FORECOURT RETAILING -ISSUES AND OPPORTUNITIES

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Abstract:

Retailing, in India, has been growing at a rapid pace over the past decade. More importantly, it has witnesses significant transformation in terms of retail mix (organized vs. Unorganized), the quality and scale of retailing, the varieties of retail formats, and also change in consumer preferences and shopping habits. The face of fuel retailing outlets in India is no more restricted to the sale of fuel alone. The oil marketing companies (OMCs) are today looking at alternative revenue streams to make up for some of the losses incurred in the sale of fuels. Petrol retail outlets provide the right framework for setting up convenience retail chains where the consumer has the opportunity of combining shopping with the fuelling occasion.

Non-fuel retailing has been beneficial both to oil companies and to retailers. These outlets fit in with the strategies of major supermarket groups - which are constrained by planning restrictions on large out-of-town stores - to focus on smaller outlets; while for convenience chains, they offer a means of reaching a wider consumer base. The range of non-fuel products sold by forecourt shops is growing, and includes items such as soft drinks, hot and cold snacks, confectionary, groceries, newspaper and magazines, etc. Currently, in India, the prevailing non-fuel retail formats have their presence in urban and rural areas. These stores are operated by dealers on revenue sharing basis with the oil marketing company.

In India this model of transformation is going on and would definitely in coming days it would contribute more to the retail and have wide range of services. And this provides all the oil companies to enter into the tie-up with the convenience stores, so petrol destinations are now one of the preferred destinations. This paper highlights the factors influencing forcourt retialing, developments in non-fuel retailing at fuel stations, opportunities in forecourt retailing and the various non-fuel retail formats.

Introduction:

With the emergence of organized retailing in the country and a growing demand from consumers for a superior shopping experience, Forecourt Retailing has emerged as a key business area for petroleum companies given their wide retail presence , existing customer base and strategically located sites. Convenience need gaps have been felt in Various fields and research has shown that the urban consumer today seeks convenience in shopping for their basic requirements so that their precious time is reserved for more fruitful pursuits. Petrol retail outlets provide the right framework for setting up convenience retail chains where the consumer has the opportunity of combining shopping with the fuelling occasion.

The face of fuel retailing outlets in India is no more restricted to the sale of fuel alone. The oil marketing companies (OMCs) are today looking at alternative revenue streams to make up for some of the losses incurred in the sale of fuels. State-run oil companies are expected to incur a loss of over Rs. 1 lakh cr on the sale of petrol, diesel, kerosene and domestic LPG this fiscal, despite softening of the global crude oil prices. The contribution of non-fuel products to total revenue is 39% and 35% in the US and France respectively. In India, non-fuel retail contributes less than 2% to total sales. Thus, to increase revenues and reduce losses, all OMCs are now trying to use the available free forecourt space in the fuel stations for non-fuel retailing.

Retailing, in India, has been growing at a rapid pace over the past decade. More importantly, it has witnessed significant transformation in terms of retail mix (organized vs. Unorganized), the quality and scale of retailing, the varieties of retail formats, and also change in consumer preferences and shopping habits. This paper highlights the factors influencing forecourt retailing, developments in non-fuel retailing at fuel stations, opportunities in forecourt retailing and the various non-fuel retail formats.

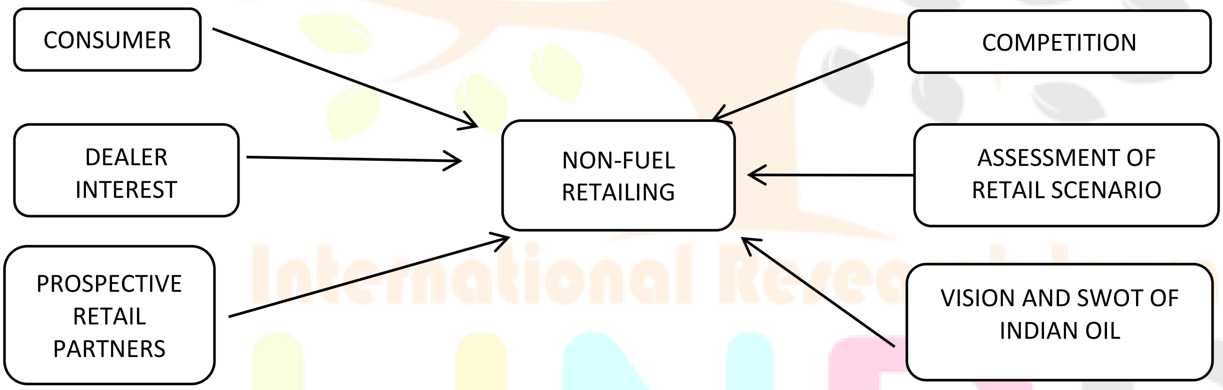
Forecourt Retailing:

Forecourt retailing, in India, started in the early 2000s and has primarily evolved into a convenience store format. BPCL, a government-controlled company, leads the industry with around 400 ‘In & Out’ outlets, a convenience store format. Reliance, India’s largest private oil company, has ‘A1 Plaza’ that focuses on highway customers, providing them with a shopping/dining plaza experience.

The total forecourt market in India is currently estimated at just under R. 400 cr, with BPCL commanding the lion’s share with a turnover of around Rs. 140 cr in non-fuel retailing. Others, such as Reliance, HPCL, Essar and Shell, have also forayed into forecourt retailing, but have not achieved adequate scale to make their presence felt. However, the potential size of the oragnized non-fuel retail market is much larger and is expected to grow exponentially over the next five years. This is given the fact that the penetration level of non-fuel retailing at fuel stations in India is less than 4%. Forecourt retailers have incresingly taken to non-fuel sales as a solutions to the problem of low margins on fuel sales. Forecourt shops are well-suited for catering to consumers with busy lifestyles, offering easy access, greater convenience and long opening hours. Forecourt operators have capitalized on these advantages by making available a wider range o products and services.

Non-fuel retailing has been beneficial both to oil companies and to grocery retailers. These outlets fit in with the strategies o major supermarket groups - which are constrained by panning restrictions on large out-of-town stores - to focus on smaller outlets; while for convenience chains, they offer a means of reaching a wider consumer base. The range of non-fuel products sold by forecourt shops is growing, and includes items such as soft drinks, hot and cold snacks , confectionary, groceries, newspapers and magazines, etc. Currently, in India, the prevailing non-fuel retail formats have their presence in urban and rural area. These stores are operated by dealers on revenue sharing basis with the oil marketing company.

Factors Influencing Non-Fuel Retailing:



- **Consumer:** A systematic market survey is required to understand consumer behavior regarding the acceptance of buying goods while refueling their vehicles. Also, one needs a more through understanding as to what products and services would go well in such outlets. Less waiting time and value added services are important parameters for consumers.
- **Competition:** Consumers normally shop for their daily needs from kirana store and various organized/unorganized retail formats available to them. All these become competitors to non-fuel retailing. Therefore, before setting up a non-fuel retail outlet, it would be important to understand the competition and what specific needs the proposed outlet can cater to.
- **Assessment of Retail Scenario:** Technopak, in its “RetailsOutlook - October 2007”, reports that the total Indian retail market will grow from $336 bn in 2006 to $590 bn in 2011, which translates to an annual growth rate close to 12%. Study of growth, new trends, tie-ups and technology used in the retail sector has to be analyzed for the planning of NFR.
- **Vision and SWOT of Oil Companies:** The vision of oil marketing companies should be clear with regard to non-fuel retailing and its growth. In-depth analysis of the strengths for handling this format, weakness of specific locations, opportunity at places/highways where no other format is available and threat of other retail formats and their expansion plans need to be objectively considered and evaluated.

- **Prospective Retail Pertner :**NFR would provide the customer with the added facility of availing various goods/services under the same roof. This would require minimum space and offer one more reason for the customer to stop by; and the store would enjoy cross-selling benefits. Associations with players like Cafe Coffee Day, McDonald's, etc., could add value to the proposition.
- **Dealer Interest:** Lack of dealer motivation and requisite skill set to operate a non-fuel retail initiative is a bottle-neck. Non-fuel retailing is more of interest to the oil marketing companies than to the retailers, because the latter have other locational options.

Reasons for Linkage between Forecourt Retail business and fuel Retail industry:

There exists strong synergy between Forecourt Retail business and Fuel Retail industry. The various aspects which provide strong linkages between the two industries are:

a. **Network:** The network of the fuel stations is very huge. They are present in each and every part of the country.

b. **Location:** Owing to its ubiquitous presence, the fuel stations are located in almost every major locality and cater to all the economic segments which are in need of fuel.

c. **Number of Footfalls:** The number of footfalls in a typical fuel stations is almost comparable to that of any big supermarket. Each day, lakhs of people visit these fuel stations to get their automobiles re-fuelled.

d. **Space Availability:** Most of the fuel stations have much idle space available within their premises. This space can be better utilized to conduct some sort of retailing business like coffee shop, convenience store etc.

e. **Financial Backing:** All the players operating in the fuel retail sector are very sound in terms of financial strength. This means that if they have the capability to venture into forecourt retail in a big way and scale up rapidly.

Revenues have been growing from the non-fuel operations of the petrol retailers. Indian Oil has achieved non-fuel revenues worth Rs 83 crore for the year 2010-11, up by around 15-20 per cent over the previous year, while HPCL's revenues from non-fuel retail operations increased by 16 per cent to Rs 37 crores for the year 2010-11 against Rs 32 crores for 2009-10.

Non-Retail Format- A Case study of BPCL In & Out Network:

The retailing formats will vary from place to place like in heart of city ATM and STD can be a good option, in highway. But in rural areas since people are mostly engaged in agriculture, so company offer products according to their needs like HPCL has tie-up with Godrej Agrovet Ltd and the outlets offer fertilizers etc and also IOC has Kisan Seva Kendra where where agro-based products like seeds, fertilizers and pesticides are made available. If one is talking about the revenue share and the profit which both party will get from thhis model is that a certain percentage of turnovers will go to companies share and also the rentals. And for retailers since the retail space is cheaper, they would have better return on investment.

Realizing the importance of a greater understanding of consumer's needs and consistent with its core objective of continuously adding value to its customers through innovative means, Bharat Petroleum has launched its convenience retailing initiative under the "In & OUT" brand. Bharat Petroleum is the 2nd largest oil marketing company in the country with over 6000 retail outlets spread across the length and breadth of the country. The In & Out chain of convenience stores is being set up in the urban markets at strategically located retail outlet sites with high customer footfalls. The purchasing of petrol is totally uninvolved process, so by enhancing such facilities would add value.

The In & Out network

The "In & Out" store at Bharat Petroleum petrol pumps, which was launched in 2001, offers a convenience proposition where a number of typical household errands are aggregated under one roof for the benefit of the customers. Today there are more than 240 In & Out stores across India, which bring in unmatched convenience at the petrol station . Strategic alliances have been formed with major brand owners and retailers in the country to further strengthen the convenience proposition.

Features of In & Out Stores:

- In & Out stores have a wide range of services viz., ATMs of leading Banks, Music stores from Planet M and Music World , Beverages from Pepsi, Coffee and snacks from Cafe Coffee Day and Coffee Day Xpress and a variety of impulse buys including confectionary, snacks, convenience foods, toiletries and select range of branded groceries magazines and other FMCG product through exclusive tie-ups with such FMCG majors like ITC, Cadbury etc.
- In & Out stores are the first to open and last to shut in the neighbourhood.
- Customers can use their Petro card for In & Out shopping and earn valuable Petromiles".
- In & Out stores are the largest organized convenience store retailing chain in the country with a standardized layout across the country, with a high level of aesthetics and an ambience aimed at deriving maximum value for our alliance partners and offering consumers a revolutionary solution for attending to their daily chores.
- The In & Out stores offer Western Union Money Transfer facilities in some cities-money available all the time from your near and dear ones abroad at our store.
- In & Out stores offer all cell phone- recharge cards. E-Charge is a complete system and service provider offering "electronic delivery system" for the prepaid product industry through electronic terminals.
- For the convenience of fueling customers who have very little time, these stores have mobile trolleys at the fuel outlet which will bring convenience to your vehicle.

<u>Opportunities for Forecourt Retailing in India:</u>

- Most forecourt retailing activities currently are of the nature of ad-hoc alliances where different formats are running at different locations, and many are unorganized formats. This offers little consistency to the consumer and he does not know what to expect at a particular petrol station. BPCL's In & Out is an important exception, and it also has a significant presence, IOCL too has substantial early mover advantages.
- Most organized urban formats offer food and grocery (F&G) categories, while the consumer needs at fuel stations are more food and beverages (F&B) oriented. The existing non-fuel retail formats have not fully recognized this. Only a few fuel stations have F&B outlets such as those of Cafe Coffee Day, that too in an ad hoc manner.
- For urban centers, consumer needs are largely "On the Move"- while most formats offer large sitting space in Quick Service Restaurants (QSRs). leaving sub-optimal return per square feet. This raises the important question as to how much space is actually required to cater to F&B needs of a consumer who is "On the Move", as opposed to a consumer at a regular restaurant, where the "social needs and motives" are stronger.
- Services, such as telecom recharge coupon/facility, bill payment, etc., have negligible presence in the prevailing urban NFR formats.
- Rest and rejuvention emerges as the most common need for highway passengers. Yet, very few organized NFR initiatives have addressed this market segment, expect for IOCL's Swagat outlets; but these are more oriented for catering to trick drivers. Reliance's A1 Plaza is the only prominent organized highway format that has achieved a good brand image. Other highway formats are not standardized across locations. BPCL's Ghar, for example, is an ad hoc agglomeration of retail stores, and fails to meet expected standards. Rejuvenation and recreation still remains largely un-cateres to for highway passengers.

- Penetration of forecourt retailing in rural areas is still nascent and the only prominent formats present are those in tie-up with rural retailing firms such as Godrej Adhar (now taken over by Future Group) at the rural periphery (along state highways) rathet than in the rural interiors. Indian Oil has the first mover advantages with its dealer-operated Kisan Seva Kendras (KSK) in the rural heartlands of India. However, there is an opportunity for oil marketing companies to tie-up with existing rural retail majors such as Godrej Adhar, Hariyali Kisan Bazaar and ITC's Choupal Sagar, as these firms loo k at opening smaller format stores to expand their reach into rural markets.
- Consumer needs for NFR can be broadly classified under three categories - urban, highway and rural. The retailing formats would have to be suitably customized to meet the specific requirements of these three categories.

Conclusion:

In future the forecourt model will definitely going to serve the purpose of the customers by providing best services and will be more convenient for hem. Food joints have good future as well as impulse goods and car care products. So beverages, chocolate, ready to eat items , personal care products and diet products which is in demand, can serve better for the customers. Items not popular in these business format are electronic goods, music, cassettes, cosmetics, toys and gifts will face challenges. Industry insiders believe the model of non-fuel retailing coupled with malls or cinema could do well on the highways or at the smaller towns than in mentors. Lack of such retail and entertainment facilities in such places would offer more opportunities to these companies, allowing them to yield more returns and witness increased footfalls. But overall the business format has good future and in coming day's better implementation can be done. So if we analyze Oil Company could have strategies in three models- one is non-fuel retailing at their retail outlets, second is fuel at malls and the third is whether they should look at entering non-fuel retail as a business model.

In India this model of transformation is going an and would definitely in coming days it would contribute more to the retail and have wide range of services. And this provides all the oil companies to enter into the tie-up with the convenience stores, so petrol destinations are now one of the preferred destinations. After filling their vehicles, customers have no time to wait and they prefer fast service. McDonald's has tied up with HPCL and BPCL, Cafe Coffee Day has partnership with BPCL and HPCL. IOC has tied up with Domino's Pizza and Niruls's; hence these initiatives would definitely go to cater the needs of the customers. The biggestadvantages of this business model is the ever-increasing price of real estate and such retail venues become more reasonable options. Also maintenance cost is cheaper compare to outlets in mall and busy market. And more importantly such tie-up would result in cross-promotion of both the brands.

Industry analysts look at the non-fuel business with a note of caustion. Mayur Matani, sector expert at ICICI Securities, said, "Non-fuel retailing model adopted by several of the petroleum retailing companies in India is new and requires time to establish itself as a profit center for the companies. The trend has been there in Europe and the US for several years, but in India it is difficault to estimate about the future probability of this model.

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