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November 17, 2019 | ₹100

INDIA
TODAY GROUP



REINVENTING KIRANAS

RELIANCE, HUL, AMAZON,
FLIPKART AND GROCERS
ARE HARNESSING
NEIGHBOURHOOD STORES AS
FORCE MULTIPLIERS

From left:
Doug McMillon,
President and
CEO of Walmart,
RIL Chairman
Mukesh Ambani
and Amazon
CEO Jeff Bezos



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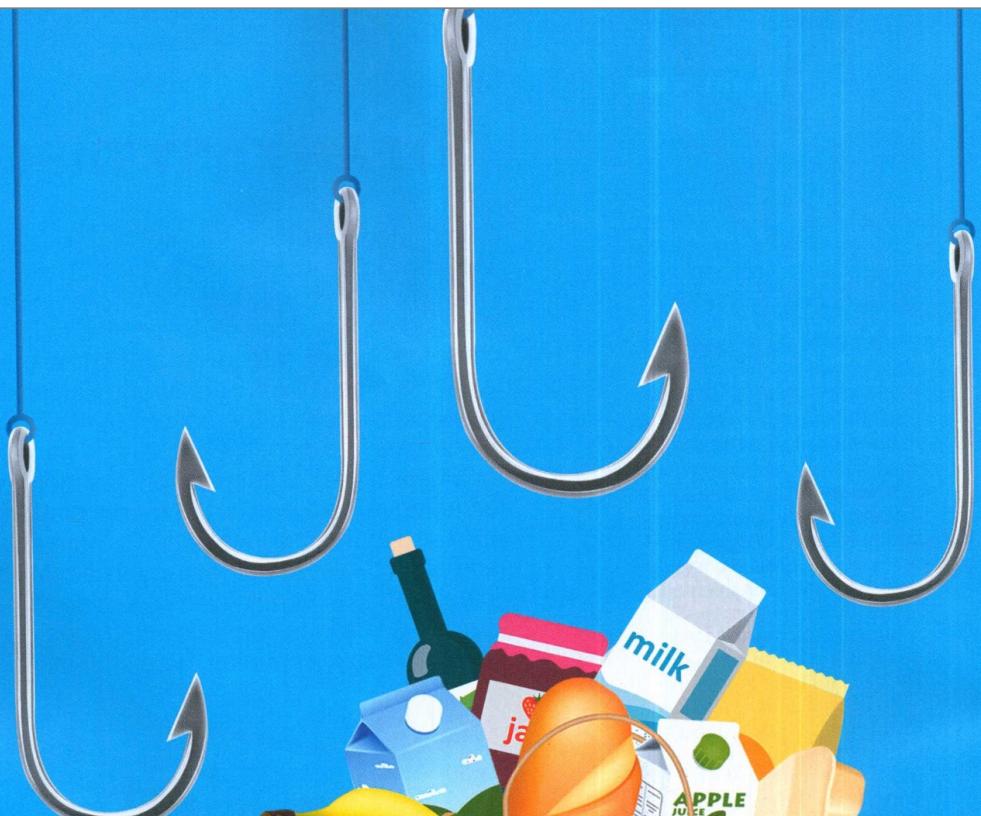
COVER STORY

REINVENTING KIRANAS

Reliance, HUL, Amazon, Flipkart and Grofers are hooking neighbourhood stores as force multipliers



PHOTOGRAPH BY MONEY SHARMA

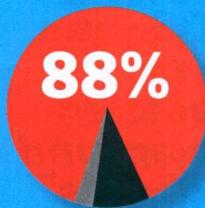


COVER STORY **KIRANAS**

REINVENTING KIRANAS

AT A GLANCE

INDIAN RETAIL MARKET -
\$795 BILLION



Source: Deloitte

RELIANCE, HUL,
AMAZON,
FLIPKART AND
GROCERS ARE
HOOKING
NEIGHBOURHOOD
STORES AS FORCE
MULTIPLIERS.

BY AJITA SHASHIDHAR
ILLUSTRATION BY RAJ VERMA

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ESIDENTS OF NAVJIVAN Cooperative Society, a quiet mid-market residential complex in the western suburbs of Mumbai, have in the past few months got used to a small Flipkart truck entering their premises between 10 am and 10.30 am every day. "It's a bit of a nuisance for us, but at least Mahesh gets to make extra money," murmurs an elderly resident, as Mahesh Gamre, owner of Deepika General Stores, rushes out of his 200 sq. ft-store. The Flipkart truck offloads 45-50 packages, which Gamre quickly keeps in his store, the ground floor of his one-room flat where he lives with his wife and parents. Gamre's wife, Geeta, takes charge of the shop, which stocks rice, dal, sugar and even detergent or soap. Soon, Gamre sets out on his scooter wearing a Flipkart delivery cap. He delivers 30-40 packets within a 5 km-radius of his shop and makes ₹7,000-8,000 per month, in addition to the ₹25,000 he earns from the kirana store. "I got married recently and I was looking for additional income; the Flipkart partnership came as a blessing," he says.

In Vadodara, 62-year-old Samun K. Campwala, owner of a cake shop, signed up with Amazon a couple of years ago. The additional space in his 600 sq. ft-store has turned into a micro warehouse, from where he delivers packages to addresses within 2-3 km of his store, earning an additional ₹15,000-20,000 every month. "Not only have I been able to repay my debts, this additional income has helped me spend on my kids' higher education."

Some of the biggest consumer giants — including HUL, Reliance Retail, Amazon, Walmart-Flipkart, Grofers, Big Basket and Metro Cash & Carry — are vying for the attention of India's 12-million strong kiranas and neighbourhood stores. They propose to empower (read leverage) the humble kirana store, the neighbourhood tailor, that beauty parlour

PHOTOGRAPH BY: BANDEEP SINGH



MUKESH AMBANI
CHAIRMAN AND MD,
RELIANCE INDUSTRIES

"Our merchant Point of Sale (POS) Solution – Jio Prime Partner POS – is integral to our plan to create an ecosystem around small merchants"



PHOTOGRAPH BY LANTERN CAMERA

**AMIT AGARWAL,
SVP AND COUNTRY HEAD,
AMAZON INDIA**

"We are excited by their evolution as digital entrepreneurs and as integral partners in our journey to transform how India buys and sells"

next door or even the mobile shop, the gift store or the cloth merchant through technology, mostly apps, which will manage the inventory, accounting, billing, payments, and even customer management. Whether it's Reliance's point of sale (PoS) machines, HUL's Shikhar app, Metro's 'Digital Shop', Big Basket's app or Amazon and Flipkart's customised apps, their aim is to partner with these stores anyhow. Their technology is meant to leverage these stores to deepen their reach in a manner that would have been unimaginable otherwise. The kiranas are, after all, 88 per cent of India's retail universe. The motto: Instead of fighting the kiranas, embrace them. And with that the chatter that kirana stores would die a slow death is passé.

The ₹1.3 lakh crore domestic giant, Reliance Retail, has raced ahead in this journey with 2.5 million kiranas on its network. The Big Basket app has 50,000 users in 10 cities. American e-tail giants Amazon and Flipkart are picking up pace with 23,000 and 17,000 local retailers on their network, respectively. Flipkart's fashion arm Myntra has another 15,000 stores on board. If Reliance aims to tap 5 million kiranas by 2021, an average Flipkart sales person onboards 10-15 local partners per day. Metro has about 2,000 kiranas.

Reliance is the most ambitious of the lot. Just as it wooed telecom users by offering free handsets and cheap data plans, it is offering perpetually cash-strapped local retailers PoS machines at a nominal price. "Our merchant Point of Sale (POS) Solution — Jio Prime Partner POS — is integral to our plan to create an ecosystem around small merchants. This user-friendly digital platform is designed for inventory management, customer relationship management, financial services and other services. This will modernise even the smallest neighbourhood kirana shop to become a future-ready digitised store," Mukesh Ambani, Chairman, Reliance Industries, said at the company's annual general meeting in July this year.

"The main purpose of new commerce is to completely transform the unorganised retail market... The three crore merchants and kirana shop owners, who generate direct and indirect livelihoods for over 20 crore people, form the backbone of India's commerce ecosystem. These highly energetic and self-motivated entrepreneurs have suffered in recent years because of their inability to invest in technology and infrastructure. In the true Reliance ethos, we are working towards enriching and empowering them with our end-to-end digital and physical distribution stack," Ambani said.

Unlike Reliance Retail, which being a domestic company has a free run, laws don't allow Walmart (Flipkart) and Amazon to have a multi-channel presence. So they are partnering with the good old kirana stores. "We continue to work to solve consumers' pain points. Kiranas will be one of the most impactful initiatives in offering fast and personalised last-mile services to our customers and also help evolve the kirana ecosystem," says Kalyan Krishnamurthy, Group CEO, Flipkart.

Amazon India has a similar reason. "The kirana ecosys-

tem symbolises the entrepreneurship spirit of India. We are already seeing a strong willingness to embrace technology with tens of thousands of stores across the country acting as our last-mile delivery partners or assisted shopping points, enabling millions of remote customers to experience online shopping, while simultaneously increasing their earnings and scaling with Amazon," says Amit Agarwal, Senior VP and Country Head, Amazon India.

The 12-million strong kirana stores account for over 90 per cent of the country's largest FMCG company, HUL's sales. For Sanjiv Mehta, Chairman and MD of HUL, it has been a dream to reinvent the traditional stores with technology and analytics. While the company's Shikhar app enables kirana partners to order their inventory directly, it is just one part of the digitisation story. The company also wants to understand consumption patterns in each store through data analytics. "Technology provides an opportunity to wire up and connect these stores, as well as bring the science of retailing to them," points out a senior HUL spokesperson.

It's not the first time an attempt is being made to organise the kiranas under one banner, though this is undoubtedly the biggest scale in India's retail history. Most of the earlier initiatives back-fired.

Well ahead of the curve was Future Group Chairman Kishore Biyani who launched Big Bazaar Direct way back in 2013. The project was withdrawn within a couple of years due to ill-conceived planning and poor participation. The company had onboarded kirana stores and provided them with tablets on which they could take orders from customers and Future would deliver the products to their homes. The exercise was not just a logistical nightmare as the company didn't have enough warehouses at that point, the kirana stores also took advantage of the Big Bazaar branding to push their own products.

According to a company insider, the retail major's kirana partnership is now limited to running the about 5,000 public distribution stores in Rajasthan and West Bengal, which have been rebranded as Annapoorna Bhendar. The company manages their inventory and 70 per cent of the brands sold are their own brands.

Future has its own chain of neighbourhood stores under the EasyDay, Nilgiri and Heritage brands, through which it caters to around 11,000 pin codes. A company insider says that it prefers to set up its own neighbourhood stores rather than partner with kiranas.

Online grocery company Grofers, too, met with failure with its initial model of partnering with kiranas. "We used to pick up from the stores and deliver to customers. They were our supply centres. Kiranas were not a good fit because they didn't have the invent-



tory fit," says Albiner Dhindsa, Co-Founder, Grofers. For example, he says, often the order would be for 5 kg detergent, but the kirana would have just 2 kg. "You can't go to three places and collect, as your cost goes up. Unless you can fulfil the entire order from a single store, you are losing money," he adds.

However, past failures haven't deterred the new flag bearers.

The neighbourhood general store holds a lot of inventory, offers speedy delivery, and knows its consumers choices. These advantages are what attract consumer giants that are tapping the kiranas for a variety of tasks: deeper penetration into markets they can't reach themselves, consolidating demand to offer better prices, last-

WELCOME ONBOARD

2.5 MN

Reliance Retail's kirana partners. It hopes to join hands with 5 million kiranas by 2020/21 and double that to 10 million by 2021/22. All its current kirana partners use the company's PoS machines

17,000

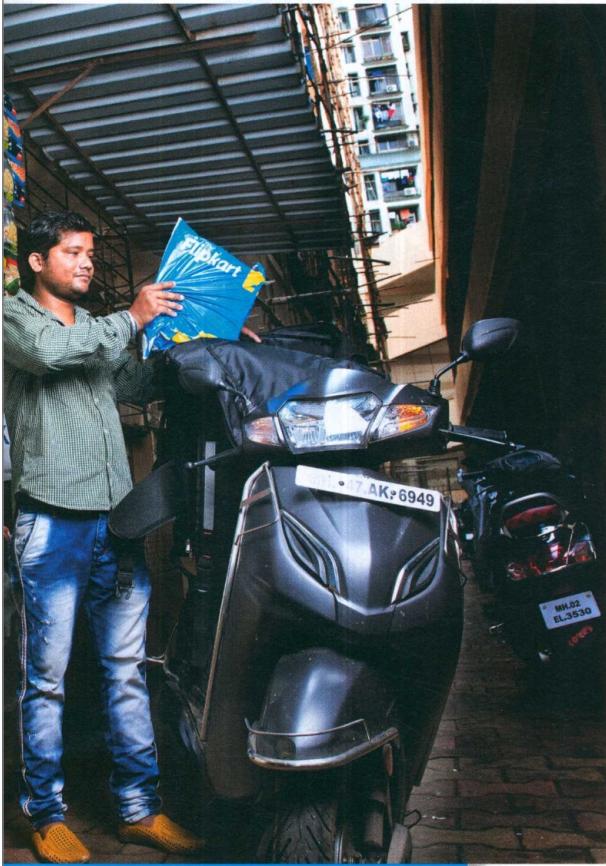
Kirana retailers that Flipkart has partnered with

23,000

Amazon's kirana network across 350 cities under its 'I Have Space' Programme

VALUE-ADD

Owner of a general store in Mumbai also delivers Flipkart packages to nearby addresses



PHOTOGRAPH BY RACHIT GOSWAMI

mile delivery, lower cost of delivery, and information on consumer choices. In turn, kiranas benefit in the form of better margins, inventory management, payments, billing, and even GST compliance.

The way the retail companies are approaching kiranas differs. "It's no longer a retail versus retail battle, the game is moving towards one platform versus other. Every retail platform will try to onboard more and more local retailers on its platform," says Govind Shrikhande, retail expert and former MD, Shoppers Stop.

Those stores that have linked up with Reliance Retail have to order their goods via the PoS. The device allows the store to take orders online as well as generate GST-compliant bills. It alerts in case there is a shortfall of inventory at the stores and enables faster replenishment. In return, since the PoS machine is linked to

Reliance's cash and carry ecosystem, one may see the neighbourhood stores selling Reliance's private brands. For the retail major, it's a good way to win the loyalty of a local store.

Apart from these, the PoS is also a way of tracking customer consumption habits, which in the long run can help retailers with their private brands strategy. The catch in installing a PoS is that the stores are forced to buy stock from only Reliance Retail.

HUL has linked up with kiranas through its Shikhar app, which enables stores to order directly, bypassing distributors. In return, the company is able to penetrate further into the market and also improve customer service. "General trade with over nine million stores contributes to about 90 per cent of the FMCG industry. It serves over 95 per cent of the shoppers. From a



KALYAN KRISHNAMURTHY,
CEO, FLIPKART

“Kiranas will be one of the most impactful initiatives in offering fast and personalised last-mile services and also evolve the kirana ecosystem”

social perspective, the survival of these outlets is critical for the country and technology provides an opportunity to wire up and connect these stores, as well as bring the science of retailing to these stores,” points out a senior HUL spokesperson.

Metro has a Smart Kirana programme, under which it has digitised operations of close to 2,000 kiranas across the country. The retailer has also partnered with fintech start-up ePayLater to co-create a mobile app called Digital Shop. “It transforms kiranas into a digital shop instantly using their existing smartphones. By downloading this app, kiranas can digitally track their

**ALBINDER DHINDSA,
CO-FOUNDER, GROCERS**

“Kiranas offer convenience, not saving... We have sourcing power. We are able to take that price and give it to local retailers too”



PHOTOGRAPH BY RACHIT GOSWAMI

daily and monthly sales, manage their inventory, place orders to Metro and also offer digital payment options to customers on their smartphone,” says Arvind Mediatta, MD and CEO, Metro Cash & Carry.

Online grocery retailer Big Basket had initially planned to use the kirana store as a last-mile delivery agent, but later decided to opt for the online cash and carry model. “The problem in our case is that we are dealing in a different category; it’s not one shirt or one phone or one charger. In grocery, our average order has 20-21 items and these include perishable items. The retail store will most often not be equipped with the right

SHEER DOMINANCE

COVER STORY **KIRANAS**

India has about 12 million kirana and neighbourhood stores. That's about one store for every 100 Indians

The traditional kirana stores have a competitive advantage due to their **low operating costs and intrinsic knowledge** about the local community, which allows them to have limited product choices in their outlet

Customers prefer shopping at kiranas as they **get extended credit** due to the personal relationship between the store owner and the customer

WHY KIRANAS?

Retailers and FMCG companies are pushing kirana stores to digitise so that the stores can capture the spending patterns of customers, which is valuable information. Using this data, companies can supply the right SKUs

Last-mile delivery is a big cost and challenge for all retailers. The **cost of delivery of each packet to a consumer's home is about ₹100**. There are difficulties in locating addresses, maintaining stock points and fulfilling deliveries. There is also the additional cost of picking up return packets. By getting a kirana partner to do the delivery, the delivery cost is reduced by at least ₹20. Plus, as the kirana also knows the locality well, locating an address is easier

The store also serves as a pick-up point for consumers in case they are not at home at the time of delivery

The kirana store owner is paid ₹20-25 per delivery, which can amount to an additional income of ₹7,000-8,000 per month

infrastructure to carry all these items," says Abhinay Choudhari, Co-Founder, Big Basket. He claims that by being an online B2B cash and carry retailer, he is able to fill the gaps left by the traditional distributors as well as the physical cash and carry retailers. "Big Basket gives the kirana access to multiple brands as opposed to dealing with multiple distributors from various companies." The company already has a network of 50,000 kirana users across 10 cities. The plan is to foray into tier-2 towns over the next one year.

The best thing that has happened in the last one year, according to Raman Sharma, owner of Park Super Market in Gurgaon, is his partnership with Grofers. Now a Grofers branded store, Sharma says that over 65 per cent of his merchandise is not just sourced from the online grocery company but his inventory is also managed by them. "Earlier, my net margin was 9.5 per cent. Now, with Grofers, it has increased to 11 per cent. This has helped to competitively price necessary items such as rice and detergents, which not only get more footfall in the store but also help retain customers and get them back to the store." Sharma claims that the footfall at his store has increased 25 per cent.

Grofers also has a cash and carry model, but with a tweak. It has converted around 200 stores in and around Delhi into Grofers branded stores and manages their inventory. It also has 7,000 network stores, which could be kiranas, beauty parlours or gyms, which it uses as micro warehouses and delivers to customers from there. "We know that the customer is always on the lookout for savings at a local level, which the regular kirana store is unable to offer. The kirana offers convenience, not saving. So, we get new entrepreneurs who want to open a store, or go to an existing store and tell the owners that we will be responsible for stocking their entire store. We have sourcing power, as we mostly buy directly from manufacturers. We are able to take that price and give it to local retailers too," explains Dhindsa of Grofers.

Metro Cash & Carry has also launched 'Kirana Success Centre'. "It empowers the kirana community with a one-stop moderni-

sation and digitisation solution to help them attract more footfall and profitability, and compete with the modern retail landscape. We have helped remodel the traditional closed format kiranas into open format ones to make them more modern and competitive," says Mediratta. The company has not onboarded kiranas for B2C business but for B2B.

E-tail giants, Amazon and Walmart-Flipkart, on the other hand, need the kiranas most for speed of delivery and to leverage their customer relationship skills. Plus, save on delivery costs. Amazon has a programme called 'I Have Space', under which it partners with local store owners across different cities to deliver products to customers within two-four kilometre radius of their store. "The programme is open to all store owners who have the ability to service on foot or a two-wheeler. The only requirement to be a 'I Have Space' partner is that the store owner should have sufficient time to make local deliveries during their off-peak hours, and space to store packages," says an Amazon India spokesperson.

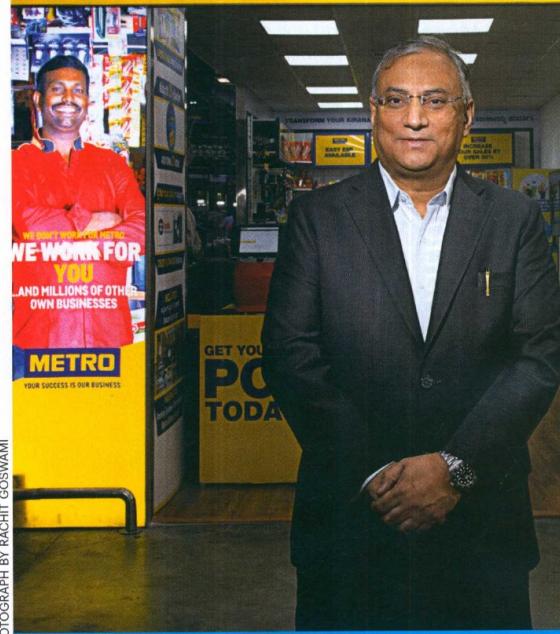
The e-commerce retailer has store partners in over 350 cities, with more than 23,000 such retail outlets partnering with them. "We are excited by their evolution as digital entrepreneurs and as integral partners in our journey to transform how India buys and sells," says Agarwal of Amazon India.

In addition to this, Amazon, also has an assisted shopping programme called Amazon Easy across 21 states, for which it has partnered with distribution companies such as Vakrangee and StoreKing as well as local retailers to help consumers in smaller markets set up Amazon accounts, order on the website as well as make online payments and initiate refunds. "Amazon Easy is going to be transformational as it uses technology and empowers local entrepreneurs to break down complexities and barriers for new-to-e-commerce shoppers using assisted shopping. Amazon Easy will play a significant role in enabling the next 100 million customers in India to enjoy shopping on Amazon.in starting with this upcoming festive season," says Kishore Thota, Director, Customer Experience and Marketing, Amazon India.

Apart from the 17,000 kirana and neighbourhood retailers that Flipkart has onboarded on its network for last mile delivery, during the recently concluded Big Billion Days sale, it partnered with another 10,000 general stores under an initiative called 'Flipkart Authorized BuyZone', through which it hand-held first-time consumers in almost 700 cities, across 20 states.

"We feel that along with digital payments, e-commerce is going to usher in the next big revolution in the kirana space which will re-position and re-invent

KIRANA SUCCESS CENTRE



PHOTOGRAPH BY RACHIT GOSWAMI

**ARVIND MEDIRATTA,
MD AND CEO, METRO CASH & CARRY**

"By downloading this app (Digital Shop), kiranas can digitally track their sales, manage inventory, place orders and also offer digital payment options to customers"

REALITY DIFFERS

the stores as convenience stores from an e-commerce perspective, while offering them a new source of revenue, making it a win-win situation for all," says Krishnamurthy of Flipkart.

However, the more immediate benefit of having a kirana network is saving on delivery costs. One of the biggest costs of most organised retailers, especially e-commerce retailers, is delivery — on an average 6-12 per cent of the price of the product. If a customer in Mumbai orders a T-shirt or a book from Flipkart or Amazon, the delivery cost will be in the region of ₹70-100. "Everyone is looking at collaborating with the existing kiranas so that delivery becomes faster and easier. If I have to pick up an order of ₹500 from a warehouse at Bhiwandi and deliver it to the consumer, my cost of delivery itself will be over ₹100. If the consumer were to pick up from a nearby store, or even if the local retailer drops it at the consumer's home, the delivery cost will be substantially lower," explains retail expert Shrikhande.

In this system, the organised retail company delivers all the orders of a particular locality to a small retailer there, who in return becomes the last-mile delivery agent. So, if the delivery cost of a packet that is delivered from the warehouse to a consumer's house is ₹70, by delivering it to the kirana store, the retailer's cost of delivery could dip to ₹50. "If the retailer pays the kirana store owner ₹25 per delivery, he saves ₹25," says Choudhari of Big Basket.

Not just deliveries, there is the cost of picking up returned purchases. Almost 30 per cent of the products delivered by e-commerce retailers are returned by consumers. "A point of pick-up can also become a point of return. The delivery cost and the return delivery cost are almost equal. If the returns also happen at these stores, the online majors can reduce the overall cost by almost 50 per cent," says Shrikhande. For the kirana store owner, it is an additional income with hardly any investment, and retailers get efficient delivery at lower cost. Most local stores are family-run and have very low operational costs. "If an e-commerce retailer wants to do multiple dispatches and it sets up hubs in various parts, each of those will have to be manned by salaried employees. But if they have tied up with kiranas, the possibility is that business will increase at a much lower investment," says Kumar Rajagopalan,

Though the partnership between **organised and unorganised retailers** seems like a win-win for both, kirana store owners are not convinced. Here's what they say:

I don't understand this business

I have a small store, where will I keep additional merchandise?

I am the only person at the store, how can I leave my store and go to deliver their products?

If I order through the app, they most often don't have the SKUs I want

Most organised retailers don't give extended credit

They also don't accept returns while the traditional distributor does

CEO, Retailers Association of India.

Though the likes of Reliance Retail, Amazon Flipkart and other organised retailers are upbeat about their respective hyper local strategies, they are facing enormous challenges on the ground.

One of the major hurdles is convincing store owners. While kiranas have multiple apps on their phone, be it HUL's Shikhar, Big Basket, Metro or Best Price, there is often reluctance to use them to replenish the store's inventory. Those in tier-2 markets can be especially reluctant. "Who has the time to order on an app? If I keep looking at the app, I can't attend to customers," says Anuj Agarwal, owner of Vilas Kirana in the Palda locality of Indore. Yudhisthira Bhatia, owner of Sri Sainath Provision Store in the Manish Baugh locality of Indore, says that he always prefers a traditional distributor as opposed to ordering on an app because not only does the distributor come to his store and he can order his stock as he attends to his customers, the apps don't give him credit, something that he gets from the distributor. Choudhari of Big Basket admits that while

WAYS TO CONNECT

Big retailers and e-commerce companies use various approaches such as B2C and B2B apps as well as point of sale (PoS) devices to onboard kirana stores.



HUL's Shikhar app: Enables kirana partners to order their inventory directly



Reliance PoS device: Inventory, customer relationship management, financial services and other services



Metro Cash & Carry app: Digital tracking, inventory management, digital payments



Big Basket app: Access to multiple brands

biggest issue that small retailers have is that it will expose their business. The reason why they don't adopt technology is not because they are naive," points out Rajagopalan of Retailers Association of India.

Besides, a vast universe of neighbourhood stores still remains untapped as barely 2-3 million of the 12 million stores have been onboarded. However, the level of acceptance of these app-based services is higher among kirana retailers in large cities and metros. For instance, Praveen Bhai, owner of Maru General Stores, in Andheri, Mumbai, uses apps such as that of Big Basket when he urgently wants to replenish stock. "On days I feel that the app offers me better schemes than the distributor, I order from the app. There are days when I urgently need stock and if the distributor doesn't turn up, I prefer the app as their speed of delivery is faster."

Also, the kirana store may not need what the retailers have to offer.

"The kirana caters to a small catchment area but with experience has been able to know what his customer wants and keep only those products. They don't need IT to tell them that they only have, say, 2,000 SKUs. They know exactly who their customer is," says Arvind Singhal, Chairman of retail consultancy, Technopak, who feels that organised retailers need to offer strong reasons for the kiranas to be part of their network. "As of now, everything sounds good on paper, but I am not sure how fruitful it will be," he adds.

There is also the fear of big retail crushing small retail. "The bigger guys are going to become bigger and bigger. In the kirana model, everybody works within their perimeter of geography and delivers within the geography," says Shrikhande, who believes that in the long run, kirana empowerment could lead to elimination of the value chain. "The traditional distributors will need to reinvent themselves in order to stay relevant. Having said that, I am not too sure how soon that will happen," he adds.

Ashwani Mahajan, National Co-Convenor, Swadeshi Jagran Manch (which has firmly opposed FDI in multi-brand retail), says, "I know e-commerce companies are doing tie-ups with kirana stores in different parts of the country, but we suspect this to be a mere facade."

It is early days still but the success of the model will depend on whether the consumer giants can keep kiranas interested with a proposition they can't refuse. **BT**

With inputs from Sonal Khetarpal and Anilesh Mahajan.

@AjitaShashidhar

he offers the convenience of shopping, he doesn't offer the extended credit that traditional distributors offer. "He (kirana owner) will not buy everything from us; he will continue to buy from the distributor. He buys small quantities from us, maybe 20 per cent of his purchase. This is typically stuff he needs to replenish at once," he explains. Vipul Shah, owner of Chheda General Store in Andheri, Mumbai, says, "If I install their PoS machine, I have to order from them. I don't want to turn away the traditional distributors. They give me credit and also take back stock that I don't need."

Then there is the matter of understanding the complexities or details of the various processes. "Most of the time, the apps don't have the SKUs I need. I am not too literate either, so I don't understand the schemes the manufacturer offers unless someone explains them to me," says Bhatia.

Prakash Shah, who runs a kirana-cum-medical store in the western suburbs of Mumbai, says that he has been approached by Reliance several times to install the company's PoS machine, but has refused. "I can't understand their business model," he says

The reluctance has other reasons too, one of which is not wanting to declare their income. "Currently, the