

Fortune India

Page No: 66

Type: Magazine

Page Name: n.a.

Language: English

Size: 2775 sq. cm

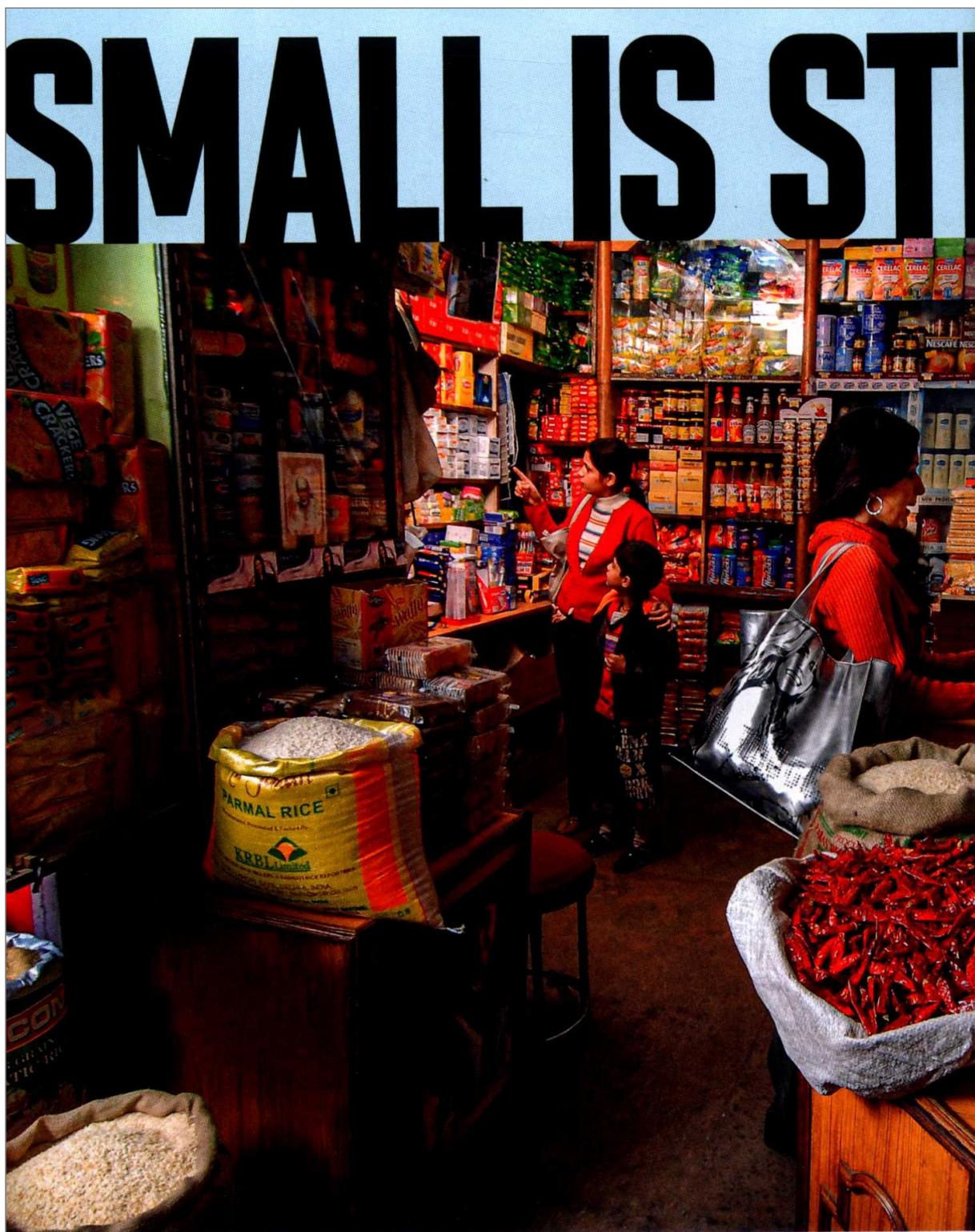
Circulation: 80,000

AVE: INR 4,142,662

Frequency: Monthly

National - Aug 01, 2019

News monitored for: METRO Cash and Carry



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# ALL BEAUTIFUL



**NEIGHBOURHOOD KIRANA OWNERS ARE SPRUCING UP THEIR STORES AND JOINING HANDS WITH BIG RETAILERS TO MEET INDIA'S INSATIABLE APPETITE FOR SHOPPING. AND CONSUMERS ARE NOT COMPLAINING.**

BY **ARNIKA THAKUR**  
**AND ANSHUL DHAMIJA**

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**RISING DEMAND**  
India is expected to become the third-largest consumer economy by 2025, according to a report by BCG.

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SECTOR REPORT: RETAIL

# IT'S A HOT

**AND HUMID TUESDAY AFTERNOON.** One would assume there wouldn't be too many people out shopping. But Delhi is different. Modern Bazaar in the basement of Select Citywalk, one of the city's busiest malls, is abuzz with activity. The outlet, the grocery chain's third store, was set up by Kunaal Kumar in 2011. Later he opened the spruced up version in the basement with an investment of ₹5-6 crore. The genesis of the business dates back to 1971 when Kumar's father set up the store in Delhi's tony Vasant Vihar neighbourhood. It soon expanded into a four-floor emporium and ran successfully for three decades before it was gutted in a fire in 2004. Kumar, who joined his father in 1991, decided to start afresh; he set up the store again in the same market with a capital of ₹40 lakh—some of which was his own money and the rest was borrowed from friends. "Business was thriving. I was able to pay back my friends within six months," he says. So what brought about Modern Bazaar's transformation from a small department store to a modern retail chain? Kumar's forward-thinking strategy.

Modern Bazaar was never a typical neighbourhood store; it was always fancy with some imported products to tickle the taste buds of Delhi's elite and moneyed class—Bollywood icon Amitabh Bachchan and former Congress president Sonia Gandhi have been famous patrons. The store is a great example of how modernisation and knowing the pulse of the consumer helped it nurture a single store into a full-fledged chain. It has 10 stores and now competes with biggies from the retail world such as the Future Group's Big Bazaar and Foodhall, and Nature's Basket, at least in Delhi and Gurugram.

The secret sauce, experts say, is the way the store is stocked: a good mix of Indian groceries with some amount of imported goodies, enough to satisfy shoppers' aspirations while giving them their fill of the basics. Kumar says now they also service some 18,000 orders each month online. The company wants to double the number of outlets in the next three years and aims for revenues of ₹500 crore by then. It

expects to finish the year with ₹200 crore.

While Modern Bazaar's story is unique, neighbourhood stores across the country are having a moment of modernisation, led by technology. And like Modern Bazaar, they are trying to keep up with the taste and aspirations of the new Indian shopper. So while the neighbourhood store might sell you a Lifebuoy soap or Aashirvaad flour, it will also have a selection of imported cheese and Ferrero Rochers. Devangshu Dutta, CEO of retail consultancy Third Eyesight, says there has also been a generational change in typically family-owned stores. "The younger generation wants to run a different kind of shop. It needs to be upgraded in look, feel; they want to incorporate the changes they have seen in the market," he says.

In Delhi's Hauz Khas market, for instance, another old neighbourhood store, Narang Marche, got a makeover after the next generation joined the business. The once-cluttered store which stocked everyday needs such as dals and soaps now also stocks more niche products like Davidoff coffee and Raw Pressery juices to keep up with customer demand. It also added a freezer and a meat and eggs section, which it didn't have earlier. "Rising personal disposable incomes and changing lifestyle of consumers—giving preference to convenience—have led to this trend being adopted in full swing across sectors of consumers, including retail, food and beverage, FMCG, apparel and footwear, consumer durables, and electronics," Deloitte says in its report, Unravelling the Indian Consumer.

Industry is gung-ho about consumption growth. "Education [level] is rising, the economy is growing at anywhere between 7% and 8% leading to rising incomes, therefore our entire consumption basket has to rise," Saumya Tyagi, director-marketing, South Asia of Tetra Pak, had told *Fortune India* in an earlier interview.

Research also supports the optimism. According to a Boston Consulting Group report, India is expected to become the third-largest consumer economy by 2025, reaching \$400 billion in consumption. Its per-capita monthly income is estimated to have increased by 10% to ₹10,533.83 in FY19 from ₹9,579.83 in FY18, according to government data. The country also ranked first in the Global Retail Development Index 2017.

In the early 2000s, during the retail revolution in the country, experts had predicted dark times ahead for mom-and-pop stores, and said their

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share in the Indian retail scenario would fall significantly, Dutta says. The belief was reinforced after the government allowed foreign direct investment (FDI) in retail and e-commerce took off with companies like Flipkart and Amazon spending billions of dollars to attract the Internet-savvy Indian consumer.

The fear was that deep-pocketed global and domestic players, leveraging their partnerships with manufacturers and distributors, would lure customers away from neighbourhood shops through innovative value-added services like customer loyalty programmes, discounts, and deals. "For general trade to survive they have to bring in technology, and they have to bring in the science of retailing," Sanjiv Mehta, chairman and managing director of Hindustan Unilever (HUL), said in an investor presentation.

He cited space and funds as two major constraints for small shopkeepers across the country, whose number India Brand Equity Foundation (IBEF) data pegs at around 12 million. India is a land of small- and medium-sized businesses. After agriculture, independent businesses are the second-largest source of livelihood for peo-

**ORGANIC GROWTH**  
Modern Bazaar, under Kunaal Kumar, has grown from a small department store to a modern retail chain of 10 outlets.

ple. *Kirana* stores account for 90% of retail and FMCG sales, modern retail 8%, and e-commerce 2%, according to reports. Some *kirana* stores are so popular that generations of a family have been customers. So despite the competition from swanky supermarkets, modern retail, and e-commerce players, the *kirana* ecosystem has continued to fight back. In the early days of the retail revolution, *kirana* stores were threatened by big global and domestic players armed with superior technology and deep pockets. However, two decades later, these big players are joining hands with *kirana* stores to tap more consumers.



**LITTLE OVER 50 YEARS AGO**, M. Ekambaram opened a small 144-sq. ft. provisions store, M.P. Store, in Bengaluru. The store, like many other *kirana* stores, stocked daily need items, but no perishables because it did not have a refrigerator. Over the years, Ekambaram, now 68 years old and father to three sons, expanded his store to 900 sq. ft. Customers thronged the shop even though it only added a refrigerator when it modernised the store in January this year.

"Our customers can now come in and browse through our 1,600 SKUs [stock-keeping units]," says Ekambaram's eldest son, Arun Kumar, who joined his father in the business in 2000. "There is also more

▲ PHOTOGRAPH BY SANJAY RAWAT

69

FORTUNEINDIA.COM // AUGUST 2019

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## SPENDING SPREE

[Figures in \$ bn]

[2017] 1,824

[2020F] 3,600

**CONSUMER EXPENDITURE**  
Rising income and demand for quality products will boost consumer expenditure.

**SIZE OF INDIA'S RETAIL MARKET**

The retail sector contributes 10% to India's GDP and 8% to employment.

1,750

1,200

672

518

490

534

600

641

750

2012

2013

2014

2015

2016

2017

2021F

2026F

**SIZE OF FMCG MARKET**  
Robust consumption and rural demand keep the FMCG market buoyant.



BUY



**INDIA'S ONLINE RETAIL MARKET**

2015 13

2016 14.50

2017 17.80

2018F 32.70

2020F 60.00

2022F 73.00

**INDIA'S E-COMMERCE MARKET (\$ BN)**

100 [2020F] → 200 [2026F]

50 [2018F]

39 [2017]

▲ \*FY18; F: FORECAST  
SOURCE: EY, PWC, AS-SOCHAM, INDIARETAILING.COM, EMARKETER, NIELSEN INDIA, BMI RESEARCH, FICCI, DELOITTE, AND IBEF

space for branding," he says, pointing to four large display units within the store. "Business has grown between 40% and 50% due to better visibility of our products and stocking of more expensive cosmetics."

M.P. Store's renovation into a more upmarket convenience store is an example of how German wholesaler Metro Cash & Carry is helping *kirana* store owners grow their business manifold. "They guided us all the way and even monetarily helped us in the renovations," says Kumar.

Metro, through its 'Kirana Success Center' programme, provides product management solutions to small traders for more holistic and sustainable growth besides educating them on retail concepts such as planograms and inventory management. As a customer base, *kirana* stores account for about 40% of Metro's revenue in India. In FY18, its revenue was €776 million. "Kirana stores will remain evergreen as people in India still rely on their neighbourhood *kiranas* for their daily essential needs," says Arvind Mediratta, managing director and CEO of Metro Cash & Carry India. "The local stores do free delivery for a small product pack in less than an hour and also provide a handy credit facility to their regular customers."

Mediratta says the company has provided these stores with point-of-sale (POS) systems to track their inventory, sales and revenue, run promotions, and track slow and fast-moving items just like any modern retailer. However, he says "the biggest arsenal for *kiranas* is their business model". "It is much simpler to set up a *kirana* shop with fewer stock-keeping units vis-à-vis a retail store with huge capital cost and inventory."

Retail giants like the Future Group, Reliance Retail, and HUL as well as e-commerce majors Walmart and Amazon are not far behind. They, too, are engaging with small neighbourhood establishments. HUL's Mehta says the company is experimenting with different business models in collaboration with retail partners. "We help the retailer by upgrading the categories, by getting more return on investment for the cubic feet of space that they have with the science of retailing," he said during an investor call. "We firmly believe the science of retailing that we have and the way we are customising our assortment, we will be able to customise our assortment for a store based on the locality and the kind of shoppers that exist in the vicinity."

In 2014, global e-commerce giant Amazon in India launched the 'I Have Space' pro-

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**Kirana stores will remain evergreen as people in India still rely on their neighbourhood shops for their daily essential needs.**

ARVIND MEDIRATTA  
MD AND CEO, METRO CASH & CARRY INDIA

gramme (an India-first innovation) under which it partners with local store owners, *kirana* shops included, to deliver products to customers within a 2-4 km radius of their stores. Amazon trains the store partners on customer management skills to deliver a positive customer experience. Akhil Saxena, vice president, customer fulfillment, Amazon Asia, says that in 2017 they had tied up with close to 17,500 such stores in 225 cities, which increased to 20,000 retail partners in over 350 cities in 2018. “Amazon has successfully unlocked the potential of such store owners, al-

lowing them to supplement their regular income and generate more footfall in their stores,” Saxena says.

Last year, when Walmart bought a 77% stake in Flipkart for \$16 billion, it also said it would partner with *kirana* owners and members to help modernise their retail practices and adopt digital payment technologies. At the annual general meeting of Reliance Industries last year, India’s richest man Mukesh Ambani spoke of a ‘New Commerce’ platform that was a hybrid online-to-offline model. While the model would be created by integrating Reliance Retail’s physical marketplace with Jio’s digital infrastructure and services, Ambani stressed on the importance of *kirana* stores in taking the model to fruition. “We see merchants and small shop owners as critical customer interaction and fulfilment points, who will share a mutually beneficial win-win relationship with us,” he had said.

**E**VEN SMALLER STARTUPS like StoreKing and Razorpay are vying for the attention of *kiranas* with their technology and offering them credit for modernisation. StoreKing, a technology-enabled retail distribution platform, supports local languages and enables rural retailers to buy and sell products. HUL, P&G, Marico, Samsung, and Xiaomi, among others, use StoreKing’s 50,000-strong retailer network to access consumers in tier 3 markets and beyond. “We are probably the only company to focus on rural India,” says StoreKing’s founder Sridhar Gundiah. Amazon India, too, is enabling customers in smaller markets to get access to the convenience of online shopping. Through Amazon Easy, it is partnering with the offline retail ecosystem to bridge the trust gap; it trains small offline stores and local entrepreneurs in smaller towns to help customers with online shopping.

But the growth of modern trade, says Deloitte’s Rajat Wahi, will also depend on how much real estate gets created in the form of malls. He expects modern retail to grow to 18-20% of total retail trade in the next 10 years and e-commerce to about 10%, depending on how quickly last-mile delivery, warehousing, and other issues can be sorted out. He says 60-65% will still be general trade, a part of it will possibly be more modern like a supermarket, but still be individually owned or in some cases by a consortium of owners. Globally as well, general trade forms a large part the retail industry. “In all of South Asia, 60-70% of the trade is still general trade. Even in developed countries like Germany, Holland, Italy, mom-and-pop stores are still thriving,” says Wahi.

India, the fifth-largest global destination in the retail space, isn’t the easiest market for multi-brand retailers, as government policy only allows 100% FDI under the automatic route for single-brand retailers. While this policy is seen as helping *kirana* store owners, it continues to be a sore point among global retail giants operating in the country. “*Kirana* stores fuel a culture of entrepreneurship and all efforts need to be made to boost entrepreneurship that will create further employment opportunities. Hence, it is essential to empower them, upgrade their traditional methodologies and train the store owner and their staff,” says Mediratta. With huge numbers across India still excluded from the Internet and mall culture, the country has enough room for *kirana* stores to coexist with modern retail, and thrive. ■