

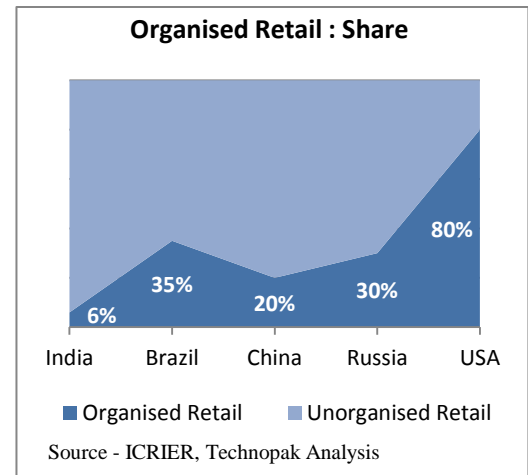
## Food Retailing: Backbone of Organized Retail Formats

The apple tree loaded with fruits on the turf of Himachal Pradesh had never imagined in the past that his counterpart fruits will get flashy retail shelves and air-conditioned transport facility. Organized retail has made it possible & not just the tree, but the consumer & retailers are also cheerful as they are fetching benefits in terms of better quality & premium returns, respectively. Looks like a win-win situation, no not actually, the retailers with big organized shelves only constitute for 6% of the total market, so 94% of the apples are still getting the gunny bag treatment. The 6% organized retail share is lowest among BRIC competitors (see graph), in India organized retailers operate in the most “supermarket-hostile” environment. The obstacles they are confronted with range from complex and sometimes nonsensical regulations to pot-holed roads, inadequate cold-storage facilities and sky-high property rentals. The retailers are running from pillar to post to penetrate deeper into the Indian wallet. The scenario is changing and the shift is towards the betterment, it is estimated that the organized segments will double its share to 12% by end of this decade.

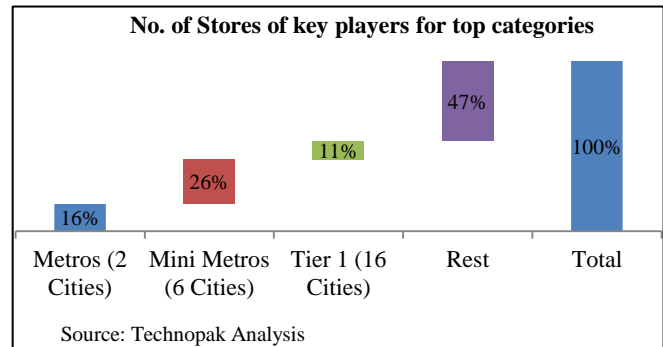
2011 witnessed flashing retail news throughout the year, the most obvious, but most politically sensitive issue was:- lifting the ban on Foreign Direct Investment (FDI) for multi-brand supermarket chains like Walmart & Carrefour. The stream was opposed with million micro-business *kirana* entrepreneurs & the support highlighted the obvious benefits like better returns, quality, employment & improvement of farmer community socio-economic strata. Quoting the example of Mexico, which allowed FDI in multi-brand retail in 1991 after a heated debate on whether this move would bankrupt small mom-and-pop shops?, Twenty years and many giant superstores later, such small outlets still have ~50% of the country’s retail market. India is drawing its learning from the same & the ban is just a matter of time. Foreign supermarkets will not have an easy ride if India does lift the restrictions on their entry. Besides such things as the dreadful roads and expensive land, they will have to cope with the requirement in some states to buy from a central market rather than directly from farmers (APMC issues). Then there are the complexities of state taxation: often there are levies on moving goods out of, as well as into, a state, or even ones on moving them within a state.

Drilling in the nitty-gritty of organized retail formats, food retailing has served as the backbone in the past and it will continue to do so. With an estimated market of USD 325 Bn, the food & grocery segment is the single largest retail category & accounts for almost 70 % of the total retail market in 2011. The organized retail segment for food & grocery is estimated at USD 9 Bn and accounts for ~70% of all organized retail. For organized formats India serves as a land of opportunities with a brewing billion plus population supporting a superb high & middle income class segment. In metros consumers love pushing their trolleys down the long, straight aisles, that offer array of brands and fresh produce at similar or little higher rate than the local mom n pop store offerings down the lane.

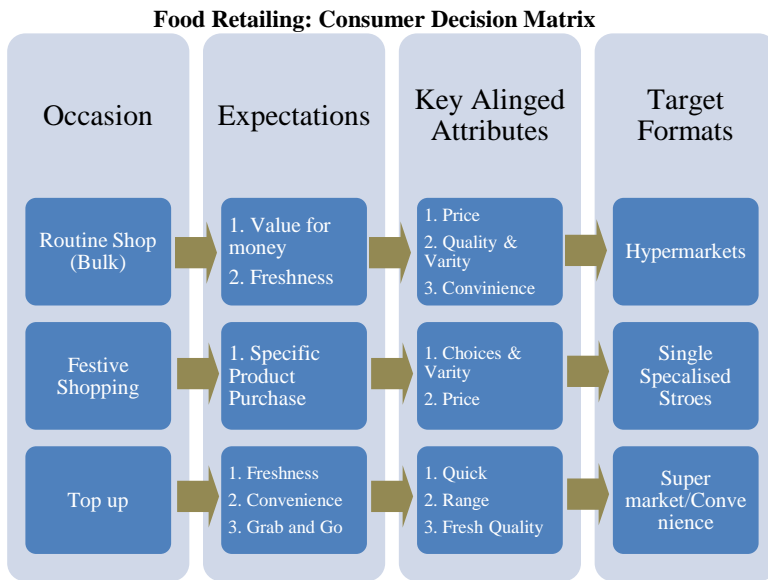
The organized retail supports different formats of outlets depending on catchment, spending power, proximity from major residential and consumption clusters. The offline mode of organized retailing is majorly categorized in to Hypermarket, Supermarket, and Convenience depending on the surface coverage & product range. A typical hyper store is categorized with 25,000 items and 30,000 plus sq. ft area, super market ranges from 5,000-30,000 sq ft & 15,000 items & convenience store comes below 3000 Sq. ft comprising of 5000 items portfolio. The “all under one roof” concept has gained popularity & acceptance in India, though some of them do not exist anymore due to operational issues and infrastructure constraints. Apart from these basic formats, a few new formats like kiosks and travel retail are the nurturing platforms in organized retail space but these are very specific to food service & QSR segment. Online mode of food retail seeded in the last year but it has attained a niche to niche segment limited to 2-3 big players in the market namely, mygrahak.com, verostore.com, Erns.in, aaramshop.com etc .



Last year witnessed flourishing hyper stores in India, major players expanded their stores covering Spar in retail & Best price in cash & carry space. The super market & convenience stores have seen a pause in scaling up from major retailers. 2011 almost recovered the economic slowdown but the retailers invested wisely on only profitable formats. Retailers concentrated on reshuffling the store layouts and new marketing communications aspects to attract additional customers in the existing outlets followed by launching new stores in new geographies. For the top retail categories (including food), almost 50% of the retail stores are present in top 25 cities.



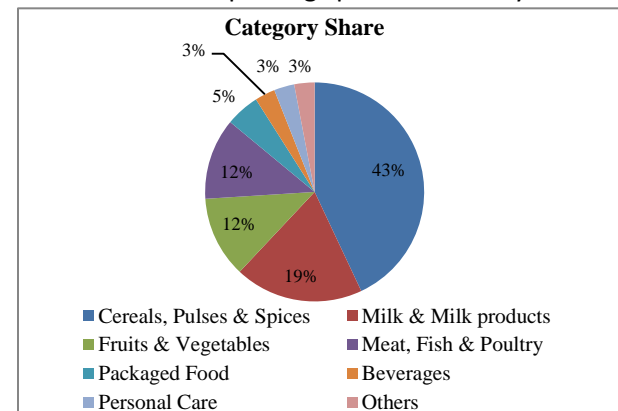
Indian consumer associates different aspects with each format of store, the decision matrix illustrates the expectations and aligned attributes with different formats of food retailing.



|                          | Likes   | Dislikes   |
|--------------------------|---|--|
| <b>Hyper Store</b>       | <ul style="list-style-type: none"> <li>Space</li> <li>Choice</li> <li>Value</li> <li>Range</li> <li>Exploration</li> <li>Payment modes</li> </ul>       | <ul style="list-style-type: none"> <li>Large and overwhelming</li> <li>Budgets goes awry</li> <li>Not for urgent needs</li> </ul>                    |
| <b>Super Store</b>       | <ul style="list-style-type: none"> <li>Reliable</li> <li>Acceptable variety</li> <li>High quality</li> <li>Fixed prices</li> <li>Convenience</li> </ul> | <ul style="list-style-type: none"> <li>Limited choice</li> <li>Limited product Line</li> </ul>   |
| <b>Convenience Store</b> | <ul style="list-style-type: none"> <li>Urgent needs</li> <li>Daily dose in small packages</li> <li>Quick</li> <li>Less travel time</li> </ul>           | <ul style="list-style-type: none"> <li>Very limited choice</li> <li>Absence of touch &amp; feel</li> <li>Lack of schemes &amp; promotions</li> </ul> |

The organized food & grocery section can be further dissected in to different sectors like staples, F&V, dairy, spices, etc. Cereals, pulses & spices constitutes as the largest category (~43%), followed by milk & milk products (~19%) and Fruit & Vegetables, Meat, Fish & Poultry (12% each). From consumer point of view the key decision makers for Food & grocery shopping still remains with the housewives in 95% cases. Consumer's loyalty to brands and stores is strong in this category. Now consumers are valuing convenience and in response to that the retailers are concentrating on store location and infrastructure like parking space availability. Preference of majority of consumers still remains with Kirana outlets particularly for their daily needs – milk, vegetables and other perishables, however there is a slight shift towards modern supermarket/Organized formats.

Branded food is the key attraction for any food & grocery organized store. Apart from various infrastructural constraints and operational challenges, organized retailers also face shrinking margin share challenges from leading brands and competition from local mom n pop stores. To deal with these immediate challenges private labels evolved as the mid-way. Organized retailer getting the produce locally packed & offering the same at slightly cheaper prices is no more a secret now. Almost all the retailers have their private labels in place & wide acceptance from consumer boosts the emotion of selling better quality produce at comparatively low price. Quality is the key factor which binds the sale of private labels, as the consumer does not mind paying a bit extra for good branded quality, so if the quality is not at par with branded produce the concept of private label goes for a toss. Private label has also helped in reducing the shrinkage percentage for retailers and have also opened ways for additional employment and income.



In coming days big brands are going to witness a tough challenge in terms of product offerings and pricing. Retailers have started coming up with similar products within same price range. Staples, noodles, honey, juices, pickles, snacks, breads are some of the key categories in which private label is flourishing.

To sum up it can be said that the organized food retail has attained a promising size which is bound to grow manifolds in the coming years. The operations are restricted with metros & Tier 1 cities, the small cities are not going to follow suit in recent years. Consumer still represents the king's position and makes his own choice to opt between organized/unorganized store formats & branded/private label products for his shopping basket. Unless value for money is captured from retailers consumer will remain a tough nut to crack.

## **FDI in Retail- Perspective from Food & Agriculture**

Foreign Direct Investment (FDI) is bracing political, media offices and even consumer homes. The decision on which is still pending and the debate is still on. The decision makers are not sure whether it is a new revolution or just a spontaneous bubble. The nod by the government is going to allow global international retailers to set up super/hypermarket retail stores in the Indian canopy. The brewing emotion for acquiescing FDI is to feed the grower a better deal & lower the mounting food inflation mechanism. Coupled with this enable improved agricultural supply chain infrastructure & infuse marketing impetus.

India is a land of approximately 600 million farmers catering to a billion plus consumers. Majority of them are challenged with small land holdings and low productivity. Apart from internal constraints the farmer also deals with mammoth shareholders like middleman and traders.

In the interim of production and marketing of commodities, Indian farmer deals with an array of challenges, like, low productivity, shrinking land holdings, less availability of farm inputs, depleting share of income, and the list is endless, remaining pawns in the hands of big landlords. FDI can be a threshold to cater to a majority of these laggards. FDI can be a breakthrough for India farmers to make farming again a profitable business activity with better supportive infrastructure.

Currently about two thirds of the total value share is grabbed by the middlemen and traders in the commodity trade business. A typical example of Himachal apple illustrates that the farmer only fetches 30% in place of 70-75% (excluding transport cost) because of absence of direct buyers and presence of mediators. The low return to the primary producer restricts the quality received by the end consumer and the presence of unnecessary mediatory increases the end produce price. At the brim it is the producer and the consumer who carries the agony, FDI in retailing can be the path breaker indulging benefits for primary produce and the end consumer.

Current state of supply chain of perishables adds up to the end price of commodities. Lack of proper transport and storage facilities increases the wastage level and lowers the availability of produce. Augmentation of international retailers operations will encourage farmers to utilize better storage and transportation facilities. In a huge geography of 32 lakh plus square-kms there are many admirable exotic commodities which are restricted with local markets. The upgraded supply chain interventions will improvise the reach of these commodities and the producers will fetch better returns. Low level of processing promotes high wastage of

| Supply chain Stakeholder  | Price Break-up/ kg | % Share     | Gross Margin |
|---|--------------------|-------------|--------------|
| Farmer  | 27                 | 28-30%      |              |
| Transporter   | 5                  | 5-8%        | 12 – 15%     |
| Commission agent  | 7                  | 8-10%       | 18 – 20%     |
| Aggregator cum Wholesaler   | 11                 | 12-13%      | 20 – 25%     |
| Transporter   | 5                  | 5-8%        | 8 – 10%      |
| Distributor*  | 16                 | 18-20%      | 20 – 25%     |
| Retailer  | 20                 | 20-25%      | 20 – 25%     |
|   | <b>90</b>          | <b>100%</b> |              |
| <i>In some cases sub-distributor also exist in the supply chain</i> |                    |             |              |

perishables in the local geography; FDI incubation will introduce new infrastructures and percolate the dispersal level of fresh produce. Big international retailers will usher new storage and transport facilities to support their operations. The same will add to the benefits of local producers to secure the quality of produce and lowering the transportation cost. The improved infrastructure will empower minimized prices with smooth availability of quality produce at retail shelves.

Beyond farmers, welcoming FDI will favor a compulsory sourcing of 30% produce from Small & Medium Enterprises (SME's) assuring a regular and sustainable kitty for small & medium scale manufacturers.

Apart from the supply chain mediator constraints, FDI also sounds as euphony in terms of scaling the business. The bulk purchase of international retailers will foster producer's revenue & contribute towards improving their financial status. The assured large scale supply will succor the producer to adopt better farming practices. Gradually the primary producers – both farmers & manufacturers will be able to connect with research in a better way to come up with more sophisticated yields and overall quality for the end consumer will be lifted to the next level.

In addition to all these advantages FDI will also encourage skill up-gradation. The bulk buyers will mandate the quality parameters before procurement of commodities and farmer education programs will sync with the international standards & practices at different levels of farming operations resulting to optimum quality output.

Besides all reasons stated, how much the farmers have benefited without FDI in retail is for everyone to see. More pertinent question now is that for how long we want to remain diffident about political nonperformance and let the vacuum swell at the cost of notional development.

Above and beyond, a country like India now needs to gaze into the future with a progressive outlook. For trade to progress and consumer to benefit the business has to sprint on economic reasons and not political rhetoric. We can continue to appreciate things of past (and nothing wrong in doing so) but must also be trained to accept transformation which in the long run would benefit all involved.

Authored by:

Pratichhe Kapoor- Associate Vice President, Food Services & Agriculture

Aneesh Saraiya- Consultant, Food & Agriculture