Food Retail Chain and Supermarket Evolution in India

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Evolution of Food Retail Chains

• Retailing is undergoing a transition with the rise of super markets
• Factors responsible for rapid growth in many countries - Urbanization, rise in income, increase in working women and allowing FDI.
• Process of evolution – shift from fragmented local markets to larger centralized wholesale markets
• Organized retailing has occurred more rapidly in processed, dry and packaged foods than fresh food markets
Pattern of Diffusion of Food Retail Chains

• FRCs viewed as niche markets for rich consumers in capital cities have transformed to destination shopping in several countries
• 1st wave – richer countries of Latin America.
• 2nd wave East and South East Asia
• 3rd wave – poorer countries of Latin America, Asia and central America
• 4th wave – South Asia and West Africa (Reardon 2003)
Growth of Organized Retailing in India

- Retailing in India is highly unorganized, fragmented and predominantly small and family owned business due to poor access to capital, technology and regulations.
- Emergence of organized FRCs witnessed after liberalization and entry of corporates.
- Changing political, demographic and economic features- high economic growth, increasing income, proliferation of brands, consumer awareness favors emergence of FRCs.
# Share of Organized Food Retail Sector in India (million Rs)

<table>
<thead>
<tr>
<th>Retail segments</th>
<th>Total Retail Sales</th>
<th>Branded</th>
<th>Organized retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>All retail segments</td>
<td>231281 (100.00)</td>
<td>23875 (10.32)</td>
<td>3827 (1.65)</td>
</tr>
<tr>
<td>Food, grocery and tobacco</td>
<td>175426 (75.86)</td>
<td>6748 (3.85)</td>
<td>539 (0.31)</td>
</tr>
</tbody>
</table>
Formats of Food Retailing in India

Consumer food needs

Hawkers/street vendors (Mostly fresh fruits and vegetables)
Fair Price shops under the Public Distribution System (PDS)
Traditional retailers, Separate shops for staple, FFV, and meat
Co-operative such as Janatha Bazaars, and Military Canteens. Margin free shops
Modern organized food retail chains
Small to medium food retail outlets
Open format retailers-Departmental stores
Supermarkets or food retail chains and hyper markets
Phases of Retail Expansion

**Stage 1:** First Step (3 to 5 years)

**Stage 2:** Competition Forces Accelerated Expansion (5 to 8 years)

**Stage 3:** Retail Market Saturation (3 to 5 years)

**Stage 4:** Consolidation & Diversification (undetermined)

2003 Status

- India
- Ukraine
- Iran
- Slovak Republic
- Vietnam
- Morocco
- China
- Romania
- South Korea
- Turkey
- Poland
- Brazil
- Hong Kong
- South Africa
- Taiwan
- France
- United Kingdom
- Germany
- United States
- Japan
Formats of Organized food retail chains in India

Super centre - Large shopping area, sells an assortment of food and non-food items (E.g. Family Mart 100,000 sq)

Hyper markets - These are similar to the super markets found in USA and Europe. Wide range and depth of products (E.g. Big Bazaar, Giant)

Large supermarkets (3,500-5,000 sq.ft) - Large, self service stores. Carry a complete line of food products and convenience items (Food World, Nilgiris, Reliance Fresh)

Discount/shopping list grocer - sell their products below MRP (e.g. Subhksha, 1-9 per cent below MRP)
## Top Food Retailers in India

<table>
<thead>
<tr>
<th>Food retail chain</th>
<th>Format</th>
<th>Number of stores (2004)</th>
<th>Sales in Million Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food World</strong></td>
<td>Food supermarket</td>
<td>94</td>
<td>300</td>
</tr>
<tr>
<td><strong>Nilgiris</strong></td>
<td>Food Supermarket</td>
<td>50</td>
<td>230</td>
</tr>
<tr>
<td><strong>Subhiksha</strong></td>
<td>Discount grocery chain</td>
<td>164</td>
<td>162</td>
</tr>
<tr>
<td><strong>Food Bazaar</strong></td>
<td>Hypermarket</td>
<td>23</td>
<td>150</td>
</tr>
<tr>
<td><strong>Trinethra</strong></td>
<td>Discount grocery chain</td>
<td>72</td>
<td>60 (108 in 2004)</td>
</tr>
<tr>
<td><strong>Giant</strong></td>
<td>Hypermarket</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td><strong>FabMall</strong></td>
<td>Food Supermarket</td>
<td>11</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Valdel retail (Family Mart)</strong></td>
<td>Super center, with Food Supermarket</td>
<td>4</td>
<td>NA</td>
</tr>
</tbody>
</table>
Consumers Visiting Food Retail Chains by Profession

- Academicians: 31%
- Professionals: 15%
- Public sector: 2%
- Professionals: 15%
- Teachers: 0%
- Private companies: 10%
- Government: 23%
- Own Business: 14%
- Banks: 2%
- Retirees: 2%
- Others: 1%
Person who Actually Shops for Groceries

No. of households

Person shopping for groceries

- Wife
- Husband
- Both
- Children
- Jointly
- Others
- Parents

- Primary shoppers
- Secondary shoppers
- Never visit
Preference for Traditional Retailers

- Location at a convenient distance
- Offer groceries at almost same price as FRC
- Added facilities like home delivery and monthly credit facilities
- Quality of produce- packed and manufacture branded products
- Trust and strong personal relationship
Factors Influencing Consumers towards FRCs

- Logistic regression model indicated following factors
  - Household income
  - Type of family
  - Ownership of vehicles
  - Working women in the family
## Consumer Preference for Attributes of Food Retail Chain

<table>
<thead>
<tr>
<th>Attributes of FRC</th>
<th>Average importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Quality of products</td>
<td>33.80</td>
</tr>
<tr>
<td>• Location of food retail chain</td>
<td>26.89</td>
</tr>
<tr>
<td>• Price of products at the food retail chain</td>
<td>20.74</td>
</tr>
<tr>
<td>• Product Range at the food retail chain</td>
<td>6.27</td>
</tr>
<tr>
<td>• Service at the food retail chain</td>
<td>4.19</td>
</tr>
<tr>
<td>• Mode of payment at the food retail chain</td>
<td>8.12</td>
</tr>
</tbody>
</table>
Supply Chain Adopted by FRC for Food Grains

Farmers → Wholesalers/Commission agents / at APMC yards → Retail/Food retail chains → Consumers

- Payment of market fees and Commission charges as per APMC Act
- Food retail chains clean, sort, grade, pack, and label food grains at their warehouse (Privat)
Procurement of Fruits and Vegetables

- FRCs have not been able to penetrate the FFV market segment
- Buy from the wholesalers or through consolidators
- Hawkers (about 20000 in Bangalore) and traditional retailers offer stiff competition
- Have plans to have direct linkage with farmers to reduce cost of transaction and maintain quality
Fruit and Vegetable Consolidation Center of Food world (Spencers)

FVCC farmer-vendors

Sorted, graded, packed FFV

Food World FVCC

Warehouses at

Bangalore | Hyderabad | Chennai | Thiruvanthapuram

Weighed bar coded, labeled and bulk packed

All Food World outlets in the above cities
Functioning of the FVCC

• Consolidators are important in the supply chain
• Spencer’s FVCC follows farmer-vendor model.
• Each farmer-vendor has a 10 farmers, from whom he collects the produce and delivers to FVCC.
• Agreement between farmer-vendor and company is informal with no written contracts.
• Produce is graded and packed in the required form at the farm level (Ready to Retail) to reduce the transaction cost.
• At the FVCC produce bulk packed, bar coded and transported to central warehouse.
Changes in Production and Procurement

• By establishing FVCC, Spencers is able to exercise control over quality, supplier reliability and price stability.
• The farmer to consumer ideology of the company is met by choosing small farmers but with irrigation facilities.
• Farmers are provided with a package of Good Agricultural Practices (GAP)
• Company has no system of providing credit but provides technical guidance for planting, crop production and management, harvest time etc
Quality Control Practices

• Besides insisting GAP in production company follows three tire quality maintenance system.
• QG- Quality Grading- Concern of FVCC
• QC₁- Quality Care- maintain quality during transit until it reaches retail outlets
• QC₂- Quality to be maintained at the retail outlets
Comparison of Farm Size: FRC and Non-FRC Farmers

<table>
<thead>
<tr>
<th>Category of farmers</th>
<th>FRC’s</th>
<th>Non-FRC’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (&lt;2 ha)</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>(15.79)</td>
<td>(93.3)</td>
</tr>
<tr>
<td>Medium (2 to 5 ha)</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>(47.37)</td>
<td>(6.67)</td>
</tr>
<tr>
<td>Large (&gt; 5 ha)</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>(36.84)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>
# Crops Cultivated by FRC and Non-FRC Farmers

<table>
<thead>
<tr>
<th>FRC Farmer-vendors</th>
<th>Non-FRC Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ash gourd, Baby corn, Beet root, Bottle gourd, Brinjal (egg plant), Capsicum, <em>Scheium edulle</em>, Cucumber, and Musk melon, Pumpkin, Ridge gourd, Bottle gourd, Cabbage, Carrot, Cauliflower, Double beans, Green Chillies, Little gourd, Potato</td>
<td>Bottle gourd, Cabbage, Carrot, Cauliflower, Double beans, Green Chillies, Little gourd, Potato</td>
</tr>
</tbody>
</table>
Comparison of Production and Marketing Costs of FRC and Non-FRC Farmers

![Bar chart showing comparison of production and marketing costs for FRC and non-FRC farmers across different crops.](chart.png)

- **Cabbage (FRC)**: xx Rs./tonne, xx Rs./tonne
- **Cabbage (non-FRC)**: xx Rs./tonne, xx Rs./tonne
- **Cauliflower (FRC)**: xx Rs./tonne, xx Rs./tonne
- **Cauliflower (non-FRC)**: xx Rs./tonne, xx Rs./tonne
- **Carrot (FRC)**: xx Rs./tonne, xx Rs./tonne
- **Carrot (non-FRC)**: xx Rs./tonne, xx Rs./tonne
- **Tomato (FRC)**: xx Rs./tonne, xx Rs./tonne
- **Tomato (non-FRC)**: xx Rs./tonne, xx Rs./tonne

Legend:
- **COP/tonne**
- **Transaction costs/tonne**
Comparison of Net Returns of FRC and Non-FRC Farmers

<table>
<thead>
<tr>
<th>Crops</th>
<th>Net Profit (Rs/t)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabbage</td>
<td>FRC 2016.2, Non-FRC 1072.1</td>
</tr>
<tr>
<td>Cauliflower</td>
<td>FRC 4878.0, Non-FRC 2112.3</td>
</tr>
<tr>
<td>Carrot</td>
<td>FRC 10475.0, Non-FRC 9138.5</td>
</tr>
<tr>
<td>Tomato</td>
<td>FRC 4244.1, Non-FRC 2425.4</td>
</tr>
</tbody>
</table>
## Comparison of Prices Received by FRC and Non-FRC Farmers

<table>
<thead>
<tr>
<th>Crop</th>
<th>FRC farmers</th>
<th>Retail price</th>
<th>Wholesalers/CA at regulated market</th>
<th>Retail prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabbage</td>
<td>3490</td>
<td>6500</td>
<td>3000 (-16.3)</td>
<td>6000</td>
</tr>
<tr>
<td>Cauliflower</td>
<td>8430</td>
<td>10500</td>
<td>7000 (-20.4)</td>
<td>10000</td>
</tr>
<tr>
<td>Carrot</td>
<td>14500</td>
<td>21500</td>
<td>14000 (-3.56)</td>
<td>19520</td>
</tr>
<tr>
<td>Tomato</td>
<td>6540</td>
<td>11000</td>
<td>5500 (18.7)</td>
<td>9000</td>
</tr>
</tbody>
</table>
Advantages and Disadvantages of Operating with FVCC

• **Advantages**
  > Assured market and reduced price risk and transportation cost, fixed time of delivery, absence of middle men and illegal deductions and additional employment at farm level

• **Disadvantages**
  > low volume of procurement and high quality standards (12% rejection rate)
## Impact of FRC on Traditional Food Retailers

<table>
<thead>
<tr>
<th>Impact on business turnover</th>
<th>No. of respondents</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased</td>
<td>9</td>
<td>30.00</td>
</tr>
<tr>
<td>No impact</td>
<td>15</td>
<td>50.00</td>
</tr>
<tr>
<td>Don’t know</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Increased</td>
<td>1</td>
<td>3.33</td>
</tr>
</tbody>
</table>
## Coping Strategies Adopted by Traditional Retailers

<table>
<thead>
<tr>
<th>Coping strategies</th>
<th>No. of respondents</th>
<th>Percentage of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain good public relations with customers</td>
<td>19</td>
<td>63.33</td>
</tr>
<tr>
<td>Stock only quality items</td>
<td>16</td>
<td>53.33</td>
</tr>
<tr>
<td>Extend credit</td>
<td>13</td>
<td>43.33</td>
</tr>
<tr>
<td>Sell manufacturer-packed products</td>
<td>13</td>
<td>43.33</td>
</tr>
<tr>
<td>Perform door delivery</td>
<td>18</td>
<td>60.00</td>
</tr>
<tr>
<td>Reduce price</td>
<td>10</td>
<td>33.33</td>
</tr>
<tr>
<td>Renovate the shop</td>
<td>5</td>
<td>16.67</td>
</tr>
<tr>
<td>Increase the number of items sold</td>
<td>4</td>
<td>13.33</td>
</tr>
<tr>
<td>Open for longer hours</td>
<td>2</td>
<td>6.67</td>
</tr>
<tr>
<td>Create parking space</td>
<td>1</td>
<td>3.33</td>
</tr>
</tbody>
</table>
Policies Influencing Growth of Organized FRC

- **APMC act**
  - Institutionalization of market intermediaries
  - Restriction on direct procurement from farmers, movement of commodities and stocking
- **Multiple laws/regulation** at center, state and local levels
  - No specific legislation controlling distribution trade and nodal ministry
  - Plethora of laws- EC act, FPO, MPO, cold storage order, weights and measures act, labour laws
- **Multiple layers of taxes**
- **Restriction on FDI**
# PEST (Political, Economical, Social and Technological) Analysis of FRC’s

<table>
<thead>
<tr>
<th>Facilitating factors</th>
<th>Impending factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberalization of economy, urbanization, rise in income, awareness for quality, rise in working women and access to information are facilitating growth</td>
<td>Policy restriction and age old laws, competition from neighbourhood shops, costly real estate, buying habits, perception of FRC being places for rich, non availability of trained manpower, infrastructure inadequacies</td>
</tr>
</tbody>
</table>
Implications of Entry of Food Retail Chains

• Consumers best benefited due to competitive prices, safe and quality of food
• Impact of farmers? New formats of business such as contract farming, forward sales etc
• Opportunity for small farmers? Reardon has indicated that small farmers will be left out
• What will happen to existing retailers? Will they cope up?
• Stability in prices, scope for increased on farm employment and income generation
• Monopoly tendency in the long run (Reardon)
• Revenue to the Government?
Conclusions

• Organized food retailing is in a nascent stage but is undergoing a transition.
• Most FRC’s are regional in nature but are expanding their business to more urban centres.
• Consumers purchased dry grocery requirements at FRC outlets but was not a preferred destination for FFV, milk and meat.
• Ownership of cars, high household income, nuclear family and working women are major variables in determining the potential customers for FRC.
• Consumers placed preference on attributes such as location, quality and price of produce in choosing a FRC.

• Supply chain of FRC for primary agricultural commodities has not altered mainly due to the restrictions as per APMC and other Acts.

• Farmer-Vendor model adopted by a FRC, though small scale, appears to be successful as the farmers realized lower transaction costs, higher returns and employment. It also helped FRC to maintain control over quality, assured supply and price line.

• Traditional retailers located in the vicinity of FRCs experienced reduced business in the initial stage but recouped by adopting coping strategies