Chapter 1

INTRODUCTION

1.1 History of Retailing—an Overview

Retailing as a business and occupation came into existence when farm production was more than the requirements. This led trading to become an integral part of daily life in the ancient world.

The existence of current Indian *kirana* stores dates back *Manusmriti* and Kautilya’s *Arthshatra*. These books help to deal with quality, price, customer, after-sales service, and guarantee. The Indian history also records the existence of markets during the *Harappan* civilization as *haats*. These *haats* were the places where commodities were exchanged and people congregated and derived many non-economic values. During this period, the tax system was applicable for retail and wholesale business. The funds so generated were used for development. The *Harappan* history also supports the use of better locations for better sales and convenience (Sinha and Uniyal, 2007).

The word ‘Retail’ originates from a French-Italian word, ‘Retailer’ someone who cuts off or sheds a small piece from something. Retailing is the set of activities that markets products or services to the final consumers for their own personal or household use. It may also be defined as the sale of goods and services in small quantities for personal use. In simple words, it implies a firsthand transaction with customer. According to Philip Kotler, “Retailing includes all activities involved in selling goods and services to the final consumer for personal, non-business use”. The North American Industry Classification System (NAICS) specifies that the retail trade sector
comprises establishments primarily engaged in retailing merchandise, generally without transformation and rendering services incidental to the sale of merchandise.

Mr. Raghu Pillai, the Managing Director of Food World, the leading Indian food retailer says, “Organized retailing presupposes a retailer’s ability to manage or more importantly influence a set of supply chain variables in a commercially viable and sustainable way”. Organized retailing aims at providing an ideal shopping experience for the consumer based on the advantages of large-scale purchases, consumer preference analysis, excellent ambience and choice of merchandise. Retailer is a person or agent or agency or company or organization that is instrumental in providing the goods or merchandise or services to the end user or ultimate consumer (Pradhan, 2007).

Farm retailing is the selling of livestock products (meat, dairy and poultry, etc.), horticulture products (flowers, fruits, nuts, vegetables, spices and medicinal plants, etc.). It also includes agricultural produce (rice, cotton, wheat, etc.) and the processed products (fats, jams, oils, etc.) directly to the end consumers for personal use. Non-livestock retailing (NLR) is the sale of agriculture and horticulture products directly to the consumers in small quantities for their personal use. The farm products are perishable in nature and any disorder in time-distance or temperature/humidity may degrade the quality of perishable products. To cope with this problem, a cold supply chain is developed. It is a supply chain (SC) for perishable items like fruits vegetables, medicines and pharmaceutical products, etc. (Bishara, 2006).

The retailing industry has been present in India since ages. The organized concept gained momentum in 1980 with the introduction of vegetables and milk products by Mother’s Dairy in New Delhi. Later, Verka, Amul, Markfed followed the concept and created cooperative societies
for seeds, pulses, milk and milk products. The boom in the organized retailing started after liberalization in 1991. This led to the development of new retail formats which were genesised in Europe. Now, they are appearing as convenience store, specialty store, discount store and malls, etc. The organized retailing has emerged as one of the most dynamic industry in India. This new opportunity has attracted a diverse group of companies to the retail business from home grown entrepreneurs to big industrial houses and multi-national retail giants. According to AT Kearney’s Global Retail Development Index 2006, India ranks second as the most attractive destination for mass merchandisers and food retailers (Neetu, 2007).

1.2 Development of Interest in Retail Supply Chain Management

We have identified the five main stimulating elements to develop interest in this area which are explained as hereunder:

1.2.1 Socio-Economic Developments

The growth in GDP shows that India is growing (Table 1.1). The GDP growth increased from 7.5% in 2004-05 to 8.5% in 2010-11. This growth has resulted in the socio-economic developments as well as high performance requirements at all levels of supply chains.

<table>
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<tr>
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<tbody>
<tr>
<td>GDP Growth (2004-05 Prices) (Factor Cost)</td>
<td>7.5</td>
<td>9.2</td>
<td>9.6</td>
<td>9.3</td>
<td>6.8</td>
<td>8.0</td>
<td>8.5</td>
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(Source: http://planningcommission.nic.in/data/datatable/0211/data%201.pdf)

The changes in the family structure from joint family to nuclear family, increasing family income and more health consciousness pushed the demand for quality products immediately at the doorsteps. It was evident from a study conducted by The Nielson Company that in cities 38%
of the total expenditure is towards fresh foods (The Retail Report 2009). The seasonal fluctuations in north India are responsible for demand of different products in different seasons. Also, the buying behavior of consumer is continuously changing, unpredictable and differs from individual to individual. The reason for these changes in preference is the increasing family income which is evident by the study conducted by NCAER’s market information survey of household (MISH) (Berry and Shukla, 2003). These socio-economic changes have attracted many researches to study and suggest the means to develop and harvest from this sector. It has also attracted many big industrial houses to diversify their business in organized retailing to gain profits. The income distribution is categorized in Table 1.2 and forecasted income distribution for 2009-10 is shown in Table 1.3.

Table 1.2
Categorization of income distribution in India

<table>
<thead>
<tr>
<th>Category</th>
<th>Household Income (Rs 000 per annum at 2004-05 prices)</th>
<th>Estimated Households in ‘000s</th>
<th>Distribution of Households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All India</td>
<td>Urban</td>
<td>Rural</td>
</tr>
<tr>
<td>Deprived</td>
<td>&lt;120,000</td>
<td>114,394</td>
<td>18,049</td>
</tr>
<tr>
<td>Aspirer</td>
<td>120,00-250,000</td>
<td>75,304</td>
<td>29,249</td>
</tr>
<tr>
<td>Middle Class</td>
<td>250,000-10,00,000</td>
<td>28,441</td>
<td>18,942</td>
</tr>
<tr>
<td>Rich</td>
<td>Over 10,00,000</td>
<td>3,806</td>
<td>2,963</td>
</tr>
<tr>
<td>Total</td>
<td>221,946</td>
<td>69,202</td>
<td>152,744</td>
</tr>
</tbody>
</table>

(Source: India Retail Report 2009, p57)
Figure 1.1: Income distribution in India

It shows that Indians are growing immensely wealthy. The middle class as defined in Table 1.2 grew from 4.5 million (1995-96) to 10.7 million (2001-2) and to 25.1 million (2007-8) and was expected to rise to 28.4 million by 2009-10. The aspirers; who just seek to enter middle class, have shown an increase from 2.7% in 1995-96 to 12.8% in 2009-10. This demographic change was due to the involvement of more family members in earning i.e. women nowadays, are not only homemakers but also add to family income by doing business or job. This added income has improved the purchasing power of the family. However, the shortage of time compelled them to select the stores where all family needs shall be satisfied. Hence, the expectation of high variety and its availability under a single roof is a good indicator for the growth of organized retailing in India.

India has a high-speed growing middle class (300 million). It has a young population in the age group of 24 years and more than 100 million population is below the age of 17 years. If the economy grows at the compounded rate of 7.3% annually from 2005 to 2025, the income level of
the people would triple. It would also comprise 583 million people in the middle class (128 million households). It is also expected that the middle class income growth would beyond top-tier to middle-tier and smaller cities. Ultimately, the average real household disposable income would grow from Rs. 113,744.00 in 2005 to Rs. 318,896.00 by 2025 at the compounded growth rate of 5.3%. This improved income shall increase the spending resulting India as the fifth largest consumer by 2025. These changes had created opportunities and challenges for organizations doing business in India (McKInsey, Global Institute Study, 2007).

1.2.2 Market Structure and Competition

The consumer income trend in India has shown sharp growth in the past years. Nowadays, there are 9 million consumers with annual income more than $25,000; the number shall increase to 20 million by the year 2010-15. India’s most dynamic consumer classes shall ensure growth of food sector at a faster pace. The FDI inflows grew by 98.4% in the first six months of the 2006-07 financial years, with three quarters of such flows as equity. At $4.2 billion during April and September, 2006, FDI was almost twice its level in April-September, 2005. It shows that the capital inflows into India remained strong on an overall basis even after gross outflows under FDI with domestic corporate entities seeking the global presence to harness scale, technology and market access advantages through acquisitions overseas. Retailing in India was estimated to be USD 200 billion, industry and organized retailing shared 3% (USD 6.4 billion) in 2007. Business conglomerates like Bharti, Reliance and Tata among others have plans to invest billions of dollars in the retail business. Retail growth in the coming five years is expected to be stronger than GDP growth driven by changing lifestyles and strong income growth (Sinha and Kar, 2007).
The Table 1.3 shows the continuous total retail growth from $235.7b in 2003-04 to $407b in 2008-09. Also, FGB retail trade increases from $161.1b in 2003-04 to $252b in 2008-09.

Table 1.3
Share of food, grocery and beverage sales in the total retail sale ($b)

<table>
<thead>
<tr>
<th>Retail Sale IFY 2003-09 (April-March)</th>
<th>3-04</th>
<th>4-05</th>
<th>5-06</th>
<th>6-07</th>
<th>7-08*</th>
<th>8-09*</th>
<th>Compounded annual Growth Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Retail sale</td>
<td>235.7</td>
<td>246.1</td>
<td>271.6</td>
<td>321.9</td>
<td>360.5</td>
<td>407</td>
<td>12.3</td>
</tr>
<tr>
<td>FGB Retail sale</td>
<td>161.1</td>
<td>160.5</td>
<td>176</td>
<td>203.1</td>
<td>225</td>
<td>252</td>
<td>10.2</td>
</tr>
<tr>
<td>% of FGB in Total Sales</td>
<td>68.4</td>
<td>65.4</td>
<td>64.8</td>
<td>63.1</td>
<td>62.4</td>
<td>61.9</td>
<td></td>
</tr>
<tr>
<td>Organized Retail Sales</td>
<td>7.8</td>
<td>8.9</td>
<td>10.8</td>
<td>13.2</td>
<td>18</td>
<td>25</td>
<td>26.2</td>
</tr>
<tr>
<td>Organized FGB Sales</td>
<td>1.1</td>
<td>1.2</td>
<td>1.4</td>
<td>1.7</td>
<td>2.3</td>
<td>3.2</td>
<td>23.8</td>
</tr>
<tr>
<td>Share of Organized FGB in FGB%</td>
<td>0.69</td>
<td>0.76</td>
<td>0.81</td>
<td>0.84</td>
<td>1.02</td>
<td>1.26</td>
<td></td>
</tr>
</tbody>
</table>

(Source: ICRIER Research/Post Analysis)

These figures show a positive trend as evident from Table 1.3. Till 1990 there were just three shopping malls in India i.e. Ansal Plaza in New Delhi, Cross Roads in Mumbai, and Spencer Plaza in Chennai. The number rose to 1500 supermarkets, 11025 departmental stores and 300 shopping malls in 2004 (Aggarwal, 2004).

The changes in the social formats have led to the development of modern organized retailing. The metropolitan cities like Chennai, Bangalore, Hyderabad and Delhi are developed as a hub of organized retailing. Different players are trying different formats for customer satisfaction. The major players in food and grocery retailing are: Apna Bazaar, Reliance Fresh, Food Bazaar, Trinetra, Hypercity, Metro, Spencer’s, Big Apple and Spinach etc. (Sharma, 2007).

The Images F&R Research estimated that Indian Retail market stood at Rs.13, 30,000 crore in 2007 with annual growth of about 10.8 percent. The organized Retail share in 2007 was estimated to be 5.9% (Rs.78, 300 crore). This organized retail segments grew at the rate of 42.4% in 2007 and is expected to maintain a faster growth rate because of the fact that major
global players and Indian corporate houses are seen entering the fray in a big way. Even at the rising trend, organized retail was expected to touch Rs.2, 30,000 crore (at constant prices) by 2010, which shall constitute roughly 13% of the total retail market.

1.2.3 Supply Chain Responsiveness

Agile manufacturing, mass customization, just-in-time (JIT), efficient consumer response, customer satisfaction, and quick response guided the industry to be flexible to the customers’ requirements. The tremendous levels of competition in almost all avenues of business today are looking at the ways to become more responsive to their customers (Wisner et al., 2005). However, improving customer responsiveness requires good customer relationships, prompts delivery, utilized business process re-engineering, reduced and better product design cycles, standardized processes and products. It also needs trained manpower, better technological development and linking together all the participants of SC by information and communication systems. Nowadays, the competition is not among business houses but among supply chains. Hence, SC responsiveness plays very important role for the success of business.

1.2.4 Reducing Supply Chain Costs

The basic objective of supply chain management (SCM) is to reduce the cost. It shall be achieved by reducing wastage, reducing purchase price, reducing excess inventories, and reducing non-value added activities among SC participants (Wisner et al., 2005). The use of information technology, strategic purchasing, third-party logistics, cross-functional teams, and strategic alliance has greatly contributed to the cost reduction. However, reducing the cost in the perfect competition has posed many challenges to the researcher and practitioners in this field.
1.2.5 Technological Developments

Technological advancements have also influenced organized retailing in great ways. The development of better seeds, pesticides, and production methods has led to a substantial increase in agricultural production yields. Information technology has played an important role for the development of logistical marketing activities. Increasing information enables a facility to coordinate activities and to opt for ‘control by information’ rather than by ‘doing’ (Gattorna and Walter, 1996). The development of MRP, MRP-II, ERP, and RFID with reinforcement of information technology has simplified the SC problems. This technological development process is very dynamic in nature as day by day, new technologies and softwares are developed to solve various SC problems.

1.3 Need of the Study

The overall purpose of this thesis is to address the various problems faced by organized NLR players in north India. No doubt, this region is a good agricultural belt, but due to insufficient attention this sector lags in efficiency and effectiveness. It was found that 30-40% of the farm products go wasted. Recently (September, 2010) it was in the newspapers that grains stored by the governmental agencies wasted to the tune of Rs. 45,000 crores annually. This led to identify the reasons for inefficiency and ineffectiveness.

The solution to the problem shall be provided by focusing on SC performance. As it includes the point of start of products from the fields and ends at the end consumer. So, all factors responsible for growth and development are identified and addressed. The review of literature lead to the fact that very less attention was paid to address the NLR issues in India. The literature failed to identify the factors affecting SC performance and best practices for this industry in India. It also
failed to provide key performance indicators and models to measure SC performance of organized NLR. More specifically, the analysis was aimed to provide insights on the following issues:

- **Extent of competition in this business.**

- **Factors influencing supply chain performance.**

- **Supply chain practices issues.**

- **Competitive advantage issues.**

- **Organizational performance issues.**

- **Supply chain performance measurement issues.**

These issues are discussed in details in the research objectives. This study shall promote organized NLR by identifying the factors affecting SC performance and best SC practices for the same. It has developed key performance indicators (KPI) to measure SC performance. The model so developed for measuring SC performance shall help to improve efficiency and effectiveness of this business.

### 1.4 Scope of the Study

This study focuses on the organized NLR in Punjab, Chandigarh, New-Delhi, and Gurgaon. The reason for selecting this region is vast potential of growth for NLR. The research findings shall help managers to mitigate the problems in NLR sector. The issues of factors affecting SC performance are classified to help managers to understand and cope with them. As these issues always come from the environment in which they are operating, and shall change with changes
in the internal and external environment. The issues of SC practices, competitive advantage (CA) and organizational performance (OP) are in consonance with the statements quoted by Khan et al. (2006) that Indian managers understand JIT, TQM and ERP. They try to apply them in their setups, but still there is a gap as compared to foreign players. It is also observed that many organized outlets failed and players like Subhiksha are no more in business. The discussion with ex-Subhiksha employees also agreed to the fact of mismatch among supply chain practice (SCP), CA and OP. The need for key performance indicators (KPI) was also very much needed in this segment. Otherwise, providing a long list of performance indicators shall overload managers resulting into inefficiency and ineffectiveness. The managers need to focus on specific sequenced sets of KPI. In this study, the KPI are arranged as a model. The inventory metrics are prerequisite for flexibility, customer and learning and growth metrics. This shall help managers to manage the business in a better way. Systematically, using SEM we developed a model for measuring the SC performance of organized NLR in India.

1.5 Objectives of the Study

This study concentrated on performance measurement of organized non-livestock retail supply chains. More specifically, the objectives of the study include the following:

- To examine the current state of retail industry.
- To identify the factors affecting supply chain performance.
- To examine the supply chain practices and their impact on competitive advantage and organizational performance.
- To develop metrics for successful supply chain performance measurement.
- To develop and validate a supply chain performance measurement model.
1.6 Outline of the Study

Figure 1.2 shows outline of the study. The study consisted of 9 chapters arranged in 3 parts. The first part covered two chapters on introduction and supply chain management (SCM). The first chapter focused on history of retailing, development of interest in organized NLR, need of the study, scope of the study and objectives of the study. The second chapter focused on SCM in organized NLR.

The second part covered 6 chapters (3-8). The third chapter focuses on research methodology to provide clear guide map for conducting research. The fourth chapter focuses on first objective i.e. to examine the current state of the retail industry in India. The purpose of this chapter is to understand this industry and identify respondents for collecting primary data for the next objectives. The fifth chapter focuses on factors affecting SC performance. Here, macroscopic view was taken to identify the factors affecting SC performance.

The sixth chapter focuses on testing the hypothesis using Structural Equation Modeling (SEM) for supply chain practices (SCP), competitive advantage (CA) and organizational performance (OP). The seventh chapter focuses on classifying key performance indicators (KPI) and testing the hypothesis for the same. The eighth chapter focuses on KPI classified to project them as a model for measuring SC performance. All the chapters have their own gap analysis.
The third part i.e. *ninth chapter* of the thesis focuses on summary, conclusion, limitations and future research. However, our purpose is not to support the findings with statistical analysis but to put light on the problems of this sector and possible remedies for the same.