

# Retailing Shift in India- Driving the Rural Growth in Food & Grocery Retailing, Formats and Models to Penetrate Smaller Towns and Villages

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**Abstract:-** The vast opportunities offered by the India's retail industry have caught the world's attention. The major global retailing giants and homegrown retailers are looking at this opportunity for consolidating their position in the potential consumer space. But this opportunity is laced with challenges like policy hurdles, diversified consumer habits, cultural differences combined with infrastructure bottlenecks. India's retail growth is expected to be driven by increasing disposable incomes, favorable demographics, changing lifestyles, growth of the middle class segments and a high potential for penetration into urban and rural markets. However, the vast rural India is yet to be conquered by organized retail players. It offers tremendous growth prospects but this opportunity comes along with greater challenges. This paper examines the present retail formats, players, retailing structures, space and explores the existing business models of retailers in all with focus on Food and Grocery Retailing to tap the potential in smaller towns and villages.

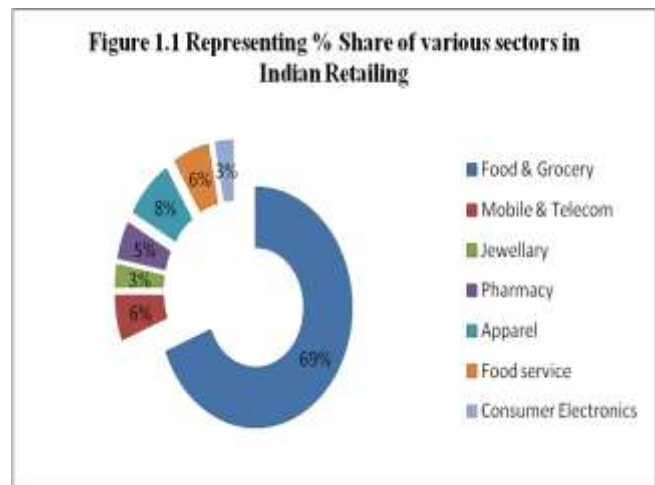
**Keywords:** Retail Management, Retail Economics, Rural Marketing, Haats, Franchisee Models. Rural Retailing,

## I. INTRODUCTION

### 1.1 Overview of the Indian Retail Industry

The Indian economy is expected to grow at 7.5 per cent in FY 2016-17, as per the forecast by the International Monetary Fund (IMF 2015) and India may be the next promising growth engine in the sluggish global economic scenario. The present government is looking at progressive and phased economic reforms in various sectors bringing a positive impact on several sectors in the economy. And retailing is one of the sectors which will enjoy the benefits with these reforms. The Indian retail market is in its nascent stage, there are over 15 million mom-and-pop stores in India and unorganised players accounted for 92 percent of the market during 2015. But the retail sector in India is emerging as one of the largest sectors in the economy and the total market size is estimated to be around US \$.600 billion, thereby registering a CAGR of 7.45 per cent since 2000. As per BCG Retail 2020 report, retail industry is expected to grow to US \$.1.3 trillion by 2020 of which the organised retail is expected to account for 24 per cent of the overall retail market by 2020.

### 1.2 Food and Grocery Retailing in India



Source: Deloitte Indian Retail market – Opening more doors (2013)

Figure 1.2 Estimated growth of rural FMCG market



## II. ORGANIZED RETAILING FORMATS IN INDIA

Indian retailing industry is one of the fastest growing markets in the world due to rapid economic growth. Retailing is one of the pillars of the economy in India and accounts for 10% of GDP. The increasing income levels in urban and rural economies have propelled the robust consumption and thereby pushing growth in retail business. Consumer expenditure is estimated to be US \$.3.6 trillion by 2020 vis-à-vis US \$1.25

trillion in 2015 (Indiaretailing.com). The increasing interest of the domestic players and also participation from the foreign players is expected to boost the organized retailing in India. The tier II and tier III cities are also experiencing population growth due to urbanization and migration; these are the new clusters where organized retailing is promising. The following formats of retailing apart of online retailers are found in India.

Chart No 2.1. Players formats in Indian retail industry



**2.1 Shopping Malls:** In terms of scale of operations a Mall is the largest form of organized retailing today. Earlier these Malls were a feature of major Metros and bigger cities, now they are expanding rapidly even to tier II cities also. Malls are usually located in the city centers or in a close proximity to urban outskirts. The size of malls range from 60,000 sq ft to 7,00,000 sq ft and above. The Lulu mall in Cochin is the largest one in India spread over 13 lakh Sq.ft. Due to escalating real estate prices and scarcity of land, the Mall developers are spreading outside the city limits offering all under one roof (shopping to entertainment). They lend an ideal shopping experience with an amalgamation of products, services and entertainment, all under a common roof.

**2.2 Specialty Stores:** Consumers prefer Specialty stores in few product categories as they find that Hypermarkets and Supermarkets do not stock their preferred brands or lack varieties. Hence the Specialty Stores focus on specific market segments and have established themselves strongly in such sectors. Chains such as the Bangalore based Kids Kemp, Sapna Book stall, Crossword, Titan Eye, Tanishq and Croma, Drugs retailers like Medplus are a couple of examples.

**2.3 Discount Stores:** One of the attractions for shopping among consumers is discounts and offers; this psychology of consumers has made many retailers to establish Discount stores which attract through regular promotional offers on vast merchandise. Discount stores offer discounts on the MRP through selling in bulk, reaching economies of scale or excess stock left over at the end of season. The product category can range from a variety of perishable to non perishable goods. Brand Factory and Megamart in apparels retailing are one such example.

**2.4 Department Stores:** These are large format stores ranging in area spread over 20000-50000 sq. ft, catering to a variety of consumer needs. Further they are classified into localized departments such as clothing, toys, home, groceries, etc. In

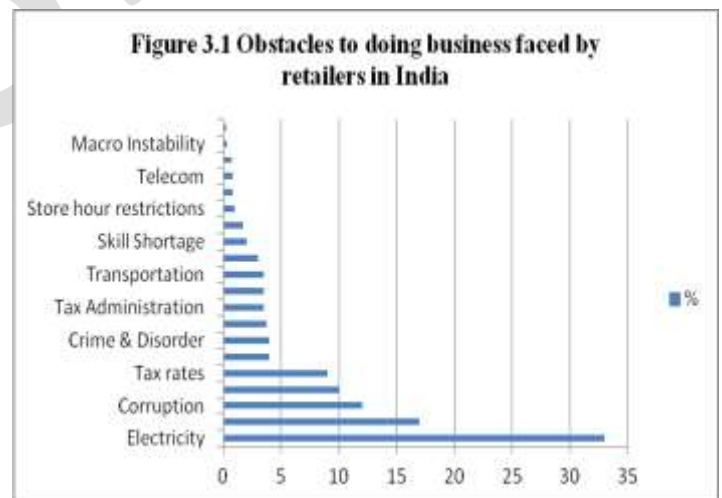
India Central, Pantaloons and Shoppers Stop are the major Departmental stores.

**2.5 Hyper markets/ Supermarkets:** Big Bazaar from future group is the leader in this format followed by Hypercity, D-Mart and Reliance. These are large self service outlets, catering to varied shopper needs are termed as Supermarkets, located in or near residential high streets or city centers, on outskirts. These stores today contribute to 30% of all food & grocery organized retail sales.

**2.6 Convenience Stores:** Bigger residential complexes or clusters offer an opportunity for a retailer to start convenience stores. These are relatively small stores spread over 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Aditya Birla with their More outlets and Reliance with Reliance Fresh are leaders in these smaller versions.

**2.7 Cash and Carry stores:** Metro was the first company to start the cash and carry format in India, which wants to reach to 50 stores by 2020 and more recently Reliance has ventured with its Reliance mart. This format caters to wholesalers and small retailers in smaller towns and villages along with households that buy in large quantities.

### III. MAJOR CHALLENGES AND OBSTACLES FACED BY ORGANIZED RETAIL SECTOR IN INDIA



Source: Enterprise surveys, World Bank report 2010 - Enterprise Note Series

Mohammad Amin (2010) in Enterprise survey report has highlighted key problems and challenges faced by retailers in 41 large cities of India based upon surveys data on 1,948 retail stores in India. He has listed that, inadequate power supply, access to finance, corruption, tax rates, and land-related problems are the most important obstacles to further growth.

**3.1 Retailing in smaller cities - the next big opportunity**

As per CII report of 2009, India has 69% of its population still living in rural areas but constitutes 56% of its income and 64% of its expenditure. The 6 major metropolitan cities of Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai have traditionally been the retailing hub of India and also the main contributors to the ongoing organized retailing boom. If the retailing industry has to grow they have to steer forward a strategy to expand their retailing activity in the relatively small non-metropolitan cities. But as stated earlier the obstacles still discourage many retailers.

There is a need for innovation and paradigm rethinking on the models of business to reach the rural and smaller metropolitans. Pradeep Kashyap CEO of MART has advocated on an integrated, innovative and inclusive marketing by corporations as 'enlightened strategy' to serve companies own long term interests in growing mass market.

The obstacles in retailing in smaller towns are in the areas of Infrastructure bottlenecks, regulatory and government, red tapism, bribery and also company related issues like lack of clear strategy and incompatible models. The following obstacles may surmount a retailer planning to enter the smaller towns.

### *3.1.1 Availability of right Real Estate*

The smaller towns do not have a properly organized business district concept in India, except for a designated city center catering to majority of shopping requirements. The markets are further segregated as Grocery Market, Vegetable Market, and Clothes Market etc. Such an arrangement also shapes the shopping behaviour of the population in these cities. This makes difficult to enter as an organized player and influence the consumers.

### *3.1.2 Regulatory Issues*

There are versatile regulatory set ups starting at national level and going up to Municipal level that hinders the smooth setting up of the Retail stores. For example the issues with hiring a real estate for operations is plagued by high stamp duties, pro-tenancy acts, the rigid Urban Land Ceiling Act and the Rent Control Act and time-consuming legal processes, multiple agency clearances for setting of operations causes delays in opening stores.

### *3.1.3 Poor Connectivity and lack of Essential and Basic Infrastructure*

Physical infrastructure facility in transportation with poor roads and lack of cold chain infrastructure hampers the development of food retail in India. These deficiencies thus results in increased capital investment by a company entering the smaller cities. But a player with deep pockets can build warehouses, cold chain network and also share it with others.

### *3.1.4 Supply-Chain Inefficiencies*

Inefficient deployment of technology is one of the major drawbacks that lead to retail shrinkage in India. Many retail formats invest in technology but they fail to execute a process in an uninterrupted way. Dun and Bradstreet report of 2009 states that Supply chain needs to be efficiently-managed because it has a direct impact on the company's bottom lines. Presently the Indian organised retail has an efficient supply chain but it appears efficient only when compared with the unorganised sector. On an international level the Indian organised retailers fall short of international retailers like Wal-Mart and Carrefour in terms of efficiencies in supply chain.

Logistics is another challenge related to the supply chain. It is imperative for any organised food and grocery retailer to establish a robust cold chain and integrated warehouse. The Retailers failing to invest in building a network of cold-storage and warehouses will suffer due to inefficiencies in transportations and also perishable nature of products.

### *3.1.5 Challenges with Respect to Human Resources*

Shortage of skilled workforce is a challenge that retailers in urban centers are facing, the problem can be acute in smaller cities and towns. The Organized retailers have to spend time and money in training employees as there is a severe scarcity for skilled labour in India. High attrition rates sometimes as high as 50% may increase the cost of operation.

### *3.1.6 Shrinkage*

Retail shrinkage is also one of the major challenges. Retail shrinkage is the difference in the value of stock as per the books and the actual stock available in the shop. The causes of retail shrinkage are mainly employee theft, shoplifting, administrative errors and vendor fraud. The retail shrinkage or retail theft in India may be attributed to several factors apart from the common globally observed reasons. According to industry estimates, nearly 3-4% of the Indian retail chain's turnover is lost on account of shrinkage. The organised industry players have invested in IT, CCTV and antennas along with investing heavily on manpower to supervise thus trying to reduce the shrinkage levels to meager levels and intensify their profits.

## IV. INNOVATIVE MODELS IN RETAIL FORMATS TO REACH SMALLER CITIES AND RURAL INDIA

It is difficult to replicate the models and formats that fit the urban markets, the demographic and psychographic profile of the consumers in smaller cities and rural areas can't be assumed to be similar to that of urban counterparts. Hence innovative models are to be explored that fits into the strategic framework of the Business models for each of the retailers (Tecee, 2010).

Dhivya and Venkatarama Raju (2010) points out that the retail sector in India is at an inflexion point where the growth of organized retailing and growth in the consumption by the

Indian population will take a higher growth trajectory. They predicted emergence of few other formats such as rural retailing, E-retailing, luxury retailing etc. The need of the hour for the Indian retailers is to develop robust systems and processes keeping the unique nature of the country in mind.

Francis Kanoi a research firm in 2002 had estimated the size of rural markets to be Rs.1,08,000 crore annually, the survey included four categories – FMCG, Durables, Agri Inputs and 2 & 4 wheelers. There are over 18.5 million outlets that operate in the country and only 10% of them being larger than 250 sq ft in size (A C Neilson shop census 1999/2000). Rural retailing in India is about Rs.1.9 trillion comprising of 7.8 million retail shops (R K Swamy BBDO Market Media Guide 2010).

Table 4.1. Facts about Rural retail outlets

Type of Rural retail outlet	Facts
Haats	Average Sales per Day : Rs.2.25 lakh Number of sales outlets per : Haat 300+ Number of Visitors per Haat : 4500+ Average Sales per Outlet : Rs 900 Villages covered by a Haat : 20-50
Melas	Annually held (Approx) : 25,000+ Outlets held at every mela at an average : 800+ Average Sales per Mela : Rs. 143 Lakh
Mandi's	At an average exists : 6,800 catering to a population of 1.36 Lakh

The retail space in smaller towns is very low in terms of accessibility and availability, however according to many data, the major market for future growth of FMCG lies in these rural markets and transformation is to be thought about the way retailers are going to meet their rural customers. Before deciding on the format retailers have to understand the product preferences and way the products and services are bought and consumed. The common products and services

that rural customers demand for their personal and household requirements are as under.

- Food and Grocery products
- Bathing Soap, Shampoo, hair oil, detergent powders and cakes, toothpaste, tooth brush, shaving preparations, beauty care products
- Tobacco products like pan masala, gutka, cigarettes/beeris

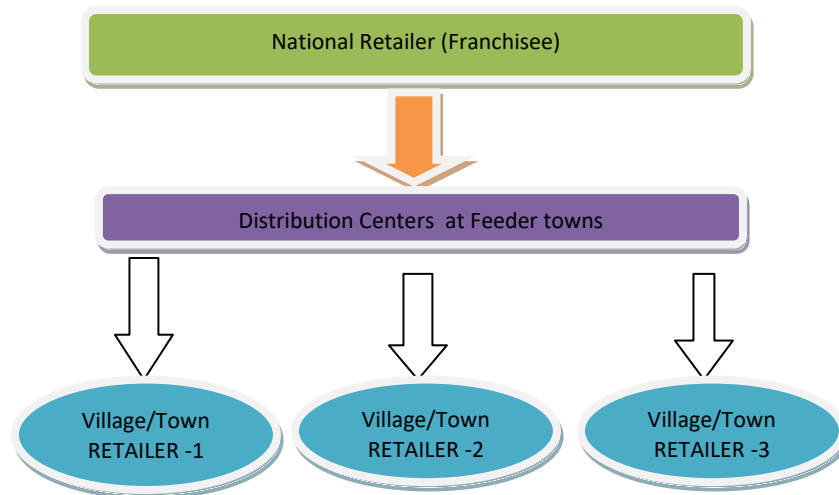
Occasionally the demands for some of the above products are also met when the rural customers visit shandies and melas. The Place factor is also highly relevant for rural consumers whenever buying certain products. Considering the nature of products being demanded, how and where they are bought should be researched before the National retailer plans to devise formats that meet the consumer requirements in smaller towns and villages. Hereby we propose the following models which can be used by existing retailers to bridge this gap

4.1 Expansion through Franchise Model

Time tested and standard models of retail formats are suitable for Metropolises, Tier II and bigger Tier III cities. But there is huge vacuum in organized retailing in Tier III with population size ranging from 1 lakh to 5 lakh. Out of 7935 towns (Census 2011) in India, majority are smaller towns that are smaller cousins of their urban counterparts but hold a promising growth. If one has to segregate them geographically, most of them fall around a radius within 100 KM of major metropolis or a Tier II city. The retailers like Big Bazaar, Reliance and Aditya Birla are present in major Tier I and Tier II and III in India but what about presence in the smaller towns?

Franchising model will help in the Food and grocery retailing for a faster penetration into smaller towns and also in rural area. The following figure explains the approach that can be adopted.

Figure 4.1: Proposed Franchisee Model



The ownership pattern of retail outlets in Food/Grocery based retailing and General merchandise retailing is proprietary and mainly family run businesses. The normal size of outlets is between 200 sq ft to 500 sq ft, in some cases up to 800 to 1000 sq ft. Depending on the space available new formats may be created by the franchisor. These small food retailers can be targeted to become the franchise and the franchisor has to take care of the following

1. Branding of the outlet
2. Planning for variety and assortment
3. Display and arrangement
4. Supply of merchandise
5. Any relevant IT infrastructure required for billing, stock keeping and Financing
6. Training of the franchisee owner/employees.
7. Integrating with payment systems like UPI, Mobile wallets, use of Debit cards etc

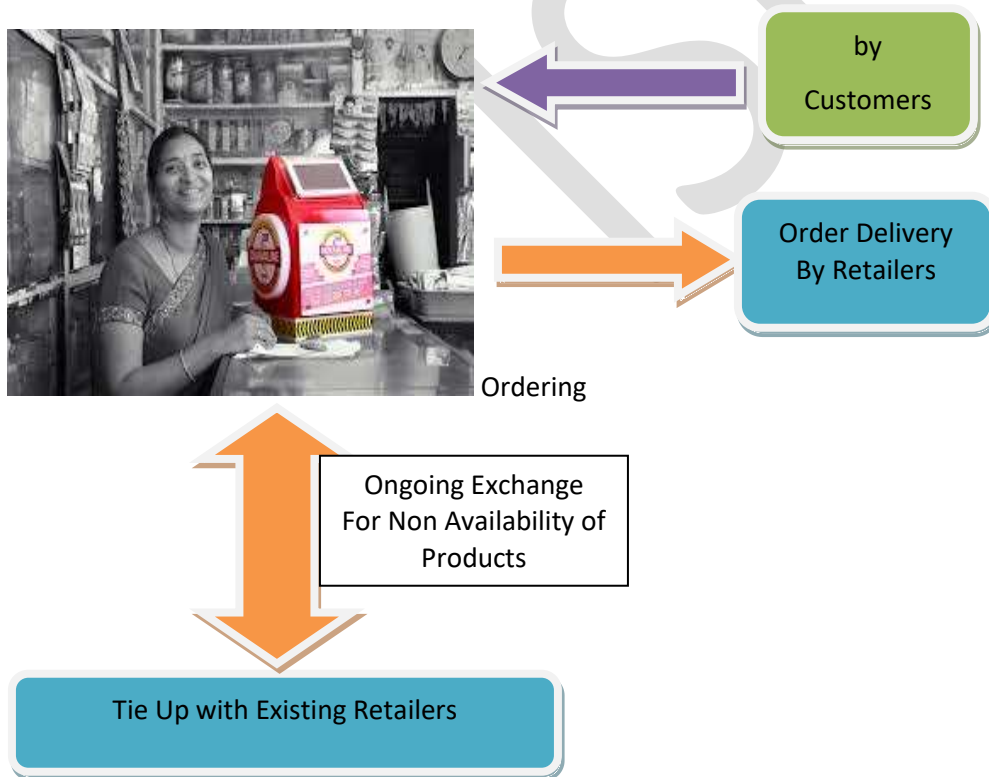
Distribution centers located in feeder towns can cover the retail outlets in the villages linked to supply merchandise. The advantages of such a synergy can be reaped by both the partners; the franchisor can develop the brand of his format and can attract the customers to bigger formats in urban

centers for general merchandise requirements. Once the customers enjoy the favorable and convenient experience of the format in rural/semi urban area, they could also be convinced to shop from the bigger formats in urban areas for other requirements.

4.2 Manhandled Kiosks:

The Existing Retailers can reach the Rural customers by establishing rural manhandled kiosk where in the customers can book upon their orders. The retailer can tie up with the existing retailers in the villages and establish the kiosk at the outlet. The delivery could be done by retail store if it has the products desired by the customer or from the stores located in the nearby vicinity of the place where order is booked. The Retailer can charge minimum transportation cost from the customer based on number of orders booked and size of each order. This works on the principle of aggregation, the aggregator has to invest in tying up with the retailers in small towns and rural parts and invest in developing necessary infrastructure like IT (Kiosks), Transportation and even warehouse facility. The aggregator can go one step ahead and can also act as supplier (Whole seller) of merchandise for those partnering with it.

Fig 4.2: Representative Kiosk Model



#### 4.3 Mobile Retail Vans to reach villages and for events like Haats/Shandies/Jatras:

The Mobile Van can take the shape of brick and mortar stores which could be then moved on from place to place to sell Food/grocery and other FMCG products and also book orders, the same van could be used to deliver the goods to customers. The Van could be assigned on Day to Day basis to different locations so that people are aware of the same and could reach out to van on a specific day to purchase or place orders or to collect their earlier ordered products/commodities. Further the same van can be deployed at weekly/fortnightly Shandies (Sante) in the villages/towns to increase the sales volume. The merchandise stocking and assortment has to be planned after a thorough understanding of the buying behavior of the villages where the van caters to.

Fig 4.3: An image of Mobile Retail Van



#### 4.4: Use of SHG/Banking Correspondents through an APP based method:

HUL the FMCG major with its project Shakti initiative achieved success and today 70000 shakti entrepreneurs cover 162000 villages and 4 million households. The retail formats targeting the rural households may look at tapping the village entrepreneurs/youth/banking correspondents and a wide network of SHGs. After establishing the necessary Supply Chain Management system, the National retailer has to appoint and train the entrepreneurs and issue Handheld devices like a Smart phone or Tab with internet data access. These entrepreneurs can book the orders by routinely visiting the villages and accept orders, on the delivery the payments may be collected.

This method can also be integrated with the Kiosk model or Mobile van model too. However, there is a need of creating a network of retailers from nearby villages and this model may not work in smaller towns that have adequate retail outlets.

### V. CONCLUSION

Looking at the present scenario, Rural India can't be neglected by the retailing industry as it is growing faster than

its urban markets. But the entry to these areas has to be forethought with a proper planning, right concept and format which needs to be assessed and tested before commercial venture of the same. The Basic challenge in achieving success in rural markets is setting up basic infrastructure in these markets which involves tremendous investments. Hence the key to success would be integrating with the existing retailing opportunities and develop a new concept that is sustainable in the long run and profitable. The retailers may look at creating a hub and spoke model for reaching the second rung Tier III cities or smaller towns, by connecting them with one major Tier II or Tier III city as a feeder town. By creating innovative models that utilize the existing networks of retail outlets run by small traders in smaller towns and villages, the major retailers can develop a sustainable co-opting model. This will help them in capacity utilization, intensify rural penetration and sustained growth in the future which is the much needed business expansion. The foothold that would be gained from such a presence can be further strengthened to market the products and services sold through other formats in General merchandise category in urban markets. The models proposed can also be implemented for General merchandise sellers with suitable modifications.

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