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HYPERMARKETS: GROWTH AND CHALLENGES PERSPECTIVE IN INDIA

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ABSTRACT

The hypermarket industry in India at the beginning of 2010 was valued at $37 billion with strong prospects for future. Modern retailers, who have played with various formats and at times burnt their fingers, are beginning to look more enthusiastically at the hypermarket opportunity. Although the sector has great potential still it is struggling and showing a stunted growth. Research suggests that large format stores/hypermarkets – the physical expression of retail are booming. But the harsh fact is that the heady gold hustle days for organised retail are over. Beneath the glossy facades, colour coded displays and smartly dressed shop assistants; there is a hum of unrest. Hence, the problem statement "Growth and Challenges of Hypermarkets in India" is formed with the objectives of studying and analysing the reasons for this patchy growth and uneven progression of large format stores particularly the hypermarkets in India and suggesting measures to cope with the problem. The study intends to answer the research questions by interviewing the store managers of hypermarkets in the region of Mumbai and Hyderabad and gaining insights into the problem statement and suggesting the possible measures. The study focuses on the theory and concept of professional and effective hypermarket management.

KEYWORDS: Hypermarket organised retail, traditional retailers.

I INTRODUCTION

Regardless of years of trying, modern retail accounts for only 8 per cent of the roughly USD 500 billion Indian retail market and top retailers are still struggling to figure out how their favourite format- hypermarkets can create a way into Indian retail marketplace, where neighbourhood stores and kiranas dominate in both rural and urban areas. Although the sector has immense potential but slow growth of retail giants in hypermarkets is making them lose sleep. In spite of much publicity about the hypermarket chains in Indian organised retail segment, almost all the companies are struggling to break even and are running into losses. Therefore, companies are closing down the inefficient stores and improving operations and margins in others. In the last couple of years, most retailers have been closing or relocating unprofitable stores after they found themselves saddled with mountains of inventory and gripped by a cash crunch following hasty expansion.

Although hypermarkets can offer value for cheaper products due to their streamlined large scale operations which reduces per unit costs and has capacity to fulfil consumer demand for value for money yet inefficiencies in operations and insufficient marketing research are eating out the aura of the segment. Therefore, it is required to reassess each layer of management and select those that make the stores leaner and efficient.

II HYPERMARKETS

A hypermarket is an enormous retail facility with full lines of groceries and general merchandise. It could be called a superstore that combines a supermarket and a departmental store and displays an enormous range of products under one roof so as to be able to provide a customer with all of his or her routine weekly/monthly shopping requirements in one trip. Hypermarkets, similar to other big-box stores, have business models focusing on high-volume and low-margin sales.

Such stores mostly stock grocery, apparel and general merchandise, among other products. In India, any retail outlet occupying over fifty thousand square feet area is termed a hypermarket and compared to other big box stores, the average billing at a hypermarket store is usually five times higher. Each such store takes over Rs. 4-4.5 crore investment to set up. There are more than 25,000 Stock Keeping Units in such a store and the gestation period for large hypermarket stores is anywhere between 3-5 years.

III HISTORY OF HYPERMARKETS

The concept of hypermarkets was pioneered by the Fred Meyer chain, when it opened the foremost hypermarket in 1931 in Portland, Oregon, which is now part of Kroger, the largest grocery store chain in the US. However, the history of the hypermarket is usually traced to the early 1960's when two similar prototypes for the later hypermarket design came forward. A superstore namely Thrifty Acres opened in Michigan in the United States and in a year, the European retailer Carrefour opened a hypermarket in France. While the retail form worked well, the general format did not commence to take off until the second part of the 1980's, when big retailers in the United Kingdom and the United States developed their own hypermarket formats, and began to build such stores in more areas. The first hypermarket in the UK was opened by Tesco in 1976.

Apparently today it is considered to be one of the most convenient of all big-box store designs, with retail chains in just about every country of the world utilizing this retail model. The world's largest chain of hypermarkets today is Wal-Mart, followed by Carrefour of France whereas Big Bazaar of Future Group is the largest hypermarket chain in India.

IV RESEARCH OBJECTIVES:

- To analyse the hypermarket scenario in India.
- To investigate the challenges faced by hypermarkets in Indian organised retail market.
- To suggest measures for the success of hypermarkets in India.

V RESEARCH METHODOLOGY

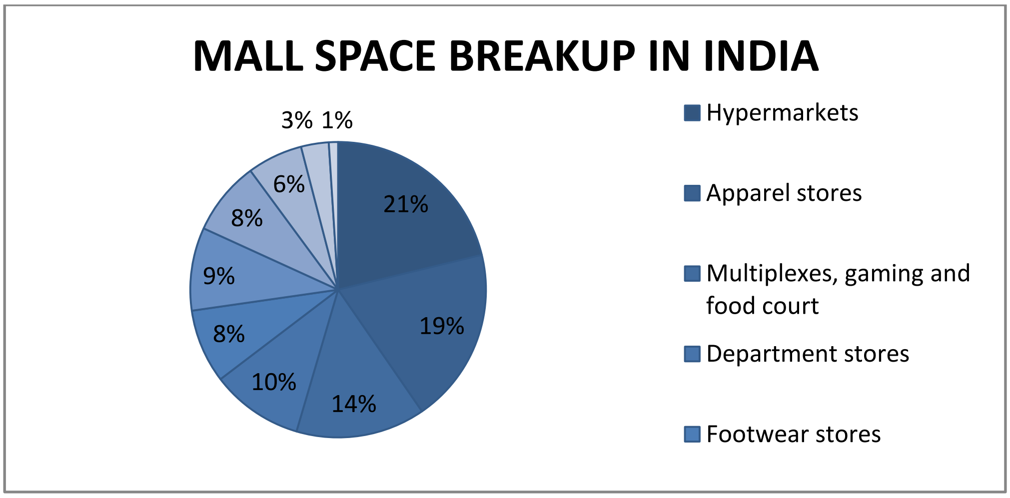
The study adopted a qualitative research technique using open-ended questions regarding the challenges faced by hypermarkets in India and measures to overcome the same. A total of 25 store managers of hypermarkets were interviewed in the region of Mumbai and Hyderabad. The interviews were conducted in the store or through e mail at the convenience of the store managers and responses were recorded and summarised. For understanding the current hypermarket scenario in India secondary published sources were used that included newspaper articles, research papers etc.

VI HYPERMARKETS IN INDIA

Indian hypermarket retail industry is more vivacious than ever, with major industry giants playing aggressively for their share in the organised retail segment. The size and share of hypermarket in Indian retail is expected to increase in the coming years, in the presence of strong macroeconomic performance, availability of excellent retail space, encouraging consumption pattern due to growing personal disposable income, speedy development of Tier II and III cities, and recent entry of big industrial houses into retailing with focus on large store formats.

According to Northbridge Capital report, 30% of the new investment in retail is expected to be in the hypermarkets. By 2015, it would be the largest retail segment, accounting for more than 21 per cent of total retail space and will be worth $1,011 billion by 2017. In the mall space breakup in India, hypermarkets come out to be the largest retail segment, accounting for 21 per cent of the total retail space.

Table I



Source: CRISIL Research

In the same bid, almost all the top retail companies like Pantaloon Retail India Ltd, Reliance Retail, Trent Hypermarket Ltd. (THL) of Tata group, K. Raheja Corp., Aditya Birla Retail Ltd. (ABRL) of Aditya Birla group etc. have launched their hypermarket chains to tap the Rs 1767 billion Indian organised retail market.

Leading Hypermarkets Chains in India

Table II

Parent Company	Hypermarket	No of stores
Future Group	Big Bazaar	>200
RP-SG Group	Spencers' Hyper	36
Reliance Retail	Reliance Mart	8
Aditya Birla	More Hyper	15
Tata Trent	Starbazaar	11
K. Raheja Corp. Group	Hypercity	13

Source: Compiled from official websites of retail companies

VII HYPERMARKET SCENARIO IN ORGANISED RETAIL SPACE IN INDIA

In India, the concept of hypermarkets is in a very nascent stage. Lately, almost all the Indian organised retail giants have plunged into the big box store format and are aggressively expanding to all regions of India. Additionally, they are also expanding the format into tier 1 and tier 2 cities and are emerging as major competitors for both unorganized and organized retailers. The chief cities where these hypermarkets are coming up are Delhi, Pune, Bangalore, Hyderabad, Mumbai and Chennai. Even if hypermarkets are able to offer lesser prices for food and grocery items (which form a large portion of the products sold) to attract the customers, the margins on these can be rather small. Apart from the stringent FDI regulations and other difficulties encountered by hypermarkets, these by themselves have some inherent limitations. Since hypermarkets occupy a large floor space, their largest costs are in the form of rentals. This restricts them from entering prime locations where the consumers have the maximum buying power. Also, traditional grocery stores continue to dominate the Indian retail scene and are frequented more often by Indian shoppers. Some hypermarkets like Subhiksha have shut down previously as they were unable to sustain the low prices and increasing the prices meant the loss of customers. The retailers are equally hopeful and fearful of their plight and putting each step very carefully considering the fate of previously mentioned once thriving and now shut hypermarket retail chain Subhiksha that had launched around 1,400 stores in just two years during the boom period only to be wiped off by 2009.

While the various Indian organized retail giants have demonstrated sales growth of over 10% in FY2013-14, more than 50% of this growth is solely attributable to revenue from new stores which is called inorganic growth, hence the prime fear lies with same store sales growth. Real sales growth from existing stores, known as like-to-like or same store sales growth, has been stagnant at 6-8% for most retailers and is largely on account of price inflation which is an yearly rise in prices of merchandise. The growth in sales volume, through footfalls and increase in basket size has been appalling and confined to a thin range of -1 to 2%. For real growth to happen, there is a need to increase footfalls, encourage the in-store customers into buying something and convert them into repeat customers which is the biggest challenge faced by hypermarkets.

According to financial statements for 2012-13 filed with the corporate affairs ministry, the food and grocery retailers- Reliance Fresh of Reliance Industries, Aditya Birla Group's More, Tata-owned Star Bazaar and Bharti Retail's Easyday saw their combined losses shrink to Rs 1,176 crore from Rs 1,277 crore in financial year 2013, while combined sales jumped 34 per cent to Rs 8,770 crore as shown in the table below:

	SALES		% Change	NET LOSS		% Change
	2012	2013		2012	2013	
Reliance Fresh	3,860.0	**5,256.0**	36.2	274.0	**55.0**	-79.9
Aditya Birla More	1,029.0	**1,131.0**	9.9	535.0	**511.0**	-4.5
Bharti Easyday	1,021.0	**1,581.0**	54.9	394.0	**538.0**	36.6
Tata's Star Bazaar	663.2	**801.1**	20.8	74.3	**72.1**	-3.0
TOTAL	**6,573.2**	**8,769.1**	**33.4**	**1,277.3**	**1,176.1**	**-7.9**

(Figures in ₹crore)

Oversupply, cut-throat competition, soaring rentals, poor infrastructure and sloppy marketing are just some of the problems that are dogging these cathedrals of consumerism. In such a scenario, almost all the big daddies of organised retail are cutting down their store sizes and focusing on improving margins. The players such as Future Group owned Big Bazaar, Aditya Birla owned More, Tata owned Star bazaar, Reliance Retail owned Reliance Mart, etc. which began with large stores over eighty thousand square feet, are cutting down the space in key metros as well as tier 1 and tier 2 cities. Hypercity's store in Bangalore was the first compact store in the hypermarket category with about 33,000 sq ft instead of the usual size.

Reliance Retail opened the first big-box store with an area of 165,000 sq ft in Ahmedabad in 2007 but the store did not quite work according to plan and the retailer downsized its largest store within the first year of operation, therefore soon the focus was shifted to neighbourhood stores under Reliance Fresh brand. Tata group promoted Trent Hypermarkets launched its first hypermarket in 2004 with the name 'Star Bazaar'. So far it has successfully launched 11 stores in Aurangabad, Bengaluru, Pune, Kolhapur Mumbai and Pune. Even after more than ten years of its first hypermarket launch it is yet to achieve profits in the fact that gestation period for large hypermarkets is anywhere between 4-5 years. In FY2013, the chain registered a net loss of Rs 72 crore on net sales of Rs 785 crore. It has been experimenting with structural downsizing and new formats. Hypermarket chain Star Bazaar is looking to halve the size of its stores. Usually, it runs stores spread across 40,000-80,000 sq ft under Star Bazaar brand and is now looking to open outlets measuring twenty to thirty thousand square feet. The company believes that smaller stores are better to manage and keep the costs under control. The strategy to reduce store size is to achieve faster profitability. The firm is looking to open three neighbourhood convenience stores under the 'Star Daily' brand this year. The 2,000-3,000 sq ft stores are designed on the Tesco Express in the UK that sell fresh foods, other foodstuff and necessary items. Star Bazaar is also reportedly looking at opening a new format called 'Star Market', which is a blend of Star Bazaar and Star Daily. However, Star Bazaar is not alone which has cut down on size of stores to achieve faster profitability. Raheja-owned Hypercity has also decreased the average size of its stores of 1lakh to 50,000 sq ft and recently opened two stores of 30,000 sq ft because of this, its break even could be delayed to FY16.

VIII CHALLENGES FACED BY HYPERMARKETS IN INDIAN ORGANISED RETAIL MARKET

There are many reasons behind this worrisome scenario of hypermarkets in India, however, the incidence and scale of impact of these different reasons may vary from retailer to retailer. The dominant reasons for diminutive growth of hypermarkets in India as summarised after interviewing 25 store managers in hypermarkets are divided into the internal and external factors for the purpose of clarity and are mentioned below:

A. Internal Factors:

a. ***Retail Margin is Very Less for FMCG Products***: Hypermarket is low-margin business. In order to realize a profit on low-margin items, the hypermarket needs to keep prices competitive and sell a large volume of goods. If sales decrease, same operating at low margins struggles to cover expenses.
b. ***Lack of Historical Data***: There is no data to forecast the buying patterns and thus it becomes difficult for companies to manage inventory with optimum levels.
c. ***Wrong Merchandise Mix***: Both, keeping the items which customers don't want and not keeping the items that customers want, can prove wrong for the success of a hypermarket. At the same time it's not possible to have every item in the store, but if customers can't

find half of the things they want, they don't come back. It has been observed that a store loses 20% of the sales if customer doesn't find 5% of the items.

d. ***Lack of Depth in Local Assortment***: Most of the retail players lose out to Kirana stores in local assortment or the local merchandise mix on the other hand, customer loyalty has been seen to be maximum in local items. There are no big manufactures for these local items thus large players find it difficult to list these items in the stores.

e. ***Wrong Size of Stores (Low SPSF)*****:** Sales per square feet is the yard stick most of the retail players use to measure the profitability. High store area means low SPSF. Consequently, big hypermarkets ends up paying too much on operational cost which includes electricity, manpower, utility cost, inventory holding etc.

f. ***Wrong Location and Customer Targeting Strategy*****:** Location is one of the most critical factors in any retail outlet's success. So big players with lack of data and wrong catchment analysis often end up opening store where it is not profitable. Location strategy needs to take cues from the targeted customers. Launching premium brands in Tier II or III cities might result in a complete business write-off because of complete disconnect with the aspirations, exposure and affordability of the catchment population. Similarly, eying up-market malls and other premium locations may not yield commensurate dividends, given high rentals, as the targeted customer might feel intimidated and apprehensive in visiting such locations. Catchment area needs to be meticulously explored to ascertain its retail potential from the targeted customer point of view.

g. ***Price-Point Misalignment***: Some cities will be more prosperous and others lesser. Some customers will be more price-sensitive and some lesser. Hence, merchandising mix needs to be meticulously planned with assortment across price points decided at individual store level. Otherwise, footfalls will remain a continuous pain.

h. ***Insufficient Backend Capabilities***: India is still catching up in terms of technology used by World largest retailer like Walmart, Carrefour, Tesco etc. Supply chain cost in India is still between 5-6% of the top line. If we compare the same on global platform, number comes around 2-3%.

i. ***Paucity of Skilled Manpower***: Store operations is very laborious task, so retail industry has one of the highest attrition at entry level positions. People often leave the job and go without formal notice.

j. ***Lack of Oversight on Store Ambience/Shopping Experience:*** In a bid to contain costs and increase revenues, retailers have gone far in re-jigging their merchandising mix and exploring different staffing models. The store look and the shopping experience have however been given a complete miss. No effort or planning seems to be oriented towards better engaging with the customers or provide services which can make the customer experience different and stand-out. Simple things like customer service executives greeting customers, handing them shopping bags/trolleys and apprising them about the on-going promotions can go a long way in leaving a pleasant impression in a customer's mind. Not to forget, proper lighting, controlled temperature, clean toilets and safe drinking Water are hygiene factors which are taken as basic entitlement by customers and can't be ignored by retailers.

k. ***Inefficient Marketing Spends***: Advertising can be of 2 types – above-the-line (ATL) and below-the-line (BTL). The former deals with advertising in print/electronic media while the latter takes a more local approach, with exclusive focus on catchment through tools like Auto announcements, SMS blasts, leaflet distribution and likewise. Understanding the right mix for each store is very crucial. Half page newspaper advertisements might be appropriate for Delhi but not for an inward town like Jammu.

B. External Factors

a. ***Saturation***: India is a nation of shopkeepers. With more than 12 million retail outlets, India has one of the highest densities of retail outlets in the world with one retail outlet for nearly 90 persons. Moreover, most of the hypermarkets in India are very close to each other. The footfalls are divided amongst each other resulting in loss for both the players.

b. ***Competition with Kirana Stores*****:** Kirana stores also win over the organised players on credit front. Organised players don't have credit based system unlike kirana stores. One on one relation is also missing in big hypermarket stores. Sometimes people prefer buying from someone they personally know and trust.

c. ***Diverse Tastes and Preferences*****:** India has a wide diversity in terms of people following different religions and languages which changes every 20 miles. Diversified cultures lead to diverse tastes, preferences and habits and as a result, the reasons for popularity of hypermarkets may not be same in India as in other countries across the globe.

d. ***The High Costs of Real Estate***: Most of the hypermarkets in India are in Metros or Teir-2 cities. In India, real estate prices are amongst the highest in the world. The lease/rent of property is the major area of expenditure for the hypermarkets which reduces its profitability. It is tough to acquire suitable properties in prime locations for retail, chiefly due to scrappy private holdings, infrequent auctioning of government owned lands and legal disputes.

e. ***Buying Behaviour***: The Indian consumer who is experiencing modern organised retail for quite a while has warmed up to the idea. Buying habits of Indians are still not changed and people prefer to buy foodstuff, fruits and vegetables on an every day basis. The Indian consumers prefer freshly cooked food over packaged which is mainy credited to dietary patterns, low penetration of refrigerators, poor electricity supply, family structure and lack of transport facilities, due to which the consumers choose to buy from stores located near their home in smaller quantities mostly on daily basis, and the kirana shops have a padlock on these frequent purchases.

IX MEASURES FOR THE SUCCESS OF HYPERMARKETS IN INDIA

Based on the summarised responses from the interviews of 25 store managers of Hypermarkets in India the following measures can be taken to improve the performance of hypermarkets in India:

A. Mass Selling and Private Labels: To cover up the small retail margins more focus can be made on mass selling, introduction of private labels and selling of value for money packs. Private label FMCG sales currently stand at Rs.500 Crore and are predicted to rise five fold to Rs.2,500 Crore by 2015 . This will represent close to 10% of all FMCG products sold through modern retail formats. The prospect of higher margins in this intensely competitive sector is the main driver of the growth of private labels. Organised retailers will typically make a margin of only 2-3% on branded FMCG products (once costs are deducted) whereas on private label products this can rise to around 13%.

B. Buying Systems/Processes: It is very important to study and understand the buying processes of customers. It helps in inventory management which is core of every retail business.

C. **Store Management and Operations:** Lack of skilled store managers/staff is a big problem in retail industry. So keeping the skilled staff and keep them motivated every day of business makes a retailer successful.
D. **Category Management**: Big retailers need to have correct category with appropriate depth, variety & assortment. The concept of category manager is very nascent in Indian retail. Category Manager is responsible the GMROS (Gross margin rate of sale) of a particular category. It brings more focus and attention to each category.
E. **Planning Merchandise Assortment and Pricing:** India is very price sensitive nation. Thus loyalty among customers is very low. Customers change the brands/Outlets based on price. So it is very important to keep the right pricing and communicating the same effectively.
F. **Designing of Brands and Private Labels:** Private brands are the copy cats of successful national brands. It helps in improving the margins and thus help in stores overall profitability. Walmart success story is based on its private label contribution of around 40-50%. In India, contribution in sales by private label is mere 5%.
G. **Supply Chain Management:** Supply chain contributes nearly 5% of the Indian retail cost. Due to lack of infrastructure in country, transportation is very slow and it's difficult to send goods on time to stores which are far from the distribution centres of big retailers. So keeping supply chain as low as possible is one the key success factors in retail.
H. **Communication:** With balance sheet still in negatives, big players can't afford to spend too much on marking and communication like big FMCG companies. So retailers have to very crisp in their communication. They have to make sure that customer always get to know the latest offerings and promotions. It's very easy to get sales out of promotions but retaining the same customers is a challenge, that is why customer loyalty is so important is retail business.
I. **Decentralised Decision Making** Due to differences in customers' tastes and buying behaviour, the decisions like merchandise assortment, promotions etc. should be made in decentralised manner.
J. **Right Size** Overhead costs are a problem for hypermarket stores that do not generate the revenues to meet the expenses. Each layer of management must be reassessed and only the processes and systems that make the organization leaner should be selected.
K. **Get the Merchandising Right**. Merchandising remains a challenge in organized retail. When it comes to food, catering to local tastes is vital; shoppers will not return if their coveted regional goods are not in stock. Some areas may require a more nuanced approach to addressing regional tastes. For example, instead of competing head-on against a popular local grocer that serves a certain meat or vegetable, organized retailers could stand out in complementary food categories, including staples and processed foods.

X CONCLUSION

Hypermarkets marketed themselves as stores of new age that, given the excitement of new stores, worked fine initially to draw the crowd but once the novelty wore off, such stores have started to struggle to convert store visits to purchases and have found that customers are buying but not spending enough. On the opposite hand, not enough has been done in either pricing or developing private brands to draw in and retain customers. In retail, in order to make customers come back, especially grocery engaging customers, a daily, weekly or monthly strategy is required that emphasizes the store's unparallel value, whether it is price, location, merchandise or service. A single-size-fits-all promotional strategy doesn't work because of the reason that customers in different areas have different needs. Hypermarkets will be successful if the retailers understand the Indian shopper better and design product offering tailor made for a specific segment of purchasers. In the same quest, the retail format must use proficient sourcing and merchandising process to bring down the cost of operation. The most crucial one is to get rid of inefficiencies from the supply chain and pass on a part of that benefit to the consumer.

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