access to world-class retail practices. Multiplicity and complexity of taxes, lack of proper infrastructure and relatively high cost of real estate are the other impediments to the growth of retailing.

In fact, it is only once these barriers are overcome that a retailer faces many other challenges, more so for food retailers as they have unique problems compared to other retailers, on account of the perishable nature of the merchandise.

Robust Food Supply Chain

In India, modern food retail formats are still limited to a few cities or regions, thanks to the lack of facilities to support them. The food retail industry in India is not supported by modern food distribution and logistics solutions. There are inherent inefficiencies and a disintegrated structure in the food produced in the country get rotten during transportation due to the absence of an efficient cold chain. There is also a dearth of organized players who have integrated distribution centres for perishables and dry goods as well as a comprehensive logistic infrastructure, given the front end needs in food service and retailing. As markets mature and consumer expectations rise, strong supply chain solutions will cut through distribution inefficiencies and increased margins would be a necessity for retailers.

Key Challenges in Food Retail

India is one country, but in reality it has 28 very different markets each with its own tastes and shopping habits, understanding this diverse market and the constantly evolving consumer is the biggest challenge.

Product Quality

The retailer has to realize that the 'product is the hero' and has to consistently offer quality products at an appropriate price range to continuously attract shoppers to the store. While deciding the product offering, a food retailer also needs to look at current trends prevailing in the market. For example, customers are gradually shifting towards health food and organic foods. In this scenario, the food retailer has to transition into a 'whole health provider' and offer products, which the consumers want to purchase. Thus, it becomes imperative for the retailer to churn his merchandise according to what is 'in' to get rid of the 'sale' value associated non-moving merchandise.

Appealing Visual Merchandising

The merchandise at the store needs to be displayed in a manner, which is attractive and appealing to the shopper, thus enticing purchase. The store should have good lighting, should be reasonably spacious and 'freshness' of food needs to be emphasized.

Food retailing also provides an opportunity for cross merchandising, for example, pizza base and pizza cheese,

pasta and pasta sauces. Impulse buying is another area the retailer should pay attention to. For a retailer selling perishables, apart from an attractive display, the produce needs to be stored in conditions, which enable it to remain fresh for the maximum period of time. Also, veg and non veg produce needs to be segregated and displayed so that the sensitivities of vegetarian shoppers are taken care of.

Clear Communication

Attractive signage/POP material needs to be used in a retail outlet to allow the merchandise to 'communicate' with shoppers. This communication could be in the form of driving the freshness, proposition, announcing price competitiveness or other offers, explaining the product benefits and the like. For a retailer dealing with perishable aspect such as hygiene, food safety, accurate weight and soon have to be highlighted, apart from the shoppers concerns regarding the fresh produce they purchase.

Enhanced Retail Experience

The Indian customer is becoming more demanding with increasing disposable incomes, rising standards of living and changing lifestyles. Change in customers' focus from just buying to broad shopping (buying, entertainment and experience) implies that the retailer needs to add value and enhance the shopping experience for the consumer. Standards would have to be raised to meet the rising expectations of consumers. It is imperative that the retailer develops a work force which is driven towards achieving 100 per cent customer satisfaction. The staff must be willing to 'walk that extra mile' to delight the customer. This is required for customer satisfaction and retention, especially when retailers battle neck-to-neck from opposite sides of the road.

Engaging Retail Entertainment

The weekly boring chore of grocery shopping needs to be converted into a pleasant shopping experience. The retailer needs to find ways by which the shopper can be kept entertained. Food courts and/or tasting counters especially in sections such as bakery or sweets, 'food festivals' which have chefs demonstrating the use of certain ingredients etc., are some examples of how a food retailer can add value to a shoppers experience in the store.

Genuine Community Responsibility

Retailers need to begin seeing themselves as a significant part of the community and not just as an outlet for shopping. As a responsible social citizen, retailers would have to bring about an economic revival in the areas that they are present in. The economic revival will be in the form of development of manpower, increased employment opportunities and increased revenue for the government. Thus, the evolution of retail needs to be holistic and all encompassing and not a purely profit seeking, self-serving evolution.

Conclusion

From a grocery retail perspective, the world's centre of gravity is moving eastwards faster than previously expected. Unsurprisingly, the BRIC (Brazil, Russia, India, China) markets will offer the most significant growth prospects in the next 5 years for retailers and suppliers as the middle-class continues its ascension and gains greater access to modern retail outlets.

Despite the projected economic development and increase in the middle class, it is a heterogeneous market, and addressing it will require focus and managerial bandwidth. Regulatory issues add complexity to operating in the Indian market. The cost of managerial talent and prime sites will inevitably rise as demand exceeds supply and in the short run is likely to increase costs of doing business in India.

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