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Retail Management in India- Universal Issues

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Abstract

Indian retailing, though enjoys many unique features, is still done in a primitive way. Barring a few exceptions, Indian retailers, particularly FMCG retailers, are not in a position to implement world class practices of supply chain management. The concepts of Quick Response or Efficient Consumer Response are unheard of in Indian retailing. The two bases of modern retailing management, the Electronic Data Interface and a mutually respectable partnership among retailers and suppliers (the manufacturers) are missing to a great extent in Indian context. Also, Indian marketing channel members are performing some unnecessary tasks, which makes the channel structure heavy and inefficient. Though these inefficiencies are observed in all retailing irrespective of industry, the symptoms are more evident in Indian FMCG retailing. Inefficiency in retailing leads to lower profitability of the retailers and lower service outputs for the consumers. Ways and means to strengthen the position of the retailing industry, doing away with the causes for the inefficiencies, therefore, are to be taken up in an urgent manner. Such measures may include establishment of retailers co-operatives, merger and buy-out, use of technology to the greatest possible extent, setting up of nonstore retailing centers and increase in franchisee network.

Introduction

Indian retailing industry is a big business by itself. Its total turnover was estimated to be Rs. 4,79,568 crore in 19961. It is expected to grow at a fast rate in the recent future due to recovery of the Indian economy. In the most conservative estimate, this turnover left the retailers with at least Rs. 47,956 crore (taking the average margin @ 10% of sales) as gross profit. Big in size and turnover, Indian retailing industry is characterised by certain attributes.

The network of retailers reaches every nook and corner of the country. So any product produced anywhere in the country can be easily accessed by the buyers from any location. Thus the spatial convenience of Indian retailers is very high. According to ORG-MARG2 the total number of all kinds of retail outlets in India was 51, 30,000 during 1996-97. This means one retail outlet exists against an average of almost 190 persons.

Secondly, in India the retailing industry is an unorganised lot consisting of, in most of the cases, small entrepreneurs. And the virtual omnipresence of the Indian retailer can be attributed to these small entrepreneurs only.

The second attribute gives rise to the following characteristics -

- Power of the retailers, as such is very less, and in many cases it is negligible. This weakness has been exploited by the manufacturers and the stronger partners of the marketing channel. The retailers, in general, abide by the terms and conditions set by the manufacturers and other “big brothers” of the channel.
- The manufacturers cannot directly reach all retailers in a particular geographical area. Therefore, the manufacturers cannot maintain the desired relationship with the retailers, which in turn, make management of the channel complicated. This also makes the possibility of a direct feedback loop from the retailers almost remote.
- Therefore, the member operating between the manufacturers and retailers become more powerful as they can block the channel of communication between the two. So the dependence of retailers on other channel

members increases to a high extent. Thus the participation of retailers in the flows of marketing mix becomes lower than desired.

- The financial strength of the Indian retailers, in general, is very low and hence the investment capabilities. This makes the retailers more dependent on the other channel members. However, these characteristics are peculiar to the small retail outlets and may not be present at every kind of retail level. According to the ORG-MARG study referred to above, the number of smaller retailers (having turnover less than Rs. 20,000 pa is estimated to be 27,71,200 and the number of retail outlets with turnover more than Rs. 1,20,000 per annum is only 3,59,100.

In recent times, however, more and bigger retail outlets are coming up in the metros and cities of the country. Many business houses now are thinking of opening up a retail chain of their own. Spencer and Co. Limited (retailing arm of the RPG group), Vitan Industries Limited, Pantaloon, Shoppers Stop, to name a few, have already in the business with a big bang. All of them have got very ambitious plans to get into the new millennium. Pantaloon, for example, has got 40 strong chain of franchisee and 12 stores owned directly by them. RPG Group plans to increase their outlets to 50 FoodWorld, 18 Health & Glow, 8 MusicWorld from present 27 FoodWorld and 2 MusicWorld outlets by the end of the year 1999. Likewise, Archies has got a good presence in the market through a very successful and efficient franchisee network.

The Challenges:

Though large number of business houses is coming forward to open up retail chains, they will have to face certain difficulties in bringing in excellence in their operations. The management of supply chain (SCM) can be taken in the first place. The whole concept of SCM, in fact in Indian consideration, holds good for the manufacturers rather than the retailers. That is, Indian retailing is not yet exposed to the concepts of SCM**,** which is still today the predominance of the manufacturers. And as such the retailers are bound to face difficulties in this area.

The Indian supply chain is more dependent on middlemen rather than on the retailers unlike their counterparts in modern economies. This over-dependence can be attributed to the lack of power of retailers in the channel. As described earlier, to reach the retailers, the Indian manufacturers are to take help of other channel members like C&F, Distributors (exclusive or otherwise) and wholesalers among others to a great extent. In many cases it is felt that the middlemen’s involvement in the flows of the marketing channel is more than required for a healthy retail industry.

The structure of modern retailing is flat and lean; while the same in Indian context, especially in case of FMCG, is very long. In modern retailing, increasing *internalisation* of wholesalers (McKinnon, 19863) by retailers is seen, whereby the retailers are performing the functions of wholesalers themselves either by buying out the wholesalers in the process or bypassing them to reach the suppliers (mainly original manufacturers) directly. As a result, the channel structure has been able to do way with many unnecessary members making it more efficient than ever before. But the Indian channels still follow the traditional structure to route goods from the manufacturers to the retailers. In the meanwhile, many middlemen emerge to make the structure longer and inefficient. As mentioned earlier, this happens mainly because of weak position of the Indian retailer in the overall channel hierarchy. In the Indian context the promotional effort to reach the retailers will have to come through at least three middlemen. This means that retailers are unreachable for direct promotion by the manufacturers. This necessitates separate promotional centers at distribution level, which must be less efficient in terms of investment than the modern structure. Same holds good for other flows of this channel. This may be one of the most important reasons of high cost of distribution in India. This analysis clearly shows the difficulty Indian retailers are facing in managing the supply chain. Almost all retailers (big and small) do not deal with the original manufacturers directly. The retailers reach is limited only to the distributors or stockists, which are in many cases independent business houses. This is also one of the reasons for limited bargaining capacity of the Indian retailer (and in case of small retailers this is almost nil). The failure of Kerala Retailers Association (*Kerala Vyabasahi Ekopana Samithi*, with 65,000 retailers as its members) in 19964 to persuade original manufacturers including Hindustan Lever Limited, SmithKline Beecham and Godrej to increase their retail margin is a very prudent example of helplessness of the Indian retailer. Success in bargaining, and thereby ensuring a stronger position in the hierarchy, is in fact, been achieved here and there recently by the localised big retailers like Food World in Chennai. Food World is buying at a large quantity and trying to source it from the original manufacturers of unbranded food products like rice mills etc. Also, Vivek and Co. is another retail chain from Chennai with 11 outlets has been reported to be successful in dealing with as many as 50 companies and 120 active suppliers. As far as relationship between manufacturers and retailers are concerned, Kumar's (1996) observations that there are inherent tensions in any relationship and limits of trusts are inevitable where a mutually exclusive relationship is difficult to achieve, are very much present in Indian environment.

Though the use of computers are increasing day-by-day in Indian retailing, this is in no terms near the required efforts to fulfill the objectives of ECR or QR. However, some brave retailers like FoodWorld with its 17 outlets 10, for example, is linked on-line with its central warehouse (at Guindy, Chennai). This ensures that the Stock Keeping Units (SKU) are supplied timely to the outlets. For critical SKUs, if the inventory level touches a defined minimum level, message is sent automatically to the warehouse for fresh supplies. Another large retailer, Vitan Department Stores and Industries also has got on-line inventory management. Nevertheless, the Indian retailing will take many years to go fully on-line which their counterpart Wal-Mart of US had achieved even before 1992. To achieve this level of sophistication Indian Industry will have to fulfill the following musts -

1. Retailer level computerisation including Electronic Point of Sales (EPOS)
2. Supplier (manufacturer) level facilitation
3. Computerisation of all Distribution Centers (DC), including other members of the channel.
4. On-line link among all the institutions mentioned above.

Retailer level computerisation would ensure EDI between the Electronic Point of Sale
(EPOS) and the server installed in the outlet. The front line Electronic Tracking Facility like scanners makes this easier. The outlet level server then is linked to the Distribution Centers (either owned by the retailer or by other agencies). DCs in turn is connected to the suppliers'
Servers. This requires very complex software along with a very efficient hardware. There would be constant information flow in the network. Whenever there is any situation, which warrants action, the network takes necessary steps in this regard. Since every member is linked both ways to each other, the efficiency of the total system depends upon individual efficiency of the members. Even if one member of the network is not working efficiently, the overall system is bound to slow down or even collapse. Now that Indian business houses are ready to go on-line intermittently, apart from a few giant manufacturers like Hindustan Lever Limited, very few are exploiting the unlimited features of the technology beyond a certain level. However, the trend is getting in and many of the organisations at various levels are trying to use information technology in their day-to-day business. Infrastructure bottleneck is another area of concern in Supply Chain Management. Indian road and railways are nowhere comparable to the international standard. Therefore, the real time taken in execution of an order cycle is much more in India than its developed counterparts. Wal-Mart completes the order cycle in less than 36 hours12, whereas any Indian company will definitely take days to complete a big order cycle. The credit card is still scarce in Indian economy. Apart from the metros and some big cities the infrastructure to handle magnetic card is not present at all. This would make *Customer Tracking* difficult and almost impossible, besides other difficulties associated with implementation of full EPOS systems. Even if the plastic money is available liberally, only the high end of the market is expected to use this in a day-to-day basis. Thus a large number of Indian retailer's customer would never use this.

Brief Suggestions

To make Indian retailing world class many a challenges are to be overcome by the industry. Some suggestions to improve the situation are offered below.

(a) Establishment of Retailer co-operatives, which will maintain warehouses etc. to work as a distribution centre for the member retailers can help Indian retailer attain a respectable position in the relationship matrix mentioned above. The whole organisation will run at a no-profit, no-loss basis. This would enable the retailers to buy the products they want directly from the original manufacturers in huge quantity This would make the application of the concepts of QR and ECR possible to a certain extent.. However, many inherent difficulties may make the functioning or even establishment of such a co-operative difficult. Nevertheless, these problems are inevitable and must be dealt with firmly.

(b) Merger and buy-out of weak retailers by a stronger one, specially in metros and big cities may be another step towards this direction. This would give the new retailer the desired leverage to be world class.

(c) Use of technology to the greatest extent possible may also help strengthening the retailer's position in the marketing channel. First step may be taken with setting up of a network of independent firms believing in use of technology for business excellence. Then a collection of strong retail organisations may pressurise the suppliers and other channel members to use compatible technology. This may open the door for implementation of Q R or ECR or other relevant concepts for the retailers.

(d) An overall change is to bring about in the mindset of the retailers. They will have to think differently. They must find out and satisfy service outputs of the target customers Unless there is a drastic change in the mindset of at least large and medium retailers and as well as that of the manufacturers, the required change is not going to come by easily. The retailers must learn and understand to lead the chain from the front.

(e) Setting up of more and more non-store retailing centers would also ensure a strong retailing organisation. Non-store retailing makes implementation of modern principles easier and less costlier.

(f) Setting up of franchisee organisation may also help in strengthening the position of the retailers. The franchiser can exert a tremendous control over the way retailing is done. Transnational service organisation like McDonald and KFC are being able to offer a centralized control over purchase and operation. Large and medium sized retailers may take the concept of franchising to reach the market in a more meaningful way. Though the management of franchisee network is difficult than managing a retail chain in view of high level of investment and other obligations, Indian retailers should spread out its wings its in this profitable and efficient way.

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