



New thinking on organized grocery retail in India

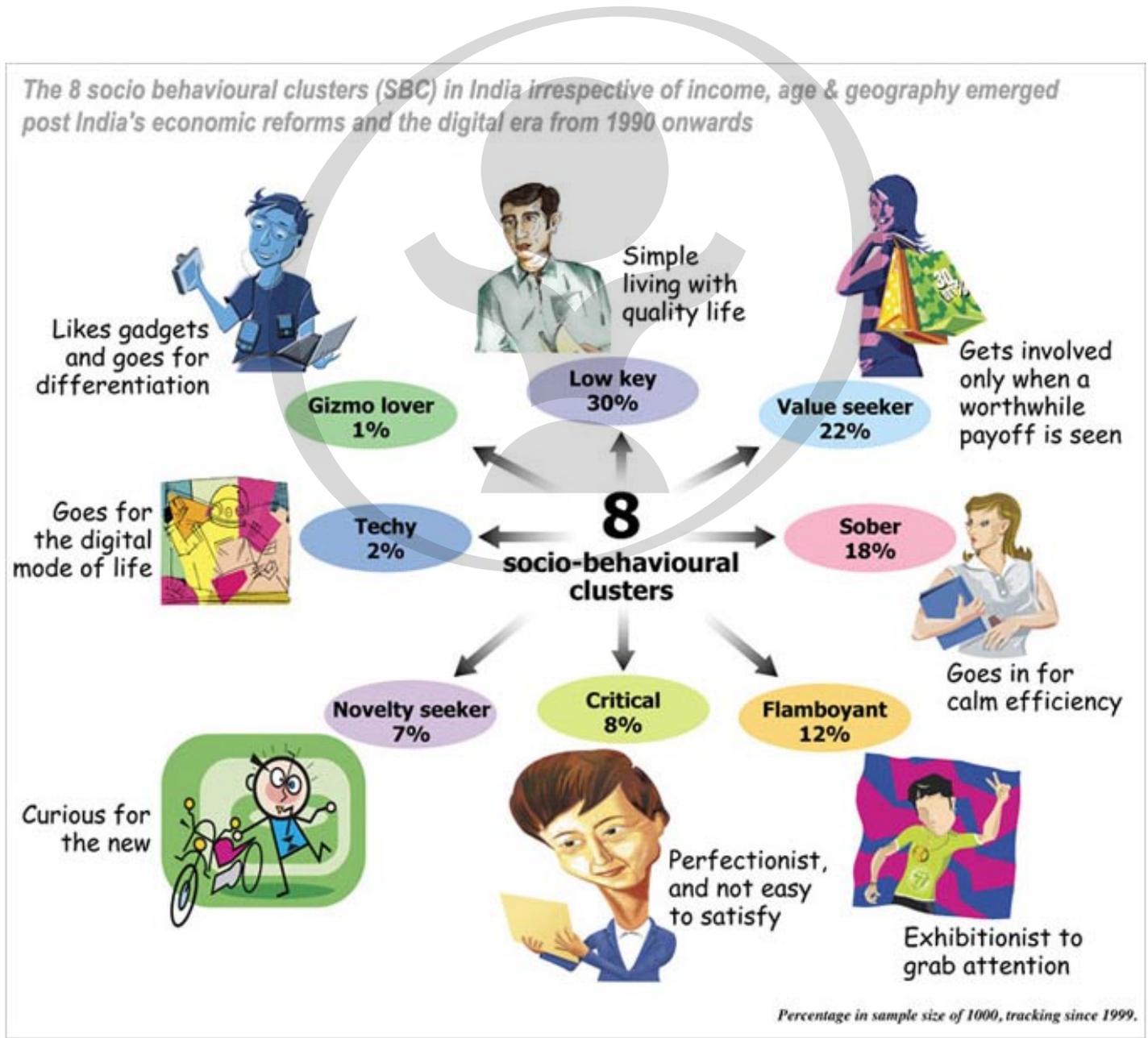
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Organized grocery retails in India are not driven by traditional Indian social and shopping habits. Not everybody may be interested to go to an organized retail. That's because people have different personality traits that manifest in the way they behave in society, irrespective of their income or spending ability.

Having tracked this behavioural phenomenon for over 10 years, we at Shining have defined that there exist 8 socio-behavioural clusters in

the world today, in developed and developing countries. These comprise people who are Low key, Value Seekers, Sober, Flamboyant, Critical, Novelty Seekers, Techy and Gizmo Lovers.

This means that whatever income group people may belong to, their lifestyle, way of living their daily life and purchase patterns are dictated by their behavioural drives in social interactions. The 8 socio-behavioural clusters have spun off from the digital technology world that has democratized society and the market with abundant and affordable choice.



If you take the Rs 30,000 to 50,000 per month income group in the metro, you will find that Low Key, Value Seeker, Sober and Techy shoppers may not frequent organized retails for purchase purposes. This is a sizable population number of 70% as per the chart above that organized retail is missing out on. As per my table below, you may find such shoppers may not like to shop in organized retails; the mom & pop store is ideal for them.

Organized retails may try hard with discounts and numerous attractions to pull in these socio-behavioural clusters, but such shoppers have not mentally accepted the modern retail. So, organized retail is left with only the Flamboyant, Critical, Novelty Seeker and Gizmo Lover as their shoppers, which comprise 30% of the population. In contrast, in mass organized retail has to be driven by the 70% of shoppers, those who are Low Key, Value Seeker and Sober.

| ORGANIZED RETAIL | | MOM & POP STORE | |
|---|--|---|---|
| Shopper benefit | Shopper dislike | Shopper benefit | Shopper dislike |
| <ul style="list-style-type: none"> ● Gets everything under one roof ● Self help ● In case buying for an employer, he/she gets the right bill ● Hygienic and AC cooled ● Alternative price advantage in private label ● Good ambience to spend time ● Availability of fresh food ● Regular offer, in fact special offers available for bulk purchase | <ul style="list-style-type: none"> ● Long queues for paying ● No bargaining ● No credit ● Consistent availability of merchandize is poor ● Inconsistent availability of fresh food ● Mostly pre-packed grocery sold, so shopper has to buy more then requirement | <ul style="list-style-type: none"> ● Moderate queues ● Bargaining ● Credit ● Familiarity with shopkeeper ● When the exact merchandize needed by consumer is not available, retailer gives genuine advice of where to get it, or offers a substitute brand or product with his assurance ● Home delivery on shopper phone call ● Regular offer and if consumer does not want bulk purchase, individual sale is done ● Merchandize available in loose, helps in small purchases | <ul style="list-style-type: none"> ● Merchandize open to the elements, so doubtful hygiene ● Not self help, dependent on the retailer ● Dairy products generally not available |

Why super markets did not take off in India

Where's the discrepancy that prevents organized retail from earning money? Imitating Western retail experience or hiring experienced Indian FMCG professionals can never make grocery retails successful in India. Here's why:

1. Benchmarking the Western organized retail model is hara-kiri: The Western requirement for the organized retail came because people needed to save time, get a better price, better shopping experience, be assured of consistency in product quality and availability, and there was a huge lack of manpower. Those societies have a certain understanding of discipline, which is rigorously followed. What happens in India is that different individuals have the urge to make trials on their own without maintaining a disciplined system. The grocery organized retail in the West was founded on logic that all product categories are already branded in the market so the organized retail can give a self experience to the shopper without having an intermediary for selling.

Later, to increase their income, retailers started proposing private labels that mirror national brands but give shoppers a 20 to 30% discount.

2. Misinterpretation of private label in India: The private label concept did not emerge to transfer commodity product to become a private label brand. Alternatives of brands and categories that consumers recognized were made as private label.

About 30 to 40% revenue of organized retails come from a fresh counter selling fruits, vegetables, meat, fish and seafood that are not pre-packaged. In Europe, such fresh products were not available in every street corner as it is in India even today. Retailers pushed manufacturers of developed countries to be more innovative and

price sensitive. Today private

labels hold nearly 40 to 50% market share in Western organized retails. You will find Tesco, Carrefour, Walmart have added several new categories that may not have existed in the branded category. But this is the result of extreme maturity of the retail business. In developed countries, shoppers bond with these stores as their right and unique solution. So retailers have taken the initiative to bring new ideas that are very different and driven to provide extra benefit to shoppers.

3. Commodity driven market cannot drive the organized retail:

About 90% of grocery food products are unbranded and considered as commodity in India. By packaging commodity products as private label, are retailers providing extra benefit to shoppers?

There are several utility products that can upgrade the consumer's life, that have not been introduced as brands. SME companies such as Miuexa and Eau Ecarlate in France come out with innovative products that serve specific consumer needs and purposes. For example, there's de-mineralized, perfumed water for use in steam irons to create vapour and leave fragrance in clothes. Doing that the iron box gets protected as well because rust is prevented and sediment does not block the small vapour holes. Eau Ecarlate has many totally new stain removing solutions for garments not discovered by large global companies. Bringing such useful alternative solutions to consumers made grow these small companies. Private labels have since imitated them.





Eau Ecarlate Fabric Stain Remover

This 100-year-old French company was stagnating with a \$2 million business till 1990. After repositioning the brand and introducing modern stain removing products, its business boomed to \$300 million with high margin. In spite of international competition this product is growing with its unique brand value.



Mieuxa odd jobs products for home use

Through a very luxurious presentation, a small French company became the market leader in a new category of odd jobs products for home use. This is an example of branding commodity products like white spirit and water for ironing clothes, and the launch of various home repair products like readymade cement and adhesive material required for plumbing and carpentry. The packaging educated consumers on how the product should be used so they need not call up facilities repairmen for small, simple jobs.

Two Shining examples of brand creation of need items that transform the commodity market and at the same time responds to the consumer's stated and unstated needs.

The first disconnect of Indian organized retail is competing with commodity products. A retail private label brand cannot substitute commodity products as it will not have awareness or pull outside of the retail. So creating such a retail brand can never be the shopper's top-of-mind requirement as it does not have branded competition. The organized retailer will never see return on investment by selling branded category toothpaste or detergents. In the high earning fresh area, the organized retail has not yet established any added value, sustainable proposition from the basic vegetables sold in the outside market. They may have added a few exceptional or rare products like avocado, broccoli or lettuce, but how many Indians know these fresh products and consume them? Has any organized retailer been able to prove that brinjals, potatoes, peas or tomatoes in the retail are really superior to the loose market or the cart seller just outside the organized retail's front door?



4. Mom & pop store owners are the genuine, shopper-sensitive retail merchants:

The retail business is very different from running a manufacturing or service industry. It requires understanding of the catchment area, the procurement of multiple categories and brands, the technique of acquiring shopper footfall and the alchemy of conversion in the store by creating different activities on a regular basis. Any mom-&-pop store owner will have very superior understanding of the catchment, shopper footfall and conversion as they are the real merchants. But they may not necessarily have the knowledge or ability to manage large scale procurement, supply chain and logistics in the backend.

The problem in India's organized retail is that highly educated and highly paid professionals are being used to handle the backend part of the retail only. This is a waste of money for the retail owners and a waste of the professional's education degree because only an intelligent merchant mentality is required. On the other hand, having a few MBAs could have helped to make every effort to understand the psychological, sociological, economic and family conditions of the shopper who spends the money to keep the retail alive.



5. FMCG professionals are not cut out for the retail's rhythm of diversity:

FMCG professionals do not have the mentality of a merchant. They understand the purchase of raw materials, how to innovate new product lines, the manufacturing process, sales and marketing to sell a few focused product segments and line extensions that they have been working on year after year.

Now-a-days, even manufacturing is mostly outsourced. That's why FMCG professionals will not have the management capacity for diverse products.

Even taking MBA graduates in the retail business is a big mistake. Grocery retail is an everyday, nitty-gritty, painstaking, hard working job. All MBAs, irrespective of the institution they pass out from, always dream to become part of a big corporation's management cadre.

The mindset of merchants, just graduates, who cannot think and drive for better education to make a corporate life, are the people perfect for grocery retail development for at least the next 5 years.

A huge population from high school to graduates is available from the masses in India who need to earn money at a very early age. You may require sophisticated MBAs only to train the others, but the operations should be handled by the BA graduates.

This is the activation that Indian organized retail lacks. The BA graduates should help to drive this area as their urge would be to prove their competency. In addition, taking people from mom & pop stores and convert them into organized retail sales persons will not be a bad idea because these are the people who have the real experience of the meaning of supply chain, stocks and offtake.

New thinking required to run organized retails in India

The Indian grocery retail needs new thinking and totally different actions. A new benchmark can be established that's driven by India's multi layered socio-cultural, habit and behavior flair. The market requires prioritization in the next 5 years.

Overwhelm the stated and unstated need of the shopper from catchments to sourcing to footfall to conversion with the following actions:

Action one: Add some advantage of the mom & pop store in the organized retail such as less queue, shopper familiarity with shopkeepers, retail salesman should have the capacity to advice and find a solution about the non-availability of any merchandize, avoid any bulk selling, give individual products if consumers ask for them.

Action two: Areas that shoppers dislike in the organized retail need to be addressed. Such areas include inconsistent availability of merchandize. This means that once a merchandize has been put in the store, it must be available 365 days. If its not to ensure its regular procurement, its better not to allow this merchandize. Fresh food needs to be highly compared on an everyday basis.

A fleet of people should visit the locality to compare that the product in the store is at least 50% better than what's being sold by the cart seller and in the open market. The differentiation has to be perceptible to shoppers, the organized retailer should not take his own inside-out judgment. Continuous consumer research in the surrounding catchment is essential to see how, in a blind test, they see the differentiation. Be sensitive to the SKU. If the shopper purchase trend in the mom & pop store is to buy a product of 200 grams, don't sell only the 500 grams SKU.



Irregularity of the product availability shift shoppers



Maintain 365 days standard quality

Action three: Don't create private label of commodity products: Sell commodity products in bulk according to the shopper requirement. Give a perceptible quality difference in this area. Shoppers should feel that they are getting a highly sophisticated commodity product in more or less the same price.



some statistical work for a month or two, you can carve out the hours on different days of the week when there is heavy rush at the billing counter so that people have to queue. The time table will establish and define the rush hour, smooth hour, and relaxed hour in the store. Promote this very strongly, both in the store and by email to shoppers, so that there is predictability and everyone knows how many minutes they have to wait for the billing out time. Knowing what to expect kills half the complaints at the billing counter.



Rush hour



Smooth hour



Relaxed hour

Action four: Divide shopping hours into different privileged moments: The culture of the masses in India has never been to queue up and be patiently disciplined. When you buy a product in a mom & pop store, you can easily see how another person will jump over you, and the retailer will have no qualms about satisfying him in spite of the fact that

he may be serving a larger customer before him. How can this problem be addressed? Establish a time table in front of the store that tells the shopper about traffic intensity at the outlet. After

Action five: Empowering service activation of retail sales staff:

Shopkeepers' familiarity with shoppers: Those responsible for in-store merchandize display should be trained in such a way that should the shopper require anything, their services are available. Their contact should be eye-to-eye so the shopper feels a sense of comfort, the store acquires proximity in her mind, and the professional familiarity of the sales personnel make feel comfortable to buy.

Shopkeeper as shoppers' confidant advisor: Retail sales personnel should have the capacity to advice and be responsible to provide a solution that satisfies a shopper when a merchandize is not available. The shopper should not get discouraged.

Shopkeeper's vigilance on merchandize availability: The in-store procurement person should be trained to create a huge pressure for backend consistency and regular availability of a merchandize.

Area driven special fleet for benchmarking merchandize with neighbourhood competitors: Fresh product in the store is at least 50% better than what's available with the cart seller and open market: An in-store professional should be assigned the job of continuously benchmarking the products in the catchment.

Action six: Divide the retail into 3 sections under one roof with extra advantage of billing counter:

Section 1. Marketing the commodity: With hygiene and sophistication expose commodity merchandize in a bazaar-like atmosphere with high discipline. Shoppers can then have a strong visual experience and feel the merchandize

without touching it as they've traditionally done in mom & pop stores. Don't invest money for private labels of commodity products. As that does not have any reference of brands, it is a waste of money. Make this area very flexible without putting the shelf.

Every fortnight do some work to refresh the store without changing the placement of the merchandize. Packing and weighing should be easy, and help available when required. This can be arranged in different places as though different mom & pop stores have been installed inside the bazaar. Give the feeling of tradition in an organized, disciplined and sophisticated store.

Section 2. Marketing of fresh merchandize: Create a fresh area that provides totally unparalleled differentiation from the loose market. Surround the retail with fresh and have the branded category in the middle.

Section 3. Branded: Have a sophisticated area for national brands and corresponding your private label. This should be in front of the fresh area.

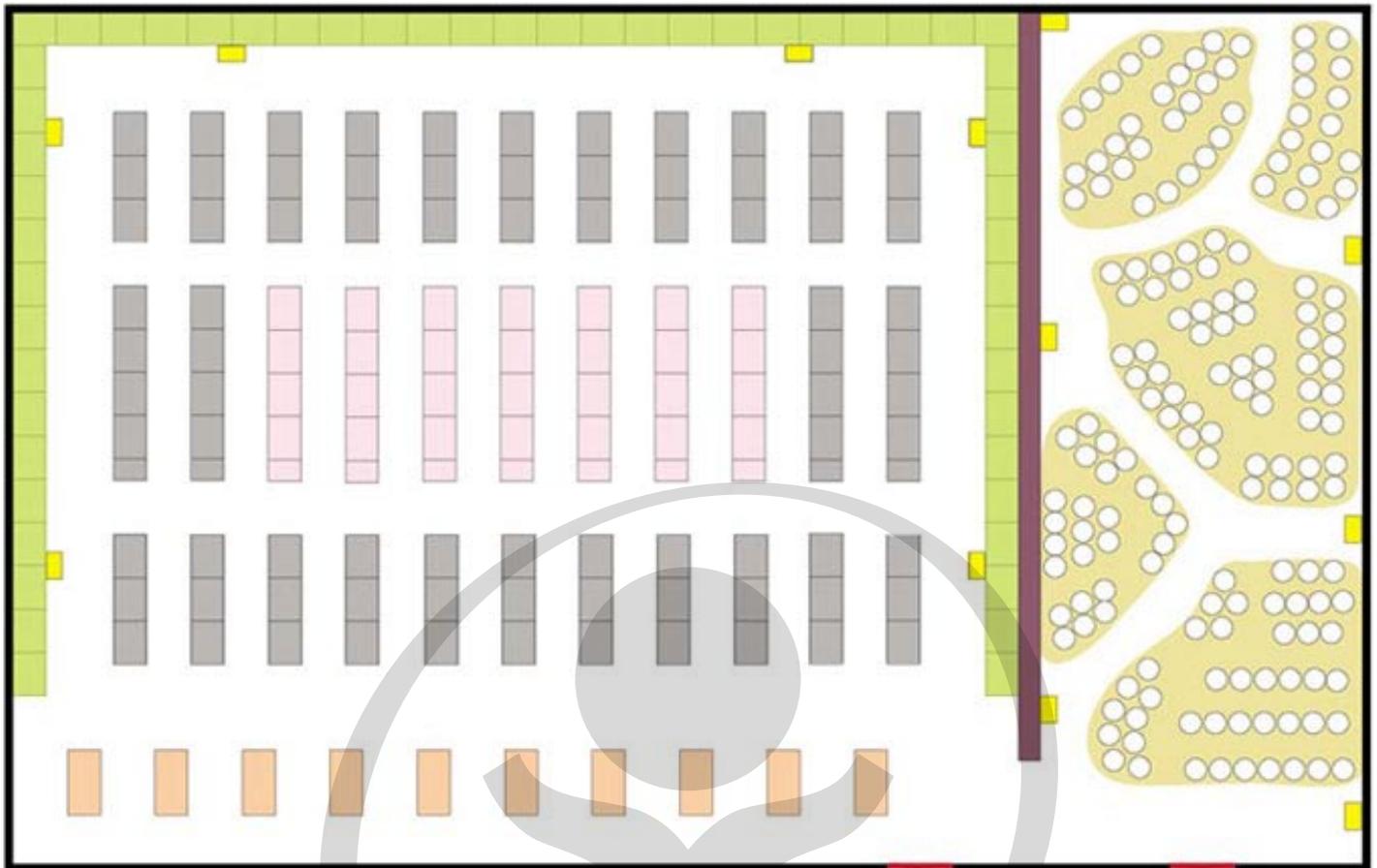
Action seven: Shopper friendly and billing counter sans stress for shoppers:

Multiply the central billing counter and facilitate a few localized billing counters for shoppers who have a small number of items

Eg. when a shopper buys only 20 kg of rice, she need not come to the central counter. In the same way in the fresh counter if someone wants to buy milk or tomatoes, she should be able to pay there.

Give a time frame of each shopper should not spend more than 5 – 7 minutes in the central billing counter.

Thinking on Planogram model for modern organised grocery retail of 10,000 sq.ft.



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| F & V, Bakery, Diary visual merchandise – 628.5 Sq.ft. – 6.28% | Bazaar style Commodity Product display – 530.99 Sq.ft. – 5.3% |
| FMCG rack – 935 Sq.ft. – 9.35% | Walkable Space – 6797 Sq.ft. – 67.97 % |
| General Merchandise racks – 378 Sq.ft. – 3.78% | Entry & Exit – 9 Sq.ft. – 0.09% |
| General billing – 180 Sq.ft. – 1.8% | Partition between bazaar & super market – 138 Sq.ft. – 1.38% |
| Localised billing – 45 Sq.ft. – 0.45% | Walls – 278 Sq.ft. – 2.78% |



Delivering extra benefit

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