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Study on investment pattern and organizational structure of Super markets in India-An empirical evidence of Karnataka

Ramappa, K B[1], Goudappa S.B[2], Chandrashekhar, S.M[3] and B. S. Reddy[4]

1. Associate Professor, Department of MBA, Acharya Bangalore B-School, Bangalore-91,Karnataka. Tel: +917829862766 E-mail: ramskb@gmail.com
2. Programme Coordinator, Krishi Vignyan Kendra,Raddewadgi, Dist: Gulbarga, Karnataka, India- Tel: +91 9480696348 E-mail: drrajubdr@yahoo.com
3. Research Scholar, Department of Economics, Gulbarga University, Gulbarga, Karnataka,India Tel:+91 08472 233997 E-mail: shekharreddy66@yahoo.in
4. Assistant Professor, Assistant Professor, College of Agriculture, Bheemarayanagudi-585287, Yadgir dist, Karnataka, India Tel: +91 08472 233997 E-mail: bsreddyagecon@gmail.com

Abstract: Retail business has shown tremendous growth in the World in the recent past. In India, the organized food retailing sector is on the verge of a boom and expected to undergo further change with prospective new domestic and global foreign entrants and the takeover or exit of some existing participants. Among the Indian states, Karnataka is far more forward looking as far as food retailing is concerned. Therefore, it is imperative to study the entire business aspects of organized food retailing. The study indicated that majority of the organized supermarkets has multi outlets operating under the single management. The un-organized supermarkets were formed by the big local and conventional store owners. The average area of the supermarket outlets in Bangalore (4333 Sqft) and Mysore (3133 Sqft) is more compared to other cities of Karnataka like Mangalore (2833 Sqft), Hubli-Dharwad (1833 Sqft) and Belgaum (1200 Sqft) as the supermarkets in these cities were recently converted from the conventional 'kirana' format. The average total fixed cost per outlet is Rs. 78.42 lakh for the state as a whole and total costs required to establish a supermarket in the Karnataka is Rs. 261.33 lakh. The investments in establishment, modernization and expansion are capital intensive in supermarkets. In all the supermarkets, the liquid assets to total assets ratio indicated organized supermarkets seems to better than other unorganized supermarkets in terms of assets liquid ratio. Further, organized supermarkets/supermarkets in multi outlet (chain of supermarkets) firms/companies followed line, line and staff, and the functional categories of organizational structures. Whereas line organization was commonly followed in un-organized supermarkets and are family owned.

Key words: Retail, Super market, Multi-outlet, Organization, Investment, Profit

1. Introduction:

Retail business has shown tremendous growth in the World in the recent past. Though the impact is seen in developed countries like U.S.A and Western Europe, the emerging economies like India, China, Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are not very much lagging behind. The turnover of global retail business is estimated at 6.6 trillion, of which USA alone accounts about 3 trillion and this industry employs more than 22 million people in U.S (*www.epwrf.res.in*). The organized retail in the developing countries however is in a very nascent stage, through attempts are being made to increase its proportion to 9-10 per cent by the year 2010 bringing in a huge opportunity for prospective new players. The traditional forms of independently owned small business and co-operative have lost significant market share in developed countries and the retail sector in these countries is now characterized by large multiple chains run by powerful and sophisticated organizations. The contemporary global retail formats are Malls, Hypermarkets, Super markets, Mass merchandisers, Discounters, Convenience stores, Specialty stores and Mom-and-pop stores.

In India, the sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP. The AT Kearney's 2010 Global Retail Development Index (GRDI)has placed India within third rank in the top retail investment destination among the 30 emerging markets across the world. Over the past few years, the retail sales in India are hovering around 33-35 per cent of GDP as compared to around 20 percent in the USA (http://www.cci.in/pdf/surveys_reports/indias_retail_sector.pdf). The organized food retailing sector in India is on the verge of a boom and expected to undergo further change with prospective new domestic and global foreign entrants and the takeover or exit of some existing participants. International attention is now increasingly focused on the rapidly growing Indian food retail market. With the removal of quantitative restrictions on imports, introduction of amendments to the existing APMC act by various state governments. Traditional groceries are also gradually redefining themselves by increasing floor space and introducing self-service format and value added services such as credit and home delivery (Anonymous, 2010). Organized food retailing is a relatively new phenomenon in India, with small Western-style supermarkets only starting to appear since 1990s. The country has witnessed a retail revolution in recent years. Significant development has been taking place in urban areas in the form of organized retailing like Mega stores or Malls, in southern parts of the country particularly in Bangalore, Chennai and Hyderabad, as well as New Delhi and Mumbai in the North. It is expected that the tier II cities would take another five years to absorb modern retailing opportunities.

Among the Indian states, Karnataka is far more forward looking as far as food retailing is concerned. Therefore, it is imperative to study the entire business aspects of organized food retailing in general & supermarkets in particular. The specific objectives of the study are:

i. To estimate the investment pattern and financial strength of various sized in modern supermarkets.
ii. To study the organizational structure in supermarkets.
iii. To forecast the retail market growth in India

2. Methodology:

The organized retailing is growing rapidly in Karnataka state in general, and particularly in major cities/ second tier cities like Hubli, Mangalore, Belgaum and Mysore .Hence, five cities across Karnataka such as Bangalore, Hubli-Dharwad, Mangalore, Belgaum and Mysore were purposively selected for the study since majority of the organized retailers exist in these cities. Recently, many retailers in these areas have also started modernizing their stores in line with well organized supermarkets. From the available list of supermarkets in each city, three supermarkets (one outlet/ branch) were selected randomly. The total sample size selected for the study were 15 super markets. The information required for the study was collected from sampled supermarkets using pre-tested structured questionnaire. The present study is mainly concerned with the investment pattern & organizational structures and profitability in the existing supermarkets.

The financial ratio analysis technique was considered to be a most useful tool in evaluating the performance of the supermarkets. The study period is 2010-11 financial year. In this study, the ratio analysis technique has been heavily relied upon, to test the liquidity, profitability, turnover and sales of the supermarkets.

The Liquidity ratios, measures the ability of the supermarkets to meet immediate maturing obligations. Ratio of liquid assets to total assets was employed to measure the liquidity position of the supermarkets. Liquid assets included cash in hand, cash at bank, short term deposits, value of closing stock adjusting heads due to, sundry debtors, deposits with banks etc. The total assets included all the items under the assets column of the balance sheet, viz., sum of current assets and fixed assets. Net profits to total sales ratio is also known as net profit margin. It was determined by relating the net income after taxes to the net sales for the period.

The profitability ratios would compare the returns over the amount sunk into the business by the supermarkets. Thus, these ratios indicated the profitability of sales and investments made in the business. The ratio of net profit to total assets would indicate the earning capacity of the total assets of the supermarkets.

3. Results :

The average floor area (Table-1) was found to be around 4333 sqft, 3133 sqft, 2833 sqft, 1833 sqft and 1200 square feet in Bangalore, Mysore, Hubli-Dharwad, Mangalore and Belgaum, respectively. The floor area was more due to higher transactions, range of products and more space to attract consumers in Bangalore and Mysore cities. Whereas, less in Mangalore, Hubli-Dharwad and Belgaum as the supermarkets in these cities were recently converted from the conventional 'kirana' format. Further, fixed capital drastically varied from city to city, highest was found in Bangalore (Rs. 258.30 lakh) followed by Hubli-Dharwad (Rs. 71.60 lakh), Mysore (Rs. 39.23 lakh), Belgaum (Rs. 18.81 lakh) and Mangalore (Rs. 13.00 lakh). However, for the state as a whole the average total fixed cost per outlet stood at Rs. 78.42 lakh. It accounts for 30.01 per cent of the total capital investments. Higher fixed cost is reflective of higher amount of capital investment on sophisticated modern equipments and infrastructural facilities. Among different components of fixed capital, land & building accounts 23.50 per cent because land value is appreciating significantly and is the costliest resources. The remaining fixed capital elements are machineries & equipments, other fixtures and salary to permanent employees which accounts to 2.10 per cent, 1.20 per cent, 1.08 per cent respectively of the total fixed capital. The results of the study are on par with the study conducted by Hemashree (2008), revealed that the investment on land in modern retail outlets occupied nearly 81.4 percent (Rs. 766.66/sqft) as they were located in prime area and hence fetched premium price. The investment on machineries & equipment in modern retail outlet was more compared to traditional retail outlets due to modern machinery & equipment used for cleaning & packaging while traditional outlets mostly relied upon the human labour or cheaper machinery for the operations.

It was noticed from the table (Table 2) that in all the supermarkets the liquid assets to total assets ratio was less than 0.5, which is 0.469 in Bangalore, 0.404 in Mysore, 0.399 in Mangalore, 0.157 in Belgaum and 0.268 in Hubli-Dharwad and the overall worked out to be 0.337. This reveals that more than 50 per cent of the assets are not in liquid form. However, in case of Bangalore & Mysore the ratio seems to better than other places may be due to the fact that most of the supermarkets in these cities are in-chain/organized. Therefore, all the units should increase their proportion of liquid assets in the total assets so as to improve the liquidity status of all the supermarkets. Similarly, net profits to total sales were also found to be very significant in Bangalore & Mysore (organized supermarkets) compared to other cities, yet all the cities across the state indicating more than a 0.170 rupee contribution to per rupee total sales and still there is a need for improving capacity utilization and sales performances. In contrary to this, the study conducted by Devaraja (2000) on the performance of the (HOPCOMS) Horticultural Producers Cooperative Marketing and Processing Society Limited in Karnataka, India, during the period 1958/59-1995/96 revealed that there were substantial increases both in physical and financial indicators over the period of study. The indicater are retail outlets, share capital, owned funds, total assets, long-term investments, fixed assets, working capital, total liabilities, and sales, were analysed. The overall net profit to total assets was 2.499 which indicate that the profit generated per rupee of total assets was nearly 2.50 rupees which indicated the improved efficiency of supermarkets in utilizing the total assets. Though overall profit to total assets ratio is quite good across cities, the supermarkets in smaller cities have at present some advantage over its counter parts. For instance, the highest ratio (4.5) in Belagaum may be due to less investment on total assets. However, in long run the smaller format supermarkets may not be able to sustain owing to fast changing technological developments in retail business.

It was observed that (Chart-1) organized supermarkets/supermarkets in multi-outlet (chain of supermarkets) firms/companies followed line, line and staff, and the functional categories of organizational structures. However line organization was commonly followed in un-organized supermarkets/ supermarkets not in chain. This may be because of huge investment and more number of activities in organized supermarkets and the reverse is true in un-organized supermarkets. The line organizational structure in both the supermarkets was found to be similar with the studies conducted by Ramandev (1998) and Mane (2000). They found that the both small and large scale agro-based units having both less and high investments followed line organization type of structure because of fast communication, easy feedback and possibility to take easy and immediate corrective measures. The functional organizational structure followed in the organized supermarkets was found to be reliable when it is compared with the report presented by Kozachuk (2001) regarding management practices existing in Russian enterprises, which were inappropriate for operating in market conditions due to lack of functional organizational structure in trading enterprises.

The line organization is simple; authority and responsibility are clear cut, easily assignable and traceable. It is easy to develop a sense of belonging to the organization. Communication is fast, easy and feedback from employees can be easily obtained and immediate corrective measures can be applied. The discipline among employees can be maintained easily and effectively. In line and staff organizational structures delineation of organizational authority between management personnel (staff) having overall planning and direction responsibilities and operational personnel (line) having direct job performance responsibilities. Here staff is advisory to the line function. Similarly, functional organization structure is based on functional performance; organizational departments are created to fulfill organizational functions such as marketing, finance, and personnel. This type of organization has characteristics of both line and staff functions. Similar type of study conducted by Efremenko (2000) also revealed that a new structure for "agribusiness" could gradually be established, and this would embrace a whole range of ownership and management types, including corporations (open and closed joint stock companies, and limited liability companies), partnerships, cooperatives (production and consumer) and individual ownership (unitary enterprises, and daughter or subordinate companies).

In the hierarchy of supermarkets in-chain (Fig-1), they have executive (Managing Director (MD)/Chief Executive Officer (CEO) to design, develop and implement the strategic plan for the company in most cost effective and time efficient manner and in turn he is responsible for both day-to-day running of the company and developing business plans for the long term future of the supermarkets. He is assisted by General Managers (GM) of different departments such as purchase, marketing, finance and the systems.

The General Manager takes care of overall responsibility for managing both revenue and cost elements of their respective department. Usually he/she over see almost all the functions as well as day-to-day operations of their department. Frequently, He/she is also responsible for leading or coordinating the strategic planning functions of the supermarkets. The GM (Purchase) is assisted by an Assistant General Manager (AGM) in turn Purchase managers, Store managers, Supervisors and labourers in a hierarchy. The whole team is responsible for the complete purchase and procurement of related materials for the company such as price, quality, availability, reliability of the products and technical support when choosing suppliers and merchandise. They try to get the best deal for their company, meaning the highest quality goods and services at the lowest possible cost to their companies. The purchasing managers, buyers, and purchasing agents make up a key component of a firm's supply chain.

The responsibilities of the GM (Marketing) and his team involved in supervision, marketing, sales in the supermarkets. He is assisted by an AGM (Marketing), Shop managers, supervisors, cashiers, attainders, sales representatives and watchmen in a top-down hierarchy. The GM (Finance) is assisted by AGM (Accounts) and Accountants are responsible for maintenance of overall accounting and auditing aspects of the business. They helped in planning, budgeting, maintaining records and accounts of employees, customers and suppliers. Finally, GM (System) looks after day to day operations of the supermarkets and is responsible for developing process, systems, quality and service standards. In case of supermarkets not in-chain (Fig-2), the Proprietor or the Manager is the head and sole responsible for anything in these supermarkets. He will be the decision maker in the organization usually assisted with Supervisors, Cashiers, Sales representatives and watchmen in a hierarchical way. The manager himself looks after purchasing, inventory and marketing activities. Sometimes, any one person in the supermarket can be assigned for various activities like purchasing, processing, marketing and sales activities as desired by the manager.

Estimated Growth of Retail market in India: The retail sector has been at the helm of India's growth story. The sector has evolved dramatically from traditional village fairs, street hawkers to resplendent malls and plush outlets. The advances in technology also gave them strength to strength for streamlining their activities. As per the RIL Annual report, the growth in E-tailing (Online retailing) and organized retailing in the total indian retail has been started growing from 2006 onwards. The expected growth of the Indian retailing is 850 $ billions by 2020 at the estimated growth rate of 7%. The Indian e-tailing market in 2011 was about $ 600 million and expected to touch $ 9 billion by 2016 and $ 70 billion by 2020 with the estimated CAGR of 61%. In case of organized retailing, the market is estimated at $ 26 billion and is projected to grow to $ 84 billion by 2016 and $ 200 billion by 2020with an estimated CAGR of 26%.

4. Conclusion:

The study indicated that majority of the organized supermarkets (multi outlets) has multi outlets operating under the single management. The un-organized supermarkets were formed by the big local and conventional store owners. They have converted their indigenous general stores into the modern type of stores called supermarkets to cater the changing needs and expectations of modern consumers which have consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector.The investments in establishment, modernization and expansion are capital intensive in supermarkets. Therefore, the joint ventures between local companies and local-foreign companies will be of advantage to the retailer as they can achieve not only economies of scale but also burden on investment. The liquid assets to total assets ratio indicated organized supermarkets seems to better than other unorganized supermarkets in terms of assets liquid ratio. Further, organized supermarkets/supermarkets in multi outlet (chain of supermarkets) firms/companies followed line, line and staff, and the functional categories of organizational structures. Whereas line organization was commonly followed in un-organized supermarkets and are family owned.

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Table 1: Investment pattern in Supermarkets of Karnataka (Rs. in Lakhs)

	Bangalore	Mysore	Mangalore	Belgaum	Hubli-Dharwad	Overall	%
Average Area of the Super market (Sq ft)	**4333.33**	**3133.33**	**1833.33**	**1200.00**	**2833.33**	**2666.67**	
Fixed Capital							
Land & Building	217.30	22.87	2.65	13.73	50.51	61.41	23.50
Machineries & Equipments	14.09	6.11	3.23	1.27	2.78	5.50	2.10
Infrastructures	4.72	2.00	1.83	0.90	1.40	2.17	0.83
Other Fixtures	6.11	2.55	2.12	1.45	3.42	3.13	1.20
Salary to Permanent Employees	5.89	2.53	1.85	1.34	2.52	2.82	1.08
Other Fixed Capital	10.19	3.17	1.31	0.12	10.98	3.39	1.30
Total FC	258.30	39.23	13.00	18.81	71.60	78.42	30.01
Working Capital							
Raw Material Capital	487.63	159.40	78.87	56.62	92.90	175.09	67.00
Casual Wages	0.72	0.42	0.25	0.18	0.39	0.35	0.13
Power Charges	3.56	2.09	1.14	1.20	2.11	2.02	0.77
Packaging Material	3.27	1.53	1.12	0.68	1.64	1.64	0.63
Other Working Capital	9.25	3.22	2.40	1.05	4.55	3.81	1.46
Total Working Capital	503.76	166.65	83.78	59.73	101.59	**182.91**	**69.99**
Total Capital	**762.06**	**205.88**	**96.77**	**78.53**	**173.19**	**261.33**	**100.00**

Table 2: Financial Performance of Supermarkets in Karnataka

Ratios	Particulars	Bangalore	Mysore	Mangalore	Hubli-Dharwad	Belgaum	Overall
Test of Liquidity	Ratio of liquid assets to total assets	0.459	0.404	0.399	0.268	0.157	**0.337**
Tests of Profitability	Net profits to total sales ratio	0.205	0.191	0.170	0.180	0.178	**0.189**
	Net profits to total assets ratio	1.373	3.146	2.187	0.868	4.509	**2.499**

Fig. 1: Organizational Structure of Supermarkets in Chain

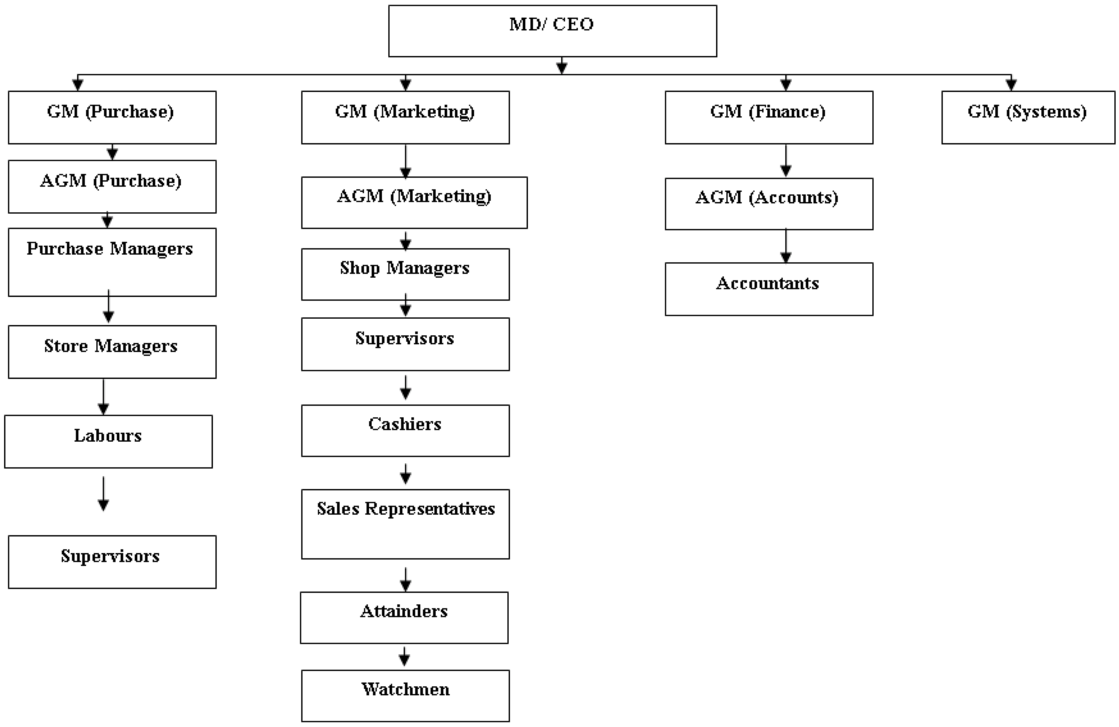
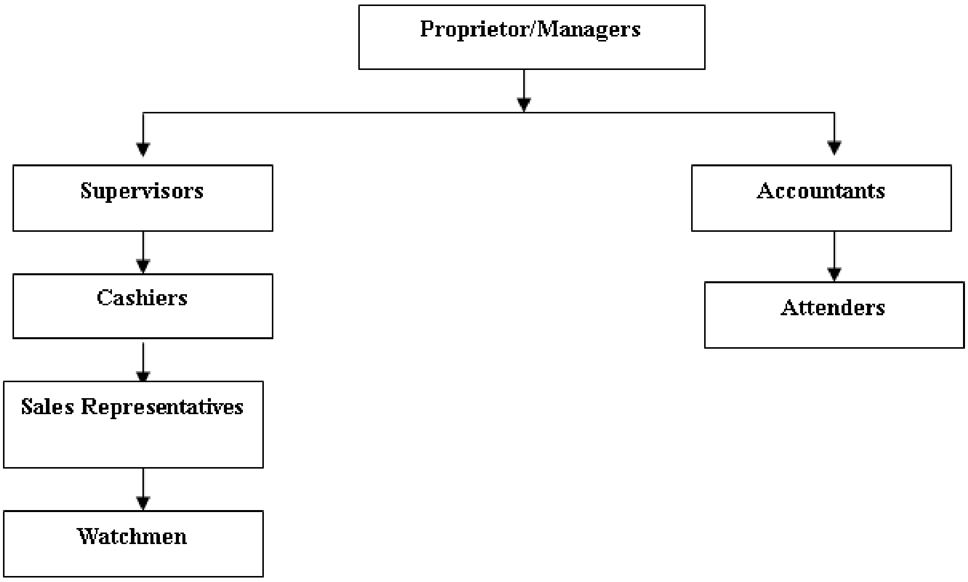


Fig. 2: Organizational Structure of Small Supermarkets (Not in Chain)



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