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The role of Agricultural market reform in enhancing farmers’ income in Nigeria

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Received 15 March, 2011; Accepted 9 June, 2014

Agricultural market reforms are imperative, given the yearly experiences of small scale farmers in marketing their produce. The outcome of farmers’ efforts has not translated into commensurate income overtime. However, reformative efforts at improving value chain, productivity and market access have culminated into a wide range of technological solutions in the recent times. Efforts should therefore be concentrated on reforms aimed at not only adding value to agricultural products but to the development of market infrastructure and adoption of information and communication technology (ICT) information solutions. These are keys to resolving the chain problems and ensuring enhanced welfare of farmers. The paper recommends that promoting smallholder production of export crops should have beneficial impacts on agricultural production in general and on the food security and income of smallholder farmers in particular.

Key words: Agricultural marketing systems, market reforms, farmers and Nigeria.

INTRODUCTION

During the past two decades, Nigeria undertook extensive economic reforms to reduce the role of government and increase the role of the market in their economies. Because of the importance of agricultural sector in the country, agricultural market reforms occupied a central place in these liberalization efforts. Agriculture is the mainstay of African economies. In Sub-Saharan Africa, it represents between 27 and 42% of gross domestic product, employs between 65 and 80% of the labor force, and in more than half of the countries accounts for as much as 60% of export revenue (Abdulai and Delgado, 1995).

Agricultural reforms included the removal of price controls, deregulation of agricultural marketing, closure of state-owned enterprises that monopolized agricultural trade, and changes in the foreign exchange market to provide greater incentives for exports. The expectation was that improving price incentives for farmers and reducing government intervention in the agricultural sector would be enough to generate a supply response and allow well-functioning markets to emerge quickly (Mylène et al., 2000). Almost two decades later, the general consensus is that the reform programs in Nigeria have not met the expectations. Average annual growth rates of per capita gross domestic product (GDP) and agricultural value-added have been negative throughout the 1980s and 1990s. Economic performance has trailed that of other developing regions. At the beginning of the 21st century, Nigeria confronts a number of daunting problems: extensive hunger, malnutrition, poverty resource degradation, and the spread of HIV/AIDS. Because the majority of the country’s population remains

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dependent on agriculture for its livelihood, well-functioning and efficient agricultural markets continue to have key rule for improving the nation's economic health.

It is important to review some major problems/constraints to agriculture in Nigeria that necessitated the reform policies. Increasing agricultural production however, does not automatically translate to improving living standard of farm family or even the dependant populace. Once prod-uction increases, marketing is the next major hurdle. Farmers face lots of challenges moving their produce to the market (Okunmadewa, 2007). They often time experience a high transport cost which impacts on their margin. Access to the market and poor organisation of African farmers often leave them prey to the middlemen who purchase their produce and make huge mark-ups before selling them in the cities. Hence, rural farmers remain trapped at the bottom end of the food chain. Farmers' share of retail prices is as low 40% for most food crops. Also a major constraint to marketing is the boom- and burst- price fluctuations resulting from glut during harvest and scarcity at off-seasons. This glut usually results from the lack of storage, processing and preservation tech- niques and facilities, which ordinarily should assist farmers in helping to add value to their produce to earn good price and manage price fluctuations. Infrastructure is a key to ensure remunerative prices for agricultural produce.

Farmers who are near market and roads have access to inexpensive transport and also can store their produce for a prolonged period, and are therefore in a better position to obtain higher prices. The higher the prices are expected to translate to higher margin and improved household welfare in the form of increased rural income. It is also established that the negotiating power of the farmers in determining prices for their produce could be improved through prompt dissemination of price information or agricultural market information. An informed farmer is in vantage position to ask for a better farm gate price. The rural access and mobility, as well as information dispersion remains poor in African countries constitute a major challenge in the marketing of agricultural products and particularly in the widening gap between farm gate price and retail prices.

According to Okunmadewa (2007), the widening disparity between farm gate price and retail price calls for a serious attention. This disparity has continually diminished the percentage of the retail price that farmers receive and this has effect on the future viability of thousands of rural African farm families. This is the main concern. The reality is that farmers cannot be expected to produce and receive relatively low returns, year in year out, and still remain viable. That defies basic logic of sustainability. In addition, it is more welfare depressing that the same farmer and farm family face increased and increasing retail prices of food and non-food consumption items.

Finally, the National Agricultural Marketing Research System in Nigeria is bedevilled by a number of constraints. Idachaba (1998) and Okunmadewa and Olayemi (2002) provide an excellent discourse of these constraints. In particular, Idachaba (1998) categorises the constraints into two viz: system wide and institute specific. Further, he identifies the constraints in terms of hierarchy to include primary, secondary and tertiary constraints which include: lack of adequate funding, shortage and instability of qualified researchers and weak linkage of research institute and other stake holders. Thus, this paper reviews the extensive evidence on agricultural market reforms in Nigeria and summarizes the impact reforms have had on market performance, agricultural production, use of modern inputs and poverty. The paper offers recommendations for completing the reform process and developing a new agenda for agricultural markets in Nigeria.

Need for Agricultural market reform

Why was agricultural market reforms needed? Answering this question calls for a look at the agricultural policies of the 1960s and 1970s and the problems that resulted.

Agricultural policies before reforms

Independence through the 1970s, Nigerian government played a relatively large role in national economies, and the agricultural sector was no exception. Policymakers held the common view that private traders were exploitative and that markets could not be trusted with the critical task of feeding the nation. Furthermore, they equated economic development with industrialization, relegating agriculture to the role of supplier of labor, raw material, and cheap food to industry. Small-scale agriculture was seen as inherently inefficient because uneducated farmers were unable or unwilling to apply modern techniques such as mechanization. Because of these views, state enterprises (often inherited from colonial powers) were given the responsibility of organizing food markets and fixing nationwide prices for farmers and consumers. Their success in doing so varied. State enterprises also managed export crop production by farmers by providing inputs on credit, fixing crop prices, and monopolizing the processing and export of the crop. The prices farmers received were generally low because of taxation or high costs incurred by state enterprises, or both. In many countries, export crop prices averaged less than half the world market rate (World Bank 1981). Lele (1990) and Jaeger (1992). State enterprises also monopolized the import and distribution of fertilizer and other inputs, which were often supplied to farmers at subsidized prices and on credit.
Pressure for reform

Pressure for economic reforms came from several sources. In the 1970s, commodity prices boomed, allowing governments to expand their operations and greatly increase the size of the civil service. When commodity prices declined in the late 1970s, governments found it difficult to cut expenditures, resulting in large fiscal deficits. Significant losses incurred by state-owned enterprises exacerbated these deficits. Governments generally used monetary expansion to cover the deficits, thus causing inflation. Because exchange rates were fixed, inflation made export commodities less competitive on the international market, simultaneously increasing incentives to import goods that could be produced locally. Import tariffs and other barriers, already kept high to protect domestic industry, were increased further to stem the growing flow of imports.

These policies often had adverse effects on farmers and on the agricultural sector generally. Explicit taxation, the high marketing costs of state enterprises and the overvaluation of the currency hurt export crop production in particular. In countries with repressive food marketing policies, farmers switched into unregulated crops such as roots and tubers. The emergence of parallel or black markets and cross-border smuggling provided additional evidence of the failure of Interventionist policies. Although inputs were subsidized, budget constraints and bureaucratic problems often led to shortages and delays in delivery of these goods.

Inflation, stagnant economic growth, and shortages of consumer goods created doubts about the existing economic strategy. For many countries, however, significant reforms were postponed until trade deficits began depleting foreign reserves and could no longer be covered by foreign borrowing. At this point, political leaders were forced to seek funding from the World Bank and the International Monetary Fund (IMF), accepting the policy conditions that were attached. Although the process was not uniform across the region, almost all countries adopted a series of economic reforms, including agricultural market liberalization, during the 1980s and early 1990s.

The nature of the reforms

The agricultural reforms introduced by the World Bank and IMF were designed to reduce or eliminate the bias against agriculture and open the sector to market forces (World Bank, 1981). The reforms were based on two beliefs: that reducing or eliminating state control over marketing would promote private-sector activity and that fostering competitive markets would lead to increased agricultural production. To these ends the reforms included four types of measures:

1. Liberalizing input and output prices by eliminating subsidies on agricultural inputs such as fertilizer and credits, by bringing domestic crop prices in line with world prices, and by ending the practice of imposing a single price for all regions and seasons
2. Reducing overvalued exchange rates by partially liberalizing the market for foreign exchange
3. Encouraging private-sector activity by removing regulatory controls in input and output markets, lifting restrictions on the internal movement of food crops, and relaxing delivery quotas, licensing arrangements, and similar regulations
4. Restructuring public enterprises and restricting marketing boards to activities such as providing market information and maintaining security stocks.

Nigeria’s market reform in the export crop sector compared with other African countries.

The pace and extent of reforms have varied widely across countries and crop subsectors (Table 1). For the most part, reforms were not fully implemented. For example, many governments liberalized internal trade but maintained a state monopoly over external trade. In other instances, although fixed prices were eliminated, price bands for food crops were imposed to limit market price fluctuations and protect consumers and producers from the allegedly “exploitative” behaviour of private traders. State-owned enterprises remain active in several commodity subsectors, notably cotton in West Africa and maize in Kenya, Malawi and Zimbabwe. (Washington, D.C.: World Bank, 1999). Information on cashews for Tanzania comes from C. L. Delgado and N. W. Minot, Agriculture in Tanzania since 1986: Follower or Leader of Growth? World Bank Country Study (Dar es Salaam and Washington, D.C.: Government of the United Republic of Tanzania, World Bank, and IFPRI, 2000).

Many countries reversed reforms as a result of external shocks or changing economic conditions. Malawi, for instance, reinstated fertilizer subsidies that were to be phased out in the mid-1980s because currency devaluation and the severance of transport routes through Mozambique significantly raised fertilizer prices. Zambia reversed maize market liberalization under pressure from urban consumers who faced higher prices. In general, countries did not follow a linear path toward liberalization, and reforms often were not seriously implemented until the early to mid-1990s. In Nigeria, the reform process was quick and short owing to the fact that farmers benefited immensely from sharp and increased market margins resulting from direct export and the policy also exposed the corrupt and inefficient activities of the Marketing Boards. A slow and incomplete reform process resulted from several factors, including weak commitment on the part of African policymakers to reforms imposed.
by donors, fear of disturbing existing patron-client relationships, and concern over losing important sources of public revenue.

Reforms designed to eliminate the rents and privileges enjoyed by public enterprise employees met with strong resistance. And because governments negotiated and implemented the structural adjustment programs, they often continued the old ways of doing business (Bates 1989). For the most part, governments did not encourage the participation of important constituents such as private businesses and nongovernmental organizations, choosing instead a top-down approach. At the same time, governments themselves rarely felt the sense of ownership necessary to sustain the reform effort (Helleiner, 1994; and Meerman, 1997). The resulting climate of uncertainty and mistrust affected private investment, because private businesses were generally reluctant to invest in countries where governments lacked credibility.

**The impact of the reform**

How successful has agricultural market reform been in Sub-Saharan Africa? How has it affected market performance, agricultural production, input use, farm productivity and poverty? The available evidence shows clear progress in some areas and mixed results in others.

**Market performance**

Assessments of market performance since the reforms have focused on the expansion of private trading, reductions in marketing margins, and increases in market efficiency measured by the degree of market integration. In general, all three areas have seen improvements since the 1980s. However, further expansion of private trade faces many constraints and marketing boards are still active in some countries.

**Private trade has expanded**

Market liberalization has encouraged private trade, even in cases where parastatals are still active. Small private traders have emerged in response to increased market opportunities (Badiane, et al, 1997, Barrett, 1997 and and Minten, 1998). In certain export markets, the presence of multinationals has fostered a well-coordinated domestic private-trading sector. In Tanzania, multinationals contract with private, domestictaders to buy tobacco and cashew nuts from small farmers, and these traders have little difficulty accessing credit or finding buyers. In Malawi and Nigeria small farmers sell their tobacco, cocoa and palm oil on auction floors to international buyers, something only large estate farms could do before the reforms.

**Markets have become increasingly integrated**

In general, market integration is measured by how well price signals are transmitted among markets. Integrated markets allow the efficient flow of commodities from surplus to deficit regions. While the level of market integration in Africa remains lower than in other developing countries, it has improved since the reforms were instituted, Goletti and Babu (1994). In part, this improvement has depended on the pre-reform situation.

For example, countries such as Benin and Ghana, where the private sector controlled food marketing before liberalization, have developed better-integrated grain markets than countries such as Malawi and Madagascar, where parastatals dominated food marketing. Most of the improvement is the result of increased private-sector

### Table 1. Extent of market reform in the export crop sector in some African Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Commodity</th>
<th>Marketing channel after reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>Cotton</td>
<td>Full parastatal control of prices, marketing, and inputs.</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Cocoa, coffee</td>
<td>Liberalized marketing and export starting in 1994 for both crops.</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>Cocoa</td>
<td>Stabilization system until 1998/99; liberalized thereafter.</td>
</tr>
<tr>
<td>Ghana</td>
<td>Cocoa</td>
<td>Full parastatal control of prices and marketing.</td>
</tr>
<tr>
<td>Malawi</td>
<td>Tobacco</td>
<td>All marketing through private auctions with low competition.</td>
</tr>
<tr>
<td>Mali</td>
<td>Cotton</td>
<td>Full parastatal control of prices, marketing, and inputs.</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Cocoa</td>
<td>Complete liberalization in a short period.</td>
</tr>
<tr>
<td>Senegal</td>
<td>Groundnuts</td>
<td>Most groundnuts exported as oil. Marketing and processing only partially.</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Coffee, cotton, cashew</td>
<td>Largely liberalized starting in 1990/1991. Cotton partially liberalized at first, now fully, as</td>
</tr>
<tr>
<td></td>
<td>Coffee</td>
<td>is cashew. State-run cooperative unions continue to compete with the private sector but only</td>
</tr>
<tr>
<td></td>
<td></td>
<td>handle a small share of crop output.</td>
</tr>
<tr>
<td>Uganda</td>
<td>Coffee</td>
<td>Full liberalization, with parastatal primarily playing a regulatory function.</td>
</tr>
</tbody>
</table>

**Sources.** R. F. Townsend, Agricultural Incentives in Sub-Saharan Africa: Policy Challenges, Technical Paper No. 444
participation in trading activities—participation that has fostered the efficient transmission of information and prices among markets.

**Agricultural production**

The basic premise of agricultural market reform is that improving the incentive structure for small farmers (in the form of higher prices and well-functioning markets) will generate a positive supply response, increasing both agricultural output and income levels. But the average growth of agricultural production per capita has been negative in Sub-Saharan Africa since the 1970s. For small farmers in some countries, reform has meant the elimination of government input and credit subsidies—a loss that has kept yields stagnant or reduced them. Where production growth has occurred, it is the result of increases in the amount of land under cultivation rather than of yield increases. And where producers have benefited, the bulk of the gains have gone to export and cash-crop farmers with access to credit and modern inputs (such as fertilizer).

**Export crop production has increased**

Export crops have responded more strongly to liberalization than food grains. Most price changes have favoured tradables, making export crops more attractive than domestic staples. Export crops were also taxed more heavily before the reforms, making their post-reform response particularly vigorous. In addition, price control was far less effective for food than for export crops, so that farmers growing food crops were less affected by official prices (and more responsive to unofficial prices) than farmers growing export crops. Cash-crop sectors such as cotton in Benin and Mali, cashew nuts in Mozambique and Tanzania, and coffee in Uganda have been among the most responsive to reforms, largely because of higher producer prices, exchange rate liberalization, privatization, infrastructure investment, and improved input supply.

**Fertilizer prices have risen**

A number of reforms have affected fertilizer prices, including the elimination of fertilizer subsidies, the depreciation of the real exchange rate, and liberalization of fertilizer imports and distribution. The fertilizer-crop price ratio has more than doubled in four out of ten countries examined (Benin, Ghana, Nigeria and Tanzania) and increased at least 50% in three more (Malawi, Senegal and Zambia). On the other hand, the fertilizer-crop price ratio fell in Ethiopia.

**Poverty**

Production constitutes the most important source of income and employment for the majority of households in Nigeria. By stimulating agricultural production, market reforms were expected to improve rural incomes and alleviate poverty. In many Sub-Saharan African countries, rural poverty rates have declined since the 1980s. Although not all of the decline can be attributed to agricultural reforms, this trend challenges the view that the rural poor have been adversely affected by agricultural market liberalization.

**Higher export crop prices have benefited export crop farmers**

Devaluation and export market liberalization increased the income of small export growers by about 20% on average between 1990 and 1997, although, this varied greatly across crops. The income of poor and non-poor rural households has increased in several African countries. Small-scale cocoa and palm oil growers in Nigeria and producers of cashew nuts and tobacco have benefited from higher producer prices thanks to declining marketing margins and the depreciation of the real exchange rate.

**CONCLUSION AND RECOMMENDATIONS**

The reform efforts of the 1980s and late 1990s have generated a positive response in the agricultural sector of Nigeria in particular and Sub-Saharan Africa in general. Despite the progress that has been made, however, the results of market reform have generally not met expectations and much remains to be done. The reforms focused on eliminating government control and increasing the producer price of tradable agricultural commodities but placed little emphasis on developing the institutions needed to support private sector activity. Improving price incentives and liberalizing markets were expected to be enough to generate a supply response and create well functioning markets. The private sector was expected to take over the institutional functions the state had been providing. The reality has been quite different. While private trade has increased in virtually all agricultural markets, the private sector has been unable or unwilling to supply credit and marketing services in remote areas. And although the elimination of policies enforcing a uniform, nationwide price has been a boom for many producers and consumers close to markets, it has often left farmers in remote areas worse off than they were before liberalization.

Further progress in developing well-functioning markets will require not only further liberalization but also a more
concerted effort to go beyond the withdrawal of the public sector from agricultural marketing. The state must assume a new, supportive role as market facilitator. One aspect of this role is to strengthen investment in public goods such as infrastructure, research and extension, and public market information. The second is to foster institutions required for the development of competitive and efficient markets. The new agenda for market development in Sub-Saharan Africa includes the following four priorities:

1. **Find institutional solutions to provide input credit to farmers:** Credit for input use can be provided through a number of institutional innovations, including contract farming, credit associations, group lending and farmers’ organizations.

2. **Develop a legal infrastructure for market transactions:** This long-term step will reduce the risk of investment and decrease transaction costs for both farmers and traders by clarifying property rights, enforcing contracts, ensuring quality control, and establishing rules of market conduct, among other legal concerns.

3. **Increase investment in infrastructure and institutions:** Higher productivity and effective markets require investment in research and extension, access to market information, and efficient transportation and communication networks.

4. **Encourage smallholder production of export crops:** In many areas, food and export crop production are highly complementary and export crop production has positive spill-over effects on input use and food crop productivity. Therefore, promoting smallholder production of export crops should have beneficial impacts on agricultural production in general and on the food security and income of smallholder farmers in particular.

**Conflict of Interests**

The authors have not declared any conflict of interests

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Full Length Research Paper

Information technology in Indian retailing, issues and challenges (A case study on the rise and fall of Subhiksha Retail Chains)

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Received 6 August, 2013; Accepted 6 May, 2014

Organized retailing in India has reached a point of transformation after witnessing unprecedented growth over the last few years. It has lot of potential for further growth and for penetrating into semi urban and rural markets. Opportunities for retailing are increasing day by day due to changing customer behaviour, technological developments and modified regularities by allowing more than 51% FDI’s in retail sector. India is a palace for all sizes, varieties and formats of retail sector. The country is a mosaic of wide diversity-urban, rural, rich and poor customer base. Technological advancements have witnessed phenomenal growth in retailing over the past few years. On the other hand, adoption of information technology (IT) in retail business should be largely cautious, incremental and supportive of the conventional operational functions rather than being drastic for successful implementation. The current study is on Subhiksha retail chain’s raise after expansion with significant reach across country-wide with the application of IT and fall arising out of rapid expansion resulting in insufficient funds. Subhiksha has made a grand entry into retail sector a decade earlier when the sector was on a boom but hit hard by the global financial crisis during 2008 for further expansion. The authors have collected data by means of observation and interviewing customers of various retail outlets at different parts of Hyderabad and Secunderabad. To support the primary data secondary data is also collected from newspapers, journals, websites, books and articles. The causes of failure that are identified are lack of skilled personnel, know-how, poor implementation, coordination and improper allocation of funds.

Key words: Retail sector, information systems, point of sale, SAP, enterprise resource planning (ERP).

INTRODUCTION

Retailing is more of service than selling alone. Retailing is the terminal point of marketing where the producer or marketer meets with ultimate consumer for exchange of products and services with a motto of profit. Retailing includes sale, services and distributing to the end user. Today’s customers are getting attracted towards organized retailer’s with store décor, cheering window shopping, point of sale, variety of merchandise, increased product...
assortment and best quality services. Service in the retail is generally customized and personalized. More customers are attracted towards shopping malls and organized retail formats because of their service feature. The quality of services can be achieved through proper implementation of information systems with the support of well trained and qualified personnel. No customer would like to wait for long in queue for billing and collecting the items. Retailers are currently depending on itemized bar coding system with computerized software at the billing counters known as point of sale (POS) or check out. POS helps in taking orders, billing, purchasing and maintenance of inventory. Convenience is another factor which the consumers look out for. Convenience to the customers and easy billing of the retailers can be possible through technology that uses radio frequency identification (RFID). Cost of inventory is the important factor at organized retailers. Retailers are able to reduce the inventory cost by following just-in-time (JIT) technology in collaboration with their suppliers. They can also provide efficient supply chain services through third party vendors. Integrated ERP system enables retailers in proven customer centric methodologies, extensive market research, front end and back end store systems, merchandizing, and long-term relationship with customers.

Objectives of the study

1. To study the importance of information systems in retailing.
2. To study the growth and expansion strategies of Subhiksha retail store.
3. To find the causes of failure of Subhiksha retail stores in India.

Scope of the study

The current research “information technology in Indian retailing - issues and challenges, a case study on rise and fall of subhiksha retail chains” is confined to the twin cities of Hyderabad and Secunderabad. This study mainly focused on the strategies of subhiksha retail outlets and the reasons for its failure in spite of the use of modern methods like ERP systems, best marketing practices like everyday low pricing (EDLP) pricing and early entrance in to the market.

MATERIALS AND METHODS

The present study is a qualitative research. This paper attempts to review some examples by which information technology is playing a key role in providing quality services and quick delivery. It explores the reasons for change of customer behaviour and assessing the use of emerging information systems for improving effective customer service. The current study is based on observation and interviewing customers of various retail outlets. The data is also derived from company confidential information by conducting interviews with the middle and top level managers of various retail outlets. In order to combat the problems associated with the implementation of information technology the opinions of bankers, top level managers in the form of interviews available with various reputed national newspapers, websites are mentioned.

Indian retail industry

Indian retail is one of the fastest growing markets in the world. The sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. Indian retail landscape is evolving from the brick-and-mortar model to adopt technology for connecting with consumers and achieve complete seamless customer experience. Currently Indian organized retail sector consists of 8% in the entire retail industry. It may grow much faster than traditional retail. It is expected to gain a foothold in the growing pie of the retail market in India. The Indian retail market, currently estimated at $490 billion, is project to grow at a compounded annual growth rate of 6% to reach $865 billion by 2023. The organized retail is estimated to register a growth rate of around 25% by 2020. With growth in the E-commerce industry, online retail is also estimated to touch US$ 70 billion by 2020 from US$ 0.6 billion in 2011. The Government of India (GOI) has approved 51% foreign direct investment (FDI) in multi-brand retail and increased FDI limit to 100% in single brand retail and for cash and carry (wholesale) trading and exports. Emerging organized retail outlets and higher disposable income of consumers make the middle and upper middle classes inclined to purchase from these stores (Srivastava, 2008). Retail chains like Subhiksha (Apna bazaar in Hyderabad, Andhra Pradesh) entered with gorilla marketing strategy to capture a good market share with cost effectiveness strategy but failed before customers realized its presence in Andhra Pradesh.

Subhiksha retail chains

Subhiksha is a small format, neighborhood, convenient and discount store that offered a product mix (Table 1) of food, grocery, medicines, telecom and other products under one roof. The name Subhiksha is taken from Sanskrit that means “prosperity” as it reflects the Indian ethos and can be understood by every Indian, with the tag line “why pay more when you get it less at Subhikha”. It opened its first store in the year 1997 at Thiruvanmiyoor in Chennai with Rs. 3-4 lakhs an initial cost out lay, aims to 500 stores by 2007 covering more than 100 cities all over the country and wants to double the outlets by the end of the year 2007. They focused on low prices with high sales and have an image of being a best place for good buys. They also adopted every day low price (EDLP) strategy to achieve economies of scale. It even competed with the neighborhood grocery stores on the promise of discount on maximum retail price (MRP) by negotiating substantially for lower rates from suppliers by paying cash. The most important target market for Subhiksha was ‘aamadmi’ that is lower and middle income people and the slogan for it ‘you can never get products cheaper than at Subhiksha’. Table 1 shows the product mix.

Three key differentiators of Subhiksha

Product mix: Subhiksha sells a mix of FMCG, fruits, vegetables, pharmaceuticals, telecommunication products and accessories. These product lines constitute the bulk expense of any average household.

Deep Discounting: Subhiksha offers its consumers low prices, which are consistent and cheap. A consumer can save close to Rs400 every month by purchasing their households at Subhiksha.
Branded Products: Subhiksha did not compromise on neighborhood presence and caters to brands that the consumer prefers to buy. These factors gave them an edge over other retail competitors.

Issues in Indian retailing - Post information technology

Inventory management is the key area of success

Management of inventory at the store is a key focus area for all retailers. There is an increasing evidence of a partnership between the operations and finance functions with both process and policy being tuned to inventory management. Perpetual stock takes are outsourced to specialist firms by an increasing number of retailers who seem to have reaped significant benefits from this move. Retailers are also looking at decreasing shrinkage levels by focusing on process, policy and technology initiatives. Visual merchandising (VM) viewed as additional revenue driver. It is being viewed as a function that should drive sales rather than just enhancing the ‘look’ of the store. To this end, some retailers are starting to correlate the performance of specific VM displays with the sales of the respective categories. It is interesting to note that value retailers had a significantly higher process maturity than their department store and fashion counterparts. Space management tools are slow to take off for large format lifestyle retailers, space efficiency assumes great importance, and, given the high real estate cost, slight deviations can significantly affect revenues.

Below the line (BTL) marketing is the way forward

Below the line marketing is emerging as a strong focus area for retailers. Catchment initiatives are considered as important across retail segments to arrest declining sales from the store. Store managers are increasingly pushing the strategies to catch customer and enhance the level of satisfaction to each customer. Weak store expansion and strong focus on optimization of existing investments, market acquisition through new store launches has taken a back seat, and store profitability has become the top objective. While store managers are being trained and measured on store profitability, there is also a need to tighten central functions.

Value added services in retailing

In today’s competitive retail environment, businesses need to offer an expanding set of retail value added services (VAS) at point of sale in order to increase store traffic, satisfy customers and generate additional revenue. Evolving consumer’s behavior has dramatically impacted the way retailers are delivering products. Value-added services offered by retailers are more likely to cultivate strong customer loyalty providing a competitive advantage.

With the help of information technology retailers are now offering value-added services to transform shopping into an inclusive and enjoyable experience. Fast customer services, digital channels of distribution, free on board pricing, stock availability check make the retailers to focus on well being of the customers and in turn earn higher profits.

Modest adoption of customer loyalty programs (CLP)

Few retailers have a rich customer database to reach out their individual customers. Not many retailers are maintaining an integrated loyalty program. Even today they use the phrases ‘rewards program’ and ‘loyalty program’ interchangeably not recognizing that they are a part of a continuum. Customer segmentation is another important area that retailers have to focus on the modern retailing. Retailer must have processes across the following six segments like customer service, inventory management, marketing, relationship management, visual merchandising, people management and space management reveal ample scope for improvement and good customer loyalty.

People management or human resources management

The successes and failure of every business depends on the people working for it. Retailing is not an exception to it. People management has emerged as yet another strong theme, with retailers making renewed efforts to engage, train and retain key employees at the store front. Customer service, attending queries, helping the customers, educating the customers are the services expected from the store staff. Employees are the final link in the retailing process to customers and service interaction is the final moment of truth for retailers. Retention of key employees is recognized by the industry as being important for sustained store growth. This is a function of human resource policies involves training, incentive management, engagement, career planning and progression.

Retail life cycle

Retail stores also pass through stages of growth and decline called as ‘retail life cycle David Gilbert (“Retail Marketing Management 2003-Pearson Edition”). The life cycle of retail stores depends on the effectiveness of well formulated and well implemented customer target strategy by keeping customer loyalty. The retail business’s outcome depends on customer targeting, customer retention, customer profitability, and customer satisfaction. The life cycle of retail stores can be extended through successful implementation of information technology for customer relationship, merchandizing, human resource, and supply chain management practices. As shown in Figure 1.
Challenges in Indian retailing - Post information technology

In India, economics of small-format organized retailing is very challenging due to strong competition from neighborhood kirana stores and vegetable vendors. Subhiksha did not compete with the neighbour retailers and left the market before customers felt its presence and before it could achieve the target of doubling the stores across the country. It failed to deliver the services and had gone into severe debts.

Expansion strategies – Rapid expansion of Subhiksha retail chains

Started expanding rapidly from 14 stores to 50 stores in 2000, it had 130 stores across Tamilnadu by the end of 2002. Rapid growth of telecom sector in India made them to go into the deeper parts of the country to attract literates and middle class segment. They even expanded their stores into Gujarat, Delhi, Mumbai, Andhra Pradesh and Karnataka by recruiting people in various regions and had 500 plus stores by the end of 2005. It was considered to be India’s largest retail chain store with 500 plus stores and plans to have 1,000-plus stores by the end of the year 2007. It was looking for a gross turnover of Rs4300 crore with 2300 stores. However the growth was fuelled from a small net base of Rs250 crore.

Fall of Subhiksha retail chains

The promoter of Subhiksha Mr.R.Subramanian has 59% equity and there were no traces of liquidity crisis faced by the company, till October, 2008. It was only in the month of November, 2008 the management admitted that there was a severe liquidity crunch with mounting debt and unpaid employees and suppliers. The problems are also related to competitors, marketing, information technology, location and layouts. As shown in Figure 2.

Challenges from implementation of information technology

“We are facing a lot of difficulty in accessing data across different regions using the local ERP system” Ankur Saigal, Vice-president (Tech) and Subhiksha Trading services. Wide spread retail chains rely on information technology as it plays an important role for speed and accurate service to the customer. Even small individual retail outlets are benefiting from information technology. The enterprise resource planning solutions help all sizes of the companies by designing sales modules, relationship management, POS system, and shipping orders. Information technology is extremely valuable function by providing a direct link with the accounts receivable and inventory modules (Randy and Michael – November, 2006). The company decided to invest more on efficient ERP like SAP and has taken long time to implement than expected accompanied by many problems like lack of technical expertise and system users.

Challenges faced from competitors

Subhiksha faced competition from strong multinational giants like, Reliance, More, Fresh@Heritage, Big Bazar and many more local kirana stores. The strategies adopted by these organized retailers like – ambiance, display, availability of merchandize, window shopping, free on board pricing are not followed by Subhiksha. Table 2 shows the comparative analysis of reputed retail stores at Film Nagar and Hyderabad.

Challenges from poor marketing decisions

With increasing customer awareness, retailers should offer unique or special assortment of goods that suits the demands of the customers at lower prices than its competitors. No customers want to pay more for the same product. Products were not available at the stores due to lack of stock or it could not make consistent decisions on promotional services, product assortment, store décor and service levels. It did not focus on frequent festive and promotional offers from time to time to attract and retain the customers.

Challenges from location and layout decisions

Location and layout plays an important role in the success of every retail store. Though there are number of stores located in major places they not in proximity to the market and there is low focus on target customers. Lack of parking place, poor visibility of merchandize, improper maintenance of breadth and depth of the stores has created lot of problems.

FINDINGS OF THE STUDY

The organized retail sector in India can expect to witness a second big revolution in the not too distant future in spite of setback faced due to several reasons. The opportunities in food and grocery retail in India are immense and constitute about 69% of India’s total retail market. Though, there is scope for growth of organized retail sector in Indian retailing, Subhiksha was not able to encash those opportunities due to improper decisions. Any retail sector that intends to enter into the market will make a thorough research before its entrance. Subhiksha did lot of research and felt that customers were price conscious, prefer to a convenient store to buy the needy products with specific purpose and not for fun. Inspite of its research, it faced lot of problems like lack of sufficient funds for expansion cropped up by un-mindful expansion spree across different parts of the country with improper selection of ERP systems.
Other reasons for failure are - discount pricing with thin margins, poor inventory management like managing inventory at two extreme ends. Some stores were having high inventory levels and some others were with no or low stock. Bad history of credit defaults that led to supply breakages as they acquire entire merchandize on cash basis. It entered into the market with gorilla strategy and tried to be the number one in every place in the country. Out of the total stores established only few stores were profit generated and rest were not that much profitable. It moved across different sectors such as medicines, grocery, IT, mobile, than others very fast than competitors. Global economic meltdown, labeling its own products, going for wrong IPO in 2007 but shelving in view of uncertain market conditions were other reasons for the failures. The growth pattern in organized retailing and in the consumption made by the Indian population may follow a rising graph helping the newer businessmen to enter the India Retail Industry.

**Limitations of the study**

The study is limited to twin cities of Hyderabad and Secunderabad. This may not represent the true picture of the total population. The findings are derived by analyzing the data collected from the respondents and every care has been taken to avoid their biased opinions. Still there was an ample scope for biased opinions which will affect the results of the study. The data collected for the study is limited to the selected retail outlets but not for the whole retail sector in twin cities.
Conflict of Interests

The authors have not declared any conflict of interests

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