Food Retailing in India: Challenges and Trends

Food and Grocery (F&G) Retail Market in India

Unlike in the past, the debate today is no longer whether food and grocery retail in India would grow but rather how fast can it grow and what challenges need to be overcome. Tata Strategic Management Group (TSMG) projects that organized F&G retail in India could grow to Rs. 1750 Bn (at current prices) by 2015 representing ~11% of overall F&G sales.

Key Challenges in Food Retailing

Demand Side

- **Penchant for fresh/home-made and value consciousness**
  The Indian consumer, unlike his western counterpart, has a penchant for freshly cooked food over packaged food. This is a result of dietary patterns, poor electricity supply, low penetration of refrigerators and a family structure where one of the primary roles of the housewife is feeding the family. The Indian consumer is extremely value conscious. A TSMG study indicates that packaged food players need to drive down prices by almost 35-40% to be comparable on cost with home made food.

- **Diversity of tastes and preferences**
  Multiple cultures, languages and religions have a huge bearing on the tastes and preferences of the Indian consumer. This will pose a challenge for players aspiring to develop a pan Indian presence.

- **Willingness to travel**
  Given the current density of retail outlets in India, retailers will have to motivate the consumer to trade convenience with price, range and ambience.

Supply Side

- **Sourcing base and efficiency**
  The fragmented agri supply base coupled with an inadequate legal framework make it difficult for retailers and food processors to procure quality produce at competitive costs directly from farmers. The small size of the food processing industry further limits the supply options.

- **Real estate availability and cost**
  Rentals account for 7-7.5% of the total costs for organized retail in India against global benchmarks of less than 3%. Real estate availability and costs will continue to remain a challenge in the retail industry with factors like adequate parking, ambience and proximity being the key drivers of footfalls.

- **Manpower availability**
  As organized retail expands, there is expected to be a dearth of skilled manpower. The lack of institutions and courses for different aspects of retail management will have an impact on the overall supply of quality manpower.
Emerging trends in food retailing

• Big becoming bigger
Globally, retailers have realized that size drives profitability, not just through economies of scale in operations but also through higher bargaining power leading to better margins. While many players are entering the retail space in India currently, the growth stage will be characterized by rapid expansion and consolidation among these players.

• Rise of organic foods and health and wellness segment
Consumer attitudes and preferences are undergoing a shift owing to factors like increased disposable incomes, changes in lifestyle patterns, shift in age structure, increased number of working women and multi cultural exposure. These would lead to increasing health consciousness in the future. Organic foods and wellness products would be emerging opportunities in the years to come.

• Increasing focus on private labels
As competition in the organized retail market increases, discounts and promotions are expected to play a critical part in generating footfalls. To counter the impact on profitability, organized players will find it more attractive to promote private labels or store brands given their higher margins. The consumer too would benefit from lower prices.

Scope for innovation in food retail

As the organized food retail market matures in India, there would be an increased need for players to differentiate through innovation. Innovations would largely come under two heads:

• Innovation on Retail format - Players can innovate on formats in different ways:
  o by targeting specific customer segments and serving their needs better e.g. working women, single office goers, etc
  o by changing the product mix e.g. entirely private label stores, exclusively fresh produce stores
  o by offering new forms of convenience and wider range to the customer e.g. tele-retail and internet retail

• Technological Innovations - Employing cutting edge technology in retail could prove to be the source of competitive advantage for retailers.
  o Self-scan checkouts have the potential of both reducing check-out time manpower cost for the retailer
  o Using RFID tags can help track and reduce in-store inventory management costs and give retailers better insights into customer in-store movement patterns
  o Web-enabled POS systems, e-SCM systems, e-Procurement systems and warehouse management systems will enable food retailers in integrating the entire agri value chain leading to efficient procurement and supply chain management.
  o Use of cutting edge analytics can bring insights into customer buying behaviour with implications on store layout, pricing and promotions.

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