

Retailers, food chains eye metros

Raghavendra Kamath / Mumbai June 02, 2009, 0:46 IST

With rentals dropping sharply, large retailers such as Aditya Birla Retail, Reliance Retail and Shoppers Stop, and food chains such as McDonald's are looking at metros and mini-metros for expansion.

Aditya Birla Retail and Reliance Retail had started their operations two years ago in Pune and Hyderabad, respectively, as realty costs were too high in metros. However, due to fewer footfalls and lower offtake from retailers, retail rentals have fallen by over 40 per cent in the last six-nine months in many cities, according to retailers and consultants.

After they expanded steadily in cities such as Ahmedabad, Mysore, Indore, Vijayawada and Coimbatore, retailers are now all set to expand aggressively in big cities such as Delhi, Mumbai, Bangalore, Chennai and Kolkata.

For instance, Aditya Birla Retail, which is setting up 60 supermarkets this financial year and 12 hypermarkets by fiscal 2011, is focusing mainly on Delhi, Bangalore and Mumbai.

“We need rentals lower than Rs 25 per square feet per month to make our business viable. Two years ago, metros were unaffordable. Now, as mall owners prefer to have hypermarkets in their malls, they are ready to come below the market price,” said a senior Aditya Birla Retail executive, who declined to be identified. “We will again look at Tier-II cities in FY11,” the executive said. Having established its value formats such as Reliance Fresh and Reliance Mart in the top 85 cities, Mukesh Ambani's Reliance Retail is planning to establish its other formats in these cities. Spencer's Retail is gearing up to open two hypermarkets in Bangalore, one in Chennai, one in Kolkata, two in Hyderabad and two in Pune.

Samar Shekhawat, Vice-President, Marketing, said: “Our stores are witnessing an increased demand as the economy is seeing a revival. Though marginally, we are growing steadily every month.”

Shoppers Stop, the department store chain owned by the Rahejas, plans to open four stores in Bangalore, Ahmedabad and Hyderabad this financial year. It has also plans to open four stores each in the next two fiscals.

The size of each store would be around 55,000 sq ft to take advantage of the fall in rentals, reversal of service tax and possible revival in the economy, Shoppers Stop Chief Executive Officer Govind Shrikhande said.

McDonald's is planning to open 40 new outlets across the country in FY10 — mostly in Mumbai, Chennai and Hyderabad — with an investment of Rs 120 crore. At present, it has 160 outlets.

But McDonald's plans of opening new outlets may just be affected by the delays or non-completion of real estate projects due to the slowdown in the realty sector. “In the last 6-12 months, retailers have realised what went wrong and right. They have done many pilots in terms of formats, merchandise and offerings, and now have much better idea about what

works and what does not," said Anand Raghuraman, partner and director at Boston Consulting Group (BCG), a business consultancy.

Besides fall in rentals, driving consumers to stores in metros was much easier compared to smaller cities. However, consultants warn against concentration of retailers in metros. "There is a big scope in Tier-II and III cities now as the first mover advantage and brand recall are high there. If shoppers get to first mover shops in these cities, they will stick to them for a long time," said Susil Dugarwal, Chief Executive Officer of Squarefeet Consulting.