



column

Cash and Carry: How Retail Chains can Benefit

THERE ARE SOLID REASONS WHY THE PROJECTED GROWTH IN MODERN RETAIL IN INDIA MAY NOT HAPPEN OVER THE NEXT DECADE. BUT THERE IS A BRIGHTER SIDE TO THE STORY – THE POWER OF THE CASH-AND-CARRY (C&C) FORMAT AND HOW IT IS HELPING ORGANISE THE INDIAN RETAIL SECTOR. MODERN RETAIL CHAINS SHOULD LEARN TO RIDE PIGGYBACK ON THE C&C INVESTMENTS BEING MADE INTO INDIA BY GLOBAL PLAYERS LIKE METRO AND WALMART.

By Harminder Sahni

→ The Indian retail market already accounts for a very large part of the economy and will continue to grow its share over the coming years. The percentage of modern retail in this is still very small but is continuously expanding and will surely garner much larger share of the total retail market over the next few decades. However, the current figures for modern retail in India are nowhere close to what they were projected to be in the past. I believe the actual numbers in the next five to seven years, or say by 2020, will be really off from those currently being projected by various entities. I have a few reasons for this.

SLOW GROWTH OF MODERN RETAIL

The first one is that the currently touted size of the modern retail market in India has no real basis – it is just an extrapolation of some base numbers that were compiled many years ago. In the absence of any credible exercise taken up, these best-estimate numbers have become the industry's reference points. If the basis of the assumption itself is in doubt, how can the projections be right?

My second reason is that though the currently existing base of modern retail is certainly larger than what it was five years ago, it will not be possible for the industry to grow at a faster pace or even retain the existing pace

of growth in the coming few years. A case in point is players such as Aditya Birla Retail which are already going through rationalisation of their current spread, so growth in modern retail will certainly take a pause.

The third reason is that most large Indian groups which entered the modern retail sector have not done really well, and thus other business houses which could have emulated them are now avoiding the sector because of poor prospects. The fourth reason is that no modern-retail player in India has been able to figure out a business model that works well enough to be taken up aggressively.

The fifth is a lack of role models in the Indian story of modern retail. On the contrary, there is an abundance of failures – every few months, we have a spectacular failure being reported in the modern retail sector. This not only impacts the confidence of the investors, it also discourages good talent from entering modern retail.

Last, but not the least, is the issue of the convoluted FDI policy of the Indian government which seems to be

based on the principle of discouraging, rather than encouraging, foreign investment into the country. Looking at the amount of investment that global retailers like Metro and Walmart are pouring into their cash-and-carry (C&C) business in India, we can assume that they would have invested far larger amounts in the market if FDI was allowed into modern retail.

Looking at all the possible ways in which the Indian modern retail sector can grow, I find that there are issues everywhere, which makes it hard for me to be optimistic about the industry. But everyone continues to hope that modern retail will somehow grow to reach the magic figure of \$250 bn, accounting for 25 percent of the overall retail market, by 2020!

for modern retail as we know it.

Our definition of modern retail is limited to retail chains, thus the stand-alone stores are considered a part of the traditional sector. If the back-end of the stand-alone retailers in terms of wholesale purchases is being organised and streamlined by the C&C biggies, it will give a major boost to traditional retailers. While “modern retail” may not grow as fast as projected, the C&C stores will end up “organising” the overall retail market.

So in 2020, we may not have very large modern retail chains operating in the country but we would have a major section of the Indian retail sector very well organised. This would not be a bad thing, given the constraints that have been put on the retail sector

of retailers across numerous categories in a very short span of time in its catchment area. But for this to happen, the C&C stores need to be actually doing C&C wholesale business in all seriousness and not merely be biding their time until the FDI policy changes and they transform their store front to serve shoppers than retailers.

The nature of the C&C format is to help retailers run their businesses more efficiently and profitably. This is very different from the nature of a big-box retailer who needs to be oriented towards serving the needs and aspirations of his customers while at the same time staying competitive against other retailers.

In a way, the government has done a disservice to the Indian retail companies by restricting the global majors to only the C&C format. The Indian players chose to invest into retail chains where the MNCs were barred from competing, thinking they would benefit from government protection. But it seems they have unwittingly landed in troubled waters which have now turned red with their ever-increasing bleeding.

International retailers are delighted that they have been saved from the trouble of learning about the Indian retail consumers the hard way. With the C&C format, they are leaving the last mile to the traditional retailers and focussing on what they are best at: large-scale sourcing and efficient supply chain management.

My strong recommendation to an Indian company wanting to get into modern retail would be to piggy-back on the C&C investments being made by international companies. They should create a chain of stores focussing on the front-end, customer service, and merchandising while letting the C&C players manage the back-end. That would really be a win-win for all. ❏



The C&C format is making silent inroads into various parts of India

THE POWER OF CASH-AND-CARRY

Let us now look at the brighter side. The C&C format is making silent inroads into various parts of India. The credit for this goes to the slow-and-steady approach of Bharti Walmart and Metro. The success of many of the stores of these early movers and announcements about opening new ones have forced others to make plans to enter the C&C segment. Players such as Reliance, Carrefour, and Tesco would not like to be left behind in the race. But while this is good news for the overall retail industry, it indirectly is bad news

by the government and the players themselves.

The positive impact of the retail sector getting better organised with the spread of the C&C format would be felt far and wide in the tier 3 and 4 towns. These locations otherwise would have had to wait for the arrival of modern retailers who are currently busy with the tier 1 and 2 markets. The trickle-down benefits of a single C&C store could be much larger than many stores of modern retail players opening in a particular city. A C&C chain has the potential to organise a large number

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