Opportunities in Non Fuel Retailing in India

Sandhya Rai[1]
Dr. Atul Razdan[2]
Dr. M.S. Pahwa[3]

ABSTRACT

With the dismantling of the administered price mechanism (APM) and opening up of the Indian petro retail market for the private companies, the competition in the oil retail market have heated up. Every company is trying to find out measure to attract and retain the customers. For this, they have introduced many promotional schemes like petro card, loyalty card and other brand building activities. But these activities are not helping them to increase their revenue as the world oil prices are continuously increasing and the companies are restrained from increasing the prices of petrol beyond a certain limit. Also diesel and LPG is still under APM and hence their price is not under the control of oil marketing companies (OMC). The only option left with the oil companies to increase the revenue, so there is need for the search for the allied business or the non fuel retailing (NFR). As these businesses had given very good results in countries like US, Europe, UK, and France, they can help in increasing the revenue of the companies in India also. The organized retail sector is already growing at the rate of 30% per annum. At present, the penetration of NFR is only 4% in India, whereas, in the US, it is 90%. The oil marketing companies (OMC) have their presence in each and every corner of the country and they can harness the advantage of this by tying up with major brands. This paper attempts to indentify the opportunities available in the areas of NFR for oil marketing companies in India.

Keywords : Non Fuel Retailing (NFR), Oil Marketing Companies (OMC), Administered Price Mechanism (APM)

INTRODUCTION

The oil and gas industry in India began in the year 1867 when an oil well was dug accidently at Makum near Margherita in Assam by a group of laborers when they were laying the railway tracks for the Assam Railway and Trading Co. Ltd. But the first commercial discovery of crude oil in India was made in 1889 near Jaypore in upper Assam. In the year 1980, the production started from this well but the systematic drilling of oil begins in 1891. Asia's first oil refinery was started in the year 1901 in Digboi. After independence, the government realized the importance of oil and gas in the industrial development and its strategic role in defense and in the 1948 Industrial Policy Resolution declared the oil industry to be reserved for state ownership and control as it is believed to be important for national security. By the early 1990s, Indian Oil refined, produced, and transported petroleum products throughout India. Indian Oil produced crude oil, base oil, formula products, lubricants, greases, and other petroleum products. It was organized into three divisions, the refineries, pipelines and the marketing division. The oil industry in India changed dramatically throughout the 1990s and into the new millennium. Reform in the downstream hydrocarbon sector began as early in 1991 and continued throughout the decade. In 1997, the government announced that the Administered Pricing Mechanism (APM) would be dismantled by 2002. In April 2002 APM was dismantled and private companies were also allowed into exploration and production activities. Because of this the Public Sector (PSU) oil marketing companies (OMC) had to find out different ways to increase their revenue and compete with these PSUs

OIL RETAILING IN INDIA

Oil retailing in India started in the year 1882 by Standard Oil Company of USA. They used to retail kerosene in the country. In the year 1959, Indian Oil Ltd. was registered as the first marketing company of India. In the year 1964, Indian Refineries Ltd and Indian Oil Co Ltd. were merged as Indian Oil Corporation (IOC). Initially all the activities related to the Petroleum Business be it exploration, refining, distribution or selling were strictly regulated and protected by the government but after April 2002 with the dismantling of APM (Administered Price Mechanism) private sector companies were also allowed to operate in the Indian market. This brought competition in the market.

CHARACTERISTICS OF PETRO RETAILING IN INDIA BEFORE DISMANTLING OF APM

Before dismantling of APM, the Indian petroleum market was ruled by public sector oil marketing companies, there was no competition in terms of price and quality of the product, they all were selling same product at the same price, customer was indifferent towards them, and there was no competition in the market. For these OMCs, marketing mean strengthening the distribution network and increasing the number of outlets at different geographic locations in their network.

The demand of petrol has always been more than the domestic production. India imports about 75% of the petrol it uses to meet the domestic demand.

Up to the year 2002, petrol was considered as a product of national significance and the private sector was not allowed to work in the exploration and distribution of petroleum products. It was only the PSUs who were working in this area. FDI was not allowed in this area.

CHARACTERISTICS OF PETRO RETAILING IN INDIA AFTER DISMANTLING OF APM

Entry of private players- After the APM was dismantled in the April 2002, government of India allowed FDI up to100% in

[1] Assistant Professor, Institute of Management Studies, Ghaziabad, Email: raisandhya@gmail.com
[2] Associate Professor, University of Petroleum and Energy Studies, Dehradun
[3] Associate Professor, University of Petroleum and Energy Studies, Dehradun

exploration of oil and natural gas. The private sector companies who owned and operated refineries with an investment of at least Rs 20 Billion or were in the exploration and production of at least three billion tons of crude oil was entitled to the marketing rights for the transportation of fuel. This fueled up the competition in the oil retailing market. With the entry of private and multinational companies, the national oil companies had no other options but to compete with these companies.

The private companies started putting huge investment in infrastructure as well as marketing. They brought with them new techniques and technologies in oil retailing from other countries. This made them more customers centric.

The three PSU oil companies constitute about 83% of the total fuel sales in the country and about 94.6% of the total number of retail outlets in the country. Out of these three major OMCs, IOCL is having the highest number of petro retail outlets followed by BPCL. HPCL is at the third place in the list of total number of retail outlets. The table given below gives record of total number of petro retail outlets up to year 2011.

Table 1.1

Major OMC (Oil Marketing Companies) in India

Companies	Market share (%)
Indian Oil Corporation Ltd. (IOCL)	48.4%
Bharat Petroleum Corporation Ltd. (BPCL)	22.5%
Hindustan Petroleum Corporation Ltd. (HPCL)	23.7%
Reliance	1.90%
Others	3.5%

Table 1.2

Number of Retail outlets of major OMC in India

Companies/ Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
IOCL	11754	16607	17574	18278	18643	19643
HPCL	7313	7909	8329	8539	9127	10212
BPCL	7332	7537	8251	8402	8692	9289
Total	26399	32053	34154	35219	36462	38964

Source: Annual report 2011, IOCL, BPCL, HPCL

NON – FUEL RETAILING (NFR) IN INDIA

Non fuel services include all offerings, products and services other than auto fuels and those used along with auto fuel i.e. petrol, diesel, auto LPG, CNG, Lubricant, and fuel additors which do not affect the norms of petro retail outlets and are sold on petro retail outlets. These include departmental stores, coffee shop, restaurants, courier services, medicine shops, music stores, auto service stations, pay telephones etc.

Non fuel retailing is also known as forecourt retailing. In India it started in late 90s. It started in the form of convenience store. BPCL is the leader in the forecourt retailing with 209 'In & Out' store (BPCL Annual report, 2011). The total forecourt market in India is estimated at just under Rs 400cr, however the potential size of the market in the non fuel retailing sector is expected to be much higher and is also expected to grow exponentially over the next decade. This is because of the fact that in US and UK, the penetration of non- fuel retailing (NFR) is ninety percent but in India it is just four percent.

Also because of fluctuating fuel prices in the international market and with decrease in profit margin from fuel sales, these retailers are constantly looking out for some allied activities that can be started to generate additional revenue. In the fiscal year 2008-09, the IOCL has to suffer a loss of Rs 1000 billion (Business Standard, 7 August 2009) as they were restrained from increasing the fuel prices under the political pressure that exists in the country. Therefore, they have to look out for other areas from where revenue can be generated. NFR is such an area. It helps the OMC to generate additional revenue by leasing up or renting the real estate. Joint venture with the leading retailers is also a way to generate the additional revenue.

Also with increase in number of working women population and double income families, people have started looking out for one stop shop, from where they can meet all their needs and NFR is a good option.

NFR helps in generating additional revenue in the form of rental income by leasing the space for the retail outlets and via profit sharing arrangement with the service provider. For instance BPCL has leased out some of its outlet to Mc Donald and is generating revenue from it.

NFR also helps in creating brand image by providing superior experience to the customer. It also enhances retention of the customer as well as adds new customers by attracting them to their outlets for one or the other reason. This helps in pushing fuel sales also as the people who come there to buy the products are likely to purchase fuel also from these outlets. In this way companies are trying to attract the customers by converting their fuel buying experience in to a whole lot of fun. They also help in brand building and act like a differentiating factor in the profit enhancing.

NFR INITIATIVE BY MAJOR OMC IN INDIA

The three major OMC in India are IOCL, BPCL and HPCL which constitute about 83% of the total oil retail business in India. These companies initiated various NFR initiatives in urban and rural areas and on highways. These initiatives are mainly classified into three categories namely convenient store, vehicle care services, refreshment. IOCL had tied up with brands like Hindustan Uniliver Ltd, Dabur, ICICI Bank, Ferns and Petals, MTR Food, PVR Cinemas, UAE Exchange, Reliance Capital and DHL. It is making the effort to utilize 195 million square feet space available. BPCL is the leader in the in NFR in the Indian market. Keeping in mind the different need of the customer it has specially designed the services for different categories. In the urban area it is providing NFR services through its convenience stores " In &Out" which is selling grocery, gifts and other impulse buying items beside selling fast food and snacks. On the highway it has started various facilities like dhaba, dormitory, and hauda facility for the truckers and parks and eating joints for the tourists and other commuters. HPCL which holds almost 24% share in the petrol retail sector is providing its convenience facility with the name "Club HP". In club HP they provide a variety of value added services which include efficient and expert services, quick care point, digital air towers, vehicles finance and insurance related services. The "club HP" outlets are categorised in to standard, mega and max stores depending upon the level of facilities and services available.

OPPORTUNITIES FOR NON- FUEL RETAILING IN INDIA

GROWING RETAIL SECTOR

India being the second fastest growing economy of the world possesses a huge potential for the growth and diversification of the NFR services. Also India has the largest number of young population in the world which forms a good base of ready consumers. With increasing disposable income the purchasing power increases and the consumer starts spending more. All these factors together are creating a good opportunity for non fuel retailing. The Indian retail industry is growing at a rate of 30% per year which is a good indicator for the success of NFR.

USE OF EXTRA RETAIL SPACE

With constantly increasing population and decreasing land availability for retail activities, these outlets can provide required space for such activities. Also they can earn good revenue from the lease or rent of the available space.

READYMADE CUSTOMER

Also the people used to come to the petrol pump to get their car filled hence these outlets have readymade customer base with a good footfall and hence cost of promotions will also decrease and a good profit can be made from these outlets.

PARTNERSHIP WITH RETAIL FIRMS

New business houses are entering into to retail business and they are looking for the space, these OMCs can take the advantage of it and attract them to their outlets in this way both of them can flourish in their business by each other's customers.

INTERCITY TRAVELLERS

A large portion of the Indian population is constantly travelling or on the move. This section requires service like rest rooms, Quick service restaurants and other related facilities. The OMCs can invest in such facilities. Till now very few such facilities are available.

RURAL MARKET

The OMCs have good presence in each and every nook and corner of the country and same is true for the rural market. They have very good presence in the rural market and they can utilise this presence by providing additional facilities. IOCL has already started KSK (Kishan Seva Kendra) and HPCL is running Godrej Agrovet in the rural areas where they are selling fertilizers, seeds and other products used in agriculture. There is lots of scope in this area.

CONCLUSION

Though in the beginning these companies aggressively entered in to the business on NFR, the pace of penetration is not as aggressive as it should be. The main reason for this was that the companies were still finding it hard to understand the market dynamics. They had started many services but were unable to gather the expected footfall. Also while starting any new service in and around petrol pumps, they had to take permission from different government departments which itself is a very time consuming process and all the services cannot be started in all the areas. Hence a thorough study is needed in this direction to understand the need, requirement and attitude of people towards these services. It is a good source of earning additional revenue with little or no investment and these companies should harness it. Keeping in mind the three types of consumer namely urban, highway and rural, appropriate retail services can be started, which is customised as per their need.

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