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RURAL INDIA, THE EMERGING GROWTH CENTRE
FOR INDIAN RETAILERS

CHAND REHMANI

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Abstract:

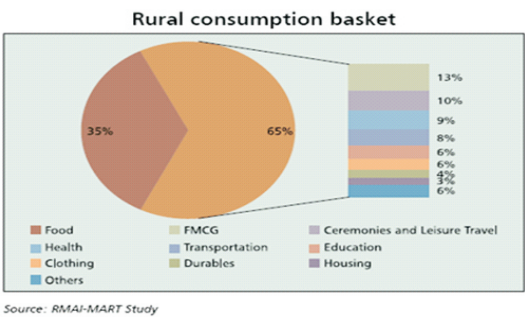
The rural population dominates the Indian market with over 720 million consumers (70% of the total population) spread across 0.63 million villages in the country¹⁸. Typically Indian rural retail stores are in the form of haats and melas. Undeniably, the urban market (metropolitan cities, tier II, III cities) offers great opportunities to organised retailers but they are anticipated to saturate in the near future. Hence, most big retail companies are envisaging entering the untapped rural market. For instance, ITC has taken a rural initiative through Choupal Sagar and so has DCM Hariyali Kisan Bazaars, and Pantaloons in a JV with Godrej (Aadhars). Besides, several other Indian companies are mulling over launching rural retail brands to face the current economic slowdown, as rural areas have been less affected by the slowdown. and so has DCM Hariyali Kisan Bazaars, and Pantaloons in a JV with Godrej (Aadhars). Besides, several other Indian companies are mulling over launching rural retail brands to face the current economic slowdown, as rural areas have been less affected by the slowdown.

INTRODUCTION

Over the last couple of years there has been a spurt in the rural income due to higher agricultural production, as the total food grain production in India reached its zenith at 230 million tonnes (MT) in FY08. In this article we have presented the present conditions of Indian retailers.

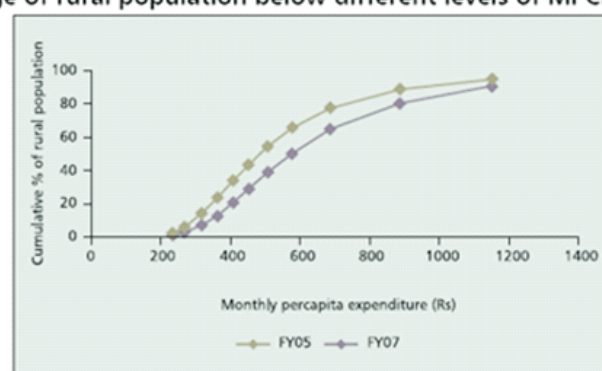
DISCUSSION

The sharp rise in the minimum support price (MSP) of wheat and paddy in the past two years also left the farmers richer. Farmers also accrued benefits from the agricultural loan waiver, various development schemes (the National Rural Employment Act, the Bharat Nirman Programme for improving rural infrastructure). These initiatives not only drove the rural people's income substantially but also increased their consumption levels.



Furthermore, the growth of MPCE level in rural areas has been higher than the urban areas. For example, the percentage of population below the MPCE level of Rs 510 in rural areas was 54.4% in FY05, which dipped to 39% in FY07, showing a growth of 15.4%; on the other hand, the percentage of population in urban areas below the MPCE level of Rs 930 was 56.1% in FY05, which dipped to 46.1% in FY07, showing a growth rate of 10.0%.

Percentage of rural population below different levels of MPCE FY05-FY07



Source: NSSO, D&B Research

According to Technopak estimates, the retail sector revenue is pegged at US\$ 590 billion by 2011-2012 and the organised retail's share is projected to reach 16% (US\$ 94.4 billion). In fact modern day retail stores are expected to adapt and imbibe from the traditional formatted stores.

ECONOMIC SLOWDOWN AND THE ROAD AHEAD FOR ORGANISED RETAILERS

Tough times lie ahead for the retail industry as consumers are holding on to their wallets due to job losses, stock markets are volatile and chances of a prolonged recession are increasing. Consumer spending is likely to contract further as banks are becoming overcautious in lending and are also tightening their rules on the credit card issues. Thus the retailers are witnessing an uphill task in terms of wooing consumers, despite offering big discounts. Also the organised retailers have been facing a difficult time to wean away customers from traditional kirana stores, especially in the food and grocery segment. The organised retail segment has to adopt various best practices to prevail in the current situation. They have to offer more convenience in terms of superior logistics and pricing or location. Moreover, inadequacies in the existing retail infrastructure and logistics is also denting the sector's growth. An efficient retail supply chain is very critical for the retailers, particularly for agri commodities. Baring few leading big retail companies, the supply chain is not very efficient for most of the small and medium retailers. Retailers can therefore enhance their earnings by improving their supply chain with appropriate expertise. They therefore need to increase their investments in retail ancillaries and retail logistics to restrict the fall in margins. Moreover, many retailers are negotiating for better credit terms, boosting their supply chain, cutting inventories. Besides, few of them are even merging their stores to counter the current slowdown in retail sales.

Furthermore, in the liquidity crunch scenario, retail companies have been expanding their brands with minimum investments through the franchise route, which has received a major thrust in the economic downturn scenario. The franchise model constitutes 25-30% of the current organised retail pie, and is expected to reach 45-50% in the next couple of years.

In view of the changing economic landscape, the retailers are increasingly adopting measures to boost their top line as well as their bottom line by streamlining their existing supply chain, especially in terms of inventory control and cost control, and are also raising the share of private labels in the total revenue map. Globally, private labels constitute around 17% of total sales and in India private labels constitute 10-12% of the organised sector's revenue²⁰. Henceforth, the Indian retail companies will be looking at increasing the share of private labels from the current rate to 20-40%. Private labels can act as the saving grace for many retail companies since margins in this range between 30-40%²¹.

Consumer sentiments will be in a recuperating stage in the current year. As retail companies have not achieved the expected sales till now, inventory is likely to pile up and to get rid of this; companies are expected to slash prices by mark down in merchandise. For instance, in the fashion and accessories

category, the product cycle is very short and retailers are expected to provide deep discounts to consumers to clear the inventory pile-up.

CONCLUSION

Real estate experienced huge reduction in costs in the third quarter of FY08 and to capitalise this opportunity, they started expanding their stores to viable locations. The companies are closing down their under-performing stores and are moving to viable areas to curtail losses. The real estate costs are expected to rise in the coming quarters due to expansion and relocation plans of retail companies. Despite the setbacks experienced this year, the retail sector is likely to flourish in the coming years.

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