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India's retail issues

INDIA'S FOOD AND GROCERY RETAIL INFANCY HAS NOT BEEN WITHOUT ITS TEETHING PROBLEMS. **JAMES MCGREGOR**, DIRECTOR OF RETAIL-REMEDY INTERVIEWS **SANTHOSH UNI**, CEO OF COSTA COFFEE (INDIA), TO FIND OUT MORE...

It has been claimed that the Indian food and grocery retail industry has been performing well below the level which might have been expected, is this a fair interpretation?

"Although that business has not been around very long, it has nevertheless enjoyed massive interest, seeing a very high number of retailers coming on board, as well as significant investments from many of the country's largest businesses," says Santhosh Uni, CEO of Costa Coffee (India). "However, it would certainly be fair to say that there have been a few disappointments."

As far as consumer acceptance and retail profitability are concerned, two areas clearly of great significance, is it possible to identify any general trends

which have led to these issues?

"These issues are certainly significant," he says, "but there have been a number of very real difficulties and challenges facing the industry which have led to the overall low performance we are seeing now. In some cases this is down to poor business knowledge and understanding, in others it is as a direct result of retail policy or retailers' poor interpretation of business acumen."

In terms of policy restricting what retailers can do, could you provide an example of where this has led to difficulties?

"One of the biggest problems has been the MRP, or maximum retail price," explains Uni. "In most countries in the world, manufacturers

publish their recommended prices but it is largely up to the retailer to decide their own pricing structure. In many cases, this would lead to the convenience store adding a premium. However in India, retailers are forced to sell products within the manufacturer's maximum retail price."

Presumably if price has become a limiting factor, retailers have had to devise other ways to stand out from the crowd?

"Unfortunately not, and this has been one of the other major difficulties. There has been little or no value added differentiation, meaning that although there may have been some changes, these have largely been cosmetic. Underneath, there is very little to distinguish one convenience retailer from another," explains Uni.

"This lack of differentiation has been hampered by the fact that India's emergence into the world of retail



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dominated by a combination of named brand manufacturers and the cheap running costs inherent in Kirana's local community stores. This dominance of brand, coupled with low maintenance costs, means that overall profit margins are extremely low, and many retailers are experiencing an EBIDTA (earnings before interest, taxes, depreciation and amortization) that becomes negative at the level of individual grocery stores."

So many of the problems originate from the brand manufacturers, meaning that although there are many things retailers could do, but aren't, there are issues which need to be addressed with the manufacturers as well?

successful business."

With the problems that retailers are facing, expanding the number of stores without concentrating on the soundness of the business sounds like a recipe for disaster. Is there a specific example you can give me of where retailers are failing to grasp fundamental business acumen?

"One of the areas in which we see significant failings is in cost structuring; for retail businesses to succeed it is vital to ensure the efficiency of the entire cost structure. The majority of Indian food and grocery retailers tend not to take an overall view where this is concerned, instead evaluating costs as separate categories, with no overall system or view in place," explains Uni. "This inefficiency greatly increases the overall cost to the retailer."

In terms of growth, how is India's retail industry coping with the peripheral aspects of the business as it expands?

"Although there is no real reason why, the vast majority of India's retailers tend to source staff internally to deal with those aspects of the business not considered to be 'central'," he says. "Elsewhere, many of these aspects would be outsourced at a much lower rate. Sourcing staff internally is dramatically increasing the cost of wages for the retail industry. Combined with the limit on price, warehouse inconsistencies, brand dominance and poor business structuring across the retail business, there is a very great deal which needs to be addressed to lift the Indian food and grocery retail industry from its current poor position."

"Yes, I'd say this is true," says Uni. "One of the issues that many retailers have been facing is that of product fill rates. Most brand manufacturers offer rates of no more than around 60-70 per cent at best. This greatly restricts the retailer and the warehouse from holding inventory levels which might be expected in other countries."

You mentioned earlier that a large part of the problem is down to poor business knowledge and understanding. In what ways has this been identified?

"One of India's biggest

concerns has to be those significant gaps in business knowledge and although this is a well known factor, both large business houses and entrepreneurs backed by VC funding have put into practice the concept of retail expansion, scaling the business before grasping the basics of the retail industry. Retailers are confusing the number of storefronts with business growth. By becoming obsessed with numbers, many retailers are taking their eye off some of the more fundamental requirements of a



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consumerism is still relatively speaking in its infancy. As a result there are significant omissions within product ranges and competition for shelf space is very low. This gives retailers little to inspire them to make changes other than cosmetic ones."

India has certainly got its fair share of brand manufacturers, and while it seems that their MRPs are limiting retailers' pricing structures, are there ways in which they have been more supportive?

"The industry has long been

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