

Food Specialty Retail in India

While the idea of specialty retail is not alien to the general consumer, food specialty retail is a recent phenomenon, at least in the Indian context. The average Indian consumer is well-accustomed to purchasing shoes from an exclusive Bata or a Woodlands store, but has few organized retail options when it comes to the Food and Grocery segment. As of 2011, the organized Food and Grocery segment accounted for USD 9 billion, or ~35%, of the overall organized retail market. The Food and Grocery segment as a whole, however, was worth USD 325 billion in 2011 and is set to balloon, at a CAGR of 5.5%, to USD 425 billion by 2016.

By definition, food specialty retail encompasses all stores which cater to a specific product within the Food and Grocery umbrella. Some prominent examples are Chocolate Junction and Choko la, both of which pander to the chocolate-loving customer, Spice Route (for exotic spices and similar ingredients) and Best (for premium quality rice). Presently, such stores make up a very small part of the organized retail landscape, in India. However, given that the market share of modern retail in India has widened to 10% from 1% a decade ago, with this tiny contribution from food specialty retail, further growth can be anticipated.

One trend that supports this expectation is the concurrent expansion of food specialty retail with the maturing of the modern retail format in not just metros but also mini-metros and Tier I cities. The reasons for this are the usual – the evolution of consumer lifestyles with increase in disposable incomes, an increase in exposure to an ever-widening range of products and accessories from across the globe, etc. Another factor in influencing tastes

across different consumer segments is the advance of both mass media (e.g., television) and social media, which have themselves started specializing and now have exclusive programming and content related to food. They heighten the awareness and perception of viewers and readers regarding not just product categories and varieties but also quality, in turn forcing retailers to offer the same. Some prominent examples of these are lifestyle and/or food-based channels like NDTV Good Times, Fox Traveller, Food Network and Food Food. The audience of such shows also indulges in checking out some of the recipes, especially ones involving international cuisine, on the Internet, and often even sharing the same through Facebook. The availability of food preparation videos on YouTube and Vimeo also whets the appetite for new and exciting flavors. The impact of such channels can easily be traced in the growth of some of the above-mentioned stores.

For example, Chocolate Junction, which began operations in 1998 and still relies on institutional catering and gifting, found greater acceptance and a loyal customer base over the years thanks to the shift in consumer preferences. Choko la, on the other hand, has a firm focus on front-end retail and has experimented with the café as well as boutique retail format and now even has outlets at airport terminals, despite starting out only in 2005. These examples also illustrate how even single product-centered specialty retailers can tap into opportunities across business segments, ensuring not just viability but also growth and expansion.

Given the extremely specific nature of food specialty retail, the risks attendant upon it are equally sharp. The retailer has only one product to focus upon and thus needs to ensure adequate inventory levels. Even where a loyal customer base is ensured, it is only with frequent repeat visits that this inventory can be sold and replenished. This is also necessary since the retailer may not be able to draw an appreciable number of new customers, given that food connoisseurs are limited in number, and also considering that specialty food is usually available only at higher price points. Again, food stocks come with a fixed shelf life and cannot be stocked indefinitely. This perishability also impacts sourcing in that only such foods as can be stored over the long-term and transported without exorbitant demands on packaging can be accommodated. A major headache for retailers is that the non-availability of a particular brand or variety within that product segment might lead to the loss of even the most loyal customer, who may not be willing to switch to a different variety and is likely to seek other options.

From the retailer's perspective, these risks are only made acceptable by the pay-off waiting to be won: an almost instant achievement of brand image, given their exclusivity in terms of product offering. Also, the more niche the product, the greater are the chances of attracting a steady customer following. Further, this is unlikely to change over time, unless there is competition from, say, hypermarkets or other multi-brand retail formats, which have the ability to dedicate some floor/shelf space to premium, specialty products. However, the USP of food specialty retail is the quality of the products on sale, and as long as this is ensured, the consumer base will remain invariant.

In terms of investment, a food specialty retailer might be able to operate out of a kiosk or a similar small format, as, apart from inventory stocking, there are no major space requirements. This is a characteristic unique to food retail as categories such as furniture or electronics have greater shelf space requirements. This also makes franchising a definite possibility, especially given the low overheads. On the flip side, such small spaces are often best located in malls or other shopping areas which have an already high footfall, increasing the potential for attracting new customers. A food specialty retail outlet may not see a constant flow of customers as a standalone entity; this also necessitates exploiting opportunities in other formats such as travel retail.

Like with every other retail format, food specialty retail is also subject to the same forces that are forever reshaping the Indian market. Specifically, there are more people traveling internationally more often every year, and consequently, there is greater demand for different cuisines, with customers always looking out for local opportunities to avail global choices. There is thus a widening role for food specialty retail to fill, but there is also a stringent emphasis on quality and availability. Getting into the segment may not be easy as the products may need to be sourced overseas. However, there may be a significant first mover advantage due to the absence of direct competitors against whom consumers can benchmark the retailer. Brand recall is also greater for the same reason.

Also of importance to food specialty retailers is the fact that the customer is still evolving as a connoisseur. While at present there may be a preference for one-stop shopping, i.e. getting all the required groceries, ingredients, etc. at one location, this is sure to change with a transformation in the perception of the food specialty retail format and the increasing presence of such stores. Specialty retailers will need to get the basics, viz. branding, location, pricing, right, but stand to reap instant rewards which can be sustained as a loyal customer following is assured. The retailer should also prepare for the eventuality that there may be a lag in achieving this consumer base, as this only delays the opportunity but does not diminish its size.

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