

An opportunity lost

By Harminder Sahni



DESPITE HAVING HUGE POTENTIAL, SUPERMARKETS IN INDIA HAVE NOT BEEN ABLE TO ACHIEVE THE KIND OF GROWTH THEY ONCE APPEARED TO BE AIMING AT. LET'S LOOK AT THE MAIN REASONS BEHIND THIS STUNTED GROWTH.

→ Bolstered by factors such as rising income levels and changing lifestyles of Indian consumers, especially those living in urban areas, many business houses entered the supermarket fray in 2006-07. They had extremely aggressive plans to capture a major share of food and grocery retail over the next few years by opening several supermarkets. Even the pilots of these plans were to open a few hundred stores in the first year itself.

There was nothing wrong with these plans and it was expected that there will be mistakes on the way. The companies were prepared for this, as the future potential seemed very attractive and the investment seemed worthwhile. As a result, in the next two years (2006-07), the Indian supermarket segment became

the second largest segment of modern retail – in terms of number of stores – second only to fashion retail. More than 2,000 supermarkets were opened in such a short period that it seemed the number of supermarkets would soon shoot to 20,000. However, such a fast pace of growth was unsustainable due to various reasons and the market almost came to a standstill during 2008. And, in 2009-10, it actually shrank when many retailers closed down stores and reduced store sizes.

I attribute this reversal of fortunes of Indian supermarkets to mainly three factors.

The first and biggest reason is the imbalance between the front end and the back end of the retail business. Most retail companies embarked upon store openings without having created the back end – be it supplier

base, warehouse or logistics. The key parameter for measuring the success of retail business CEOs was the number of stores opened and the number of cities entered. Whether internally by investors or externally by the media, the number of stores was the only matter of attention. In such an environment, the focus was on capturing as many retail locations as possible at whatever price. This led to the escalation of retail rentals to such levels that it became nearly impossible to make money from these stores. With every store opening, companies were digging themselves into deeper holes and drowning themselves in ever-increasing losses.

One of the basic tenets of retail business – that each store should make money on its own – was being simply ignored to achieve the elusive economy of scale. A retail business is not about retail stores; it is about making the right merchandise available to consumers at a convenient location at a competitive price, while making a decent margin and selling enough volumes to make reasonable return on investment.

The second reason for the dismal performance of supermarkets has been the absence of seasoned and experienced professionals in food and grocery retail. In comparison, fashion retail has had the advantage

of more than two decades of evolution wherein brand stores, as well as department store chains, have contributed to the creation of a professional talent pool that is sustaining and growing the industry continuously. Even new players find it relatively simple to enter fashion retail, as they can hire experienced professionals across levels who are working with current players. In case of the food and grocery industry, most professionals have come from FMCG companies, wherein they have handled only a small part of supermarkets' overall offer

and there too they have seen things from brands' perspective and not retail's perspective. Most of these professionals have no experience in fresh farm produce. Moreover, the simpler option of taking assistance from international professionals was either not considered or was implemented half heartedly. I don't advocate blind adaptation of western models for Indian markets, but there are certain fundamentals of food and grocery retail that are universal and Indian companies didn't need to rediscover those at such high costs. I am pleased that some retailers are now correcting this and even the now wiser Indian professionals are moving rapidly on the learning curve.

The third reason for the lack of evolution of food and grocery retail is the restrictions on FDI in retail. Until international retailers are allowed to own the front end of retail, they will not be keen to either invest or bring their back end partners to invest in the supply chain. They all know the back end is the key to success in food retail and would not like to give this advantage to their Indian partners to build hugely valuable front end retail businesses that they will have to buy at obscene valuations whenever FDI is opened.

I am very bullish on the Indian supermarket segment and don't see any reason why we can't have a supermarket chain with more stores than Café Coffee Day, Raymond, Reebok and Apollo Pharmacy put together! ☒

ABOUT THE AUTHOR



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