Chapter 16

Developing Sustainable Retail Food Value Chain for India: A Challenge for the Next Century

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ABSTRACT

Ever increasing population, rising prosperity supported by ongoing urbanization has accelerated the demand for food in India. At the same time, area under agriculture is decreasing and food production is coming under pressure owing to limitations on resources and other environmental considerations. In the coming decades, doing more with less will be a key priority for all those involved in food production. In this chapter, we will also look at the challenges and opportunities available for the food supply chain management. This chapter sets out the premise that the food industry, throughout the value chain, has a tremendous opportunity, as well as an obligation, to meet the needs of new, more sophisticated and more demanding consumers while satisfying shareholders’ demands for returns—and in doing so creating a sustainable food supply for the new millennium.

INTRODUCTION

The world is at the start of a new agricultural era, in which boosting yields and reducing harvest losses will be essential to feeding the world’s growing populations. Emerging markets—and in particular the most advanced developing economies—are at the forefront of this movement. In recent years Brazil, Russia, India and China, among others, have had a major influence on changing global food production and consumption patterns. They have also been some of the world’s most successful food producers over the last two decades. As their influence on global food markets rises, it is worth investigating these countries’ success factors in the field of agricultural production. Food and groceries retail in India is the largest segment of the Rs.25.3 trillion retail market accounting for 69% of the overall market. However, the market penetration of organized food retail is just 2%, providing a huge opportunity. In comparison, the penetration of consumer durables is 27%, apparel and footwear 18% each, and jewelry 14%.

DOI: 10.4018/978-1-5225-3056-5.ch016
Food Retailers in India

Accumulated losses at India’s top 10 food retailers, who account for about 40% of the organized retail sector’s revenue, stood at Rs. 13,000 crore in 2013-14 on revenue of around Rs. 23,500 crore (source: Crisil Ratings). The report does not include profitable retailers like Future Value Retail Ltd (Future Value) and Avenue Supermarts Ltd, which operates DMart retail chain. By 2016-17, their losses would have peaked to Rs. 17,000 crore as revenue increases to Rs.32,000-35,000 crore over the next three years to fiscal 2017. After that, as the twin benefits of size and an optimized operating model kick in, at least half of the retailers analyzed will break-even. But the paradox is, to recover the monies, they will have to continue expanding. That’s because of wafer-thin net margins of 2% to 2.5% in the business. No other retail vertical (such as apparel, consumer durables and footwear) has witnessed hemorrhaging of this magnitude. The losses were because retail businesses were still in their gestation period and in the process of carrying out large-scale expansions.

With the new government not appearing keen to open up multi-brand retail to foreign direct investment, what will also keep these retailers going is the backing of intrepid promoters ready to add skin to the game because they see immense potential in India. As of March 2014, CRISIL estimates these retailers have invested about Rs. 19,000 crores in opening new stores and funding losses through direct equity infusions, and loans from banks and promoters. These investments are likely to continue and will help multiply revenue. To stem losses, retailers have taken several initiatives, but these will yield results only gradually (Ruben 2007).

Rural Retail in India

The rural market offers a vast untapped potential; it should also be recognized that it is not that easy to operate in rural market because of several problems. Today, the extreme challenge for the rural marketer is to reach out to the most remote rural destinations and increase rural incomes (Nizamuddin 2013). About 750 million Indians reside in about 6 lakhs villages and even the powerful marketers like HLL and ITC have recently been able to cover only about 2 to 2.5 lakhs villages while about 1 to 1.5 lakhs villages have been connected through Project Shakti and E-Chaupal initiatives. Rural marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems (Bhateja 2012). A lot need to be done for expanding distribution coverage and the daunting task ahead is to overcome challenges like infrastructure, market organization and staff, etc. (Ross 2011).

Food Value Chain

While farmers are often focused on the production side of their businesses, they also have to know exactly how they will sell what they produce and how it will get to market (Raghunath 2007). If they don’t manage these supply chain facilities and services themselves, they must obtain them in some way. A chain of food business facilities and services from field to fork is called a Food Value Chain. That’s because triple-bottom-line consumer and business values are pivotal in any food value chain (Melville 2004). The figure below shows the different players and the stage in a food value chain.
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