



## Building sustainability in Indian Hypermarkets

Transitioning from traditional retail to organised retail has not been easy in India. Hypermarkets, even the ones backed by large business houses are unable to generate revenues to sustain the high operational costs. What are the unique aspects of the Indian market that make it different from other international markets? Cultural & socio economic factors are key influencers for any business in India. Hypermarkets should better align themselves in order to make it a destination store for its target audience.

India is the 5th largest retail market in the world. The current market size of Indian retail industry is about US\$ 520 billion. Retail growth of 14% to 15% per year is expected through 2015. By 2018, the Indian retail sector is likely to grow at a CAGR of 13% to reach a size of US\$ 950 billion. In developed countries, the organised retail industry accounts for almost 80% of the total retail trade. In contrast, in India organised retail trade accounts for merely 8-10% of the total retail trade. This highlights a lot of scope for further penetration of organized retail in India.

Transition from traditional retail to organised retail is taking place due to changing consumer expectations, growing middle class, higher disposable income, preference for luxury goods, and change in the demographic mix among others. The convenience of shopping with multiple choices under one roof (Shop-in-Shop), and the emergence of mall culture etc. are factors appreciated by the new generation. These factors are expected to drive organized retail growth in India in the long run.

However hypermarket players, including those backed by large business houses are finding the going tough. The key issue continues to be the inability to generate sustainably large volumes to justify the high property costs. Models that have been very successful in the developed countries are unable to draw the required traction in India.

The core proposition of Hypermarkets is pricing advantage. That makes it a destination store. Assortment and comfort of shopping gives it the competitive advantage. While Hypermarkets in India are doing a good job on these fronts, they are finding it difficult to sustain business. Low pricing is sustained at a heavy cost to margins, and assortment and comfort are adding to inventory and infrastructure costs that are making it unviable. Why is India not able to achieve the success that hypermarkets across other leading economies are able to achieve? Why are Indian hypermarkets unable to generate the revenue required for profitable operations?

**Revenue is a function of ticket size and number of bills.**

**R (Revenue) = NoB (Number of Bills) X ABV (Average Bill Value)**

To increase Revenue, the hypermarket has to increase the NoB (i.e. more people shopping) and the ABV (each shopper spends more)



## Number of Bills (NoB)

NoB itself is a function of Customers that shop in the Hypermarket times the average frequency of shopping (i.e. how many times a month each shopper shops at the outlet). To have a sustainable traffic, the store should attract large base of customers who would find the store suitable for shopping once or twice a week. This is where Hypermarkets across the world have been successful and have built sustainable models. The penetration of organized retail in Europe is 77.84%; South East Asia is 55%, where as in India it is 7.5%. The low penetration in India is not just supply lead, but the acceptability of the format is the key factor. Else the few hypermarket chains present in India would be highly profitable.

The core reason for the lower than expected NoBs, despite having a high catchment population, is the inability (latent unwillingness) of the hypermarkets to attract the lower income groups. The reasons are varied – the hypermarkets seem to consider this segment unattractive to address. The common belief is that it is better to attract consumers with a higher disposable income and thereby a higher spend potential. These consumers would buy more and higher value items that have higher margins. However, both these assumptions have been found to have serious flaws. Drawing from a sample of spend patterns in Kolkata, the income group <1.5 lac pa spends about Rs 7307 per month on groceries, 1.5 lac to 5 lac spends about Rs 8597 and >5 lac spends Rs 12467. The lower Income Group families also tend to eat more at home and have larger families (higher probability to be a joint family); this ensures that the spend on core necessities is higher. Another major factor for considerations is that, this group is more sensitive to the price advantage that the hypermarkets can offer and less demanding on service parameters.

Also the sheer number of potential consumers in the lower income segment is larger.

Hypermarkets are voluntarily or involuntarily alienating the lower income segment. The challenges in attracting the segment is primarily media reach, literacy of the primary decision makers, and ability to understand the needs of the segments in the specific catchment area. India is a very heterogeneous and every catchment the needs are varied and specific. **Thus for a hypermarket, it is critical to understand this and address it.**

**To attract the segment, it is necessary to relook at the assortment.** The first price point for each product group has to move down. Private labels have to start addressing the needs at the lowest price available in the market. The lowest specifications have to be a part of the assortment (no compromise on quality) and the width of the assortment has to be across the price range.

Since media reach is poor in this segment, word of mouth plays the most important role in generating trials. Here again, the assortment and low price points are key (note: low price points don't necessarily mean low margins. It means introduction of non MRP products and products under the private label which can offer a strong price advantage). Deep discount deals and campaigns become a powerful tool in getting trials.



## Average Bill Value (ABV)

The next revenue driver is ABV. ABV itself is Number of items per bill X average price of Item. Hypermarkets try to increase the ABV by offering deals that encourage the shopper to buy more. So the bulk pack is more aggressively priced, multiple unit offers, bundled offers are becoming common. However this has a negative impact in the long run. The consumer may buy a larger quantity and stock up. Thus the outlet has advanced the purchase of goods. But then he has reduced the need of the consumer to visit again. Also in advancing the purchase of one product, the consumer will put off the purchase of another product, as invariably the budget is limited. Thus the consumer may buy lesser number of products and reduce the frequency of visit. A more sustainable approach is to push more items into the shoppers' cart. This can be done by making smaller packs and giving the same price advantage as the larger packs. The shopper will then pick up the requirement till the next visit, and will try out new products (as they are again available in smaller packs). Consumer satisfaction increases, frequency of visit increases and shopper does not need to maintain stocks at his home. This invariably drives ABV up without reducing the frequency of visit and thereby the hypermarket gets a larger share of the shoppers' wallet.

Hypermarkets need to analyse data and realize that when schemes promote bulk purchases, it is the vendors who gain share of purchase, but the overall gain of the hypermarket in terms of increase in category sales over time is negligible.

Offers on smaller packs make the offer attractive to a larger base of consumers and specifically the Lower Income Group. They will now pick up an additional item because of the deal and the ABV for the store increases.

Thus in conclusion, Hypermarkets will have to focus on the Lower Income Group to have a sustainable business and will have to rethink on core assortment and pricing strategy. If the Hypermarket is unable to cater to both the segments successfully, it should choose to be more aligned to the lower income group. Since the disparity of needs in the Indian market is very high, it becomes critical for any hypermarket to completely map out the consumer demographics, product needs and price points for each catchment and build a strategy that is specific to each store location to really succeed in the Indian context.



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