

Overhauling of Kirana Stores

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INTRODUCTION

In India, retailing is the buzz word now-a-days. This sector has modernized and expanded at a rapid pace in sync with India's economic growth. We all can see the glorious future of retail. But the future of mom and pop stores which we know as Kirana stores looks uncertain due to the growth of modern organized retail. Experts have gone to the extent of saying that mom and pop stores will soon be extinct.

Kiranas have their own advantages and disadvantages. They have survived because they add a personal touch to your shopping experience. They will not only accept your order over the phone but deliver it at your doorstep as well. They will keep themselves updated with all that is happening with your family, care about your health and hence you will feel like the Kirana store owner is a part of your family. All this makes your shopping experience comfortable and thus you pay a visit to this store at least once a week.

FACTS & FIGURES

As per the statistics, there are over 12 million Kirana outlets¹ spread across India. If we calculate, it is around 11 outlets per 1000 people. Of the entire retail sector in India, the unorganized retail is a dominant 96%². The Kirana stores make up for 52%³ of this unorganized retail sector. That is about 50% i.e. half of the total retail sector. All the above statistics show that the Kirana stores have a wide reach. They also hold great importance for the Indian economy. The Kirana stores alone contributed 180 billion US dollars⁴ in the fiscal 07-08 generating employment for 2.2 crore people⁵.

HOW MUCH GROUND DO THE KIRANAS ACTUALLY COVER?

Kirana stores are growing only at 8% per annum⁶ while the demand is increasing due to higher household incomes and rise in the spending attitude of the people. But the growth of Kiranas is restricted by their weak financial state and physical space constraints. Retail is growing at a rate of 13%⁷ and thus it is very evident from the numbers that this demand will not be completely met by the unorganized sector alone. The same has been said in the ICRIER report of 07-08. This is the reason why modern retail is growing rapidly and bridging the supply demand mismatch. Modern retail competes based on the price and variety. Given the same quality, people will always buy at a place giving lower prices; which is true especially in India. Modern retail procures in bulk, gets the best price and thus succeeds in luring the price conscious customer to its stores. Secondly, Modern retail, due to the heavy investment capability, offers wider variety which the small store fails to provide. They also exploit the fact that due to the hectic lives and changing life style, today's consumer simply doesn't have as much time as before to do the shopping.

According to ICRIER report 2007-08, after the advent of modern retail, it was observed that there was decline in profits. As we can see in the first graph, the % growth of turnover of Kirana stores is declining over the years. In the second graph, the same can be seen for profits.

If we compare both the graphs, we can see that the profits are declining at a higher rate than the turnover. Which means that the margins are getting squeezed due to the price based competition from modern retail. So, it is amply clear that the Kirana stores will not last long in a price based competition.

Let us see if Kiranas can compete on other parameters that they provide.

We just saw that one of the pillars on which Kirana stores rest is the loyal customer. Research findings from the ICFAI research report on consumer behaviour showed that customer loyalty was positively correlated with parameters like Cleanliness, Quality, Offers whereas weakly correlated with parameters like Location and Credit

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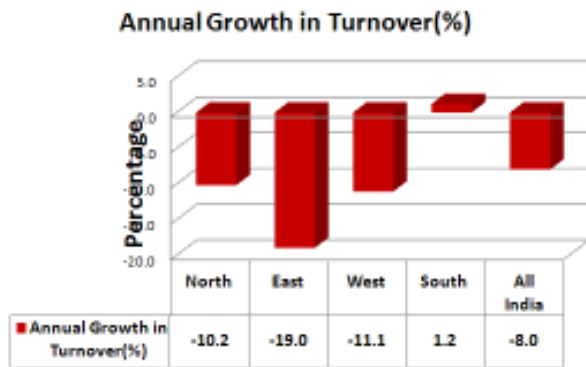


Figure 1: Annual growth in turnover

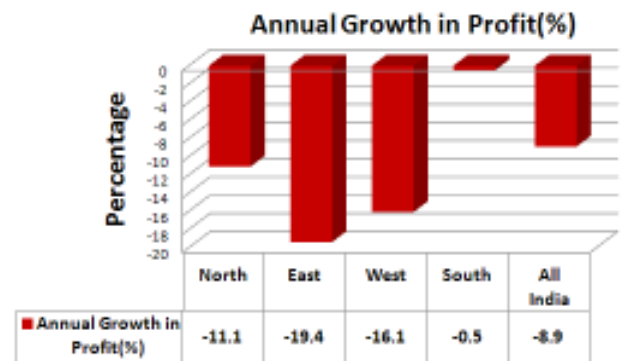


Figure 2: Annual growth in profit

sales. Kiranas do well on location but poorly on the other parameters. Thus, in the long run, if Kirana stores do not work on these parameters, they are bound to face oblivion.

Thus, if this situation continues, organized retail will take over to meet the growing demand and Kiranas will go out of business leading to social disharmony. This sets the problem statement for our report -

“How can modern and traditional retail co-exist to meet the customer demands, maintaining social harmony and benefit all the stakeholders?”

For this, we have proposed a model which would be self-sustainable.

METHODOLOGY ADOPTED

Commencing with the problem definition for Kirana stores, the following stages were subsequently executed to reach at feasible models:

EXPLORATORY RESEARCH

It was executed in the following phases:

- i) Study of prevailing supply chain for both the organized and the unorganized retail.
- ii) Exploring the existing models that are operational worldwide; facilitating a synergic growth between the organized and the unorganized retail sector.
- iii) Study of past research on consumer perception about organized and unorganized retail⁸.
- iv) Initial survey of 30 Kirana stores with an objective to know how they are responding to the competition. Queries regarding their future plans to cope up with the increasing pressure from the modern retail were also put to them.

From exploratory study we came to know that Kirana stores are competing with modern retail based on the following factors –

- (1) Reduced prices for certain group of products.
- (2) Better display of product variants.
- (3) Store renovation & improved home delivery.

But all these measures are taken at the cost of compromising on profit margins, owing to which 70% feel an URGENT need to adopt an alternative business model to counter their dwindling sales. They have understood it's time to change rather than perish.

MODEL DEVELOPMENT BASED ON PRIMARY RESEARCH

Based on the findings from the exploratory research, a questionnaire was developed. Field work was carried out covering 150+ Kirana stores in urban regions. Analysis of the survey helped in arriving at a couple of models. Their feasibility and sustainability was reviewed.

After brainstorming on prevailing supply chain and acceptability by Kirana store owners, we conceptualized 2 models. The feasibility of cooperation between unorganized and organized retail was studied. Accordingly, an operative model was developed.

PREVAILING SUPPLY CHAIN

Let's have a look at the prevailing supply chain for Kiranas and modern retail (MR).

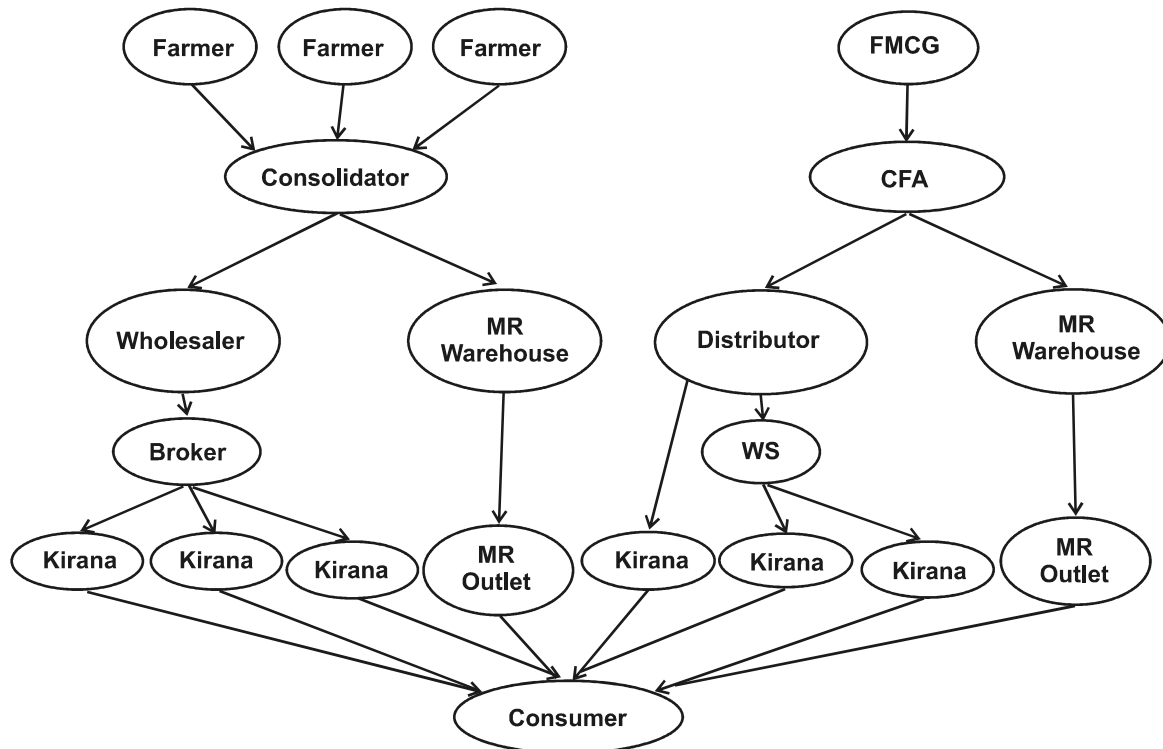


Figure 3: Prevailing supply chain

The grocery from the farmers is brought together by a consolidator. A carrying and forwarding agent (CFA) brings together the products from the particular FMCG Company.

Most of the modern retail chains in India follow a typical Hub and Spoke model i.e. the required amount of grocery and FMCG products are brought together from the consolidator and CFA to a central distribution centre. From here, the central distribution centre sends the goods to its retail outlets finally reaching the consumer.

On the other part of the chain, the farm produce is passed onto the wholesaler (WS) by the consolidator and the FMCG products to the distributor by the CFA of a particular company. Before reaching the Kiranas, the farm produce passes through a broker and the FMCG products pass through a wholesaler finally reaching the consumer. In some cases, the distributor directly supplies the FMCG products to a Kirana. This happens mainly if the distributor gets a steady requirement from the Kirana and also if the Kirana has a good credit history.

The most successful worldwide existing operational models under which mom & pop stores have thrived in a competitive environment are the Franchise model and the Cooperative model.

In the Franchise model, there is a legal contract between the franchisee & franchisor. The franchisee has to sell only those products which are given by the franchisor for a defined contract period. If necessary, the contract is renewed. There is revenue sharing between the two. The profit margin for the franchisee is fixed. All the backend process is controlled by the franchisor. Here the independence of the franchisee is at stake. The Franchise model is more popular in the US.

The Cooperative model has shown success in countries like South Africa under government guidance.

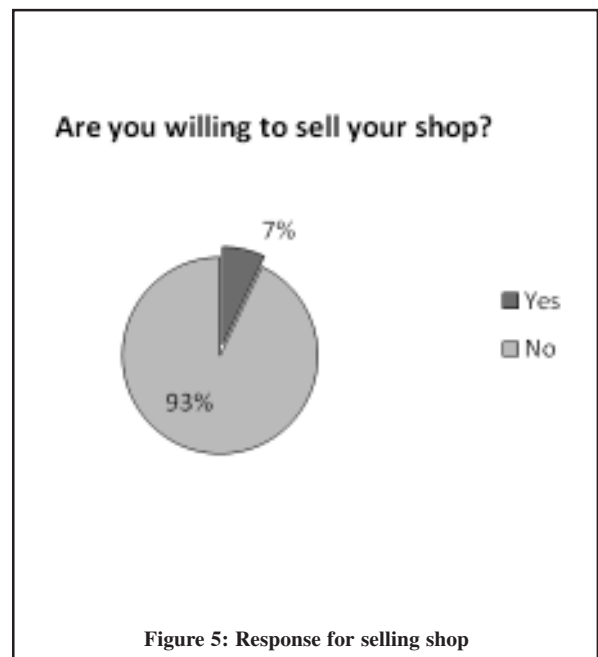
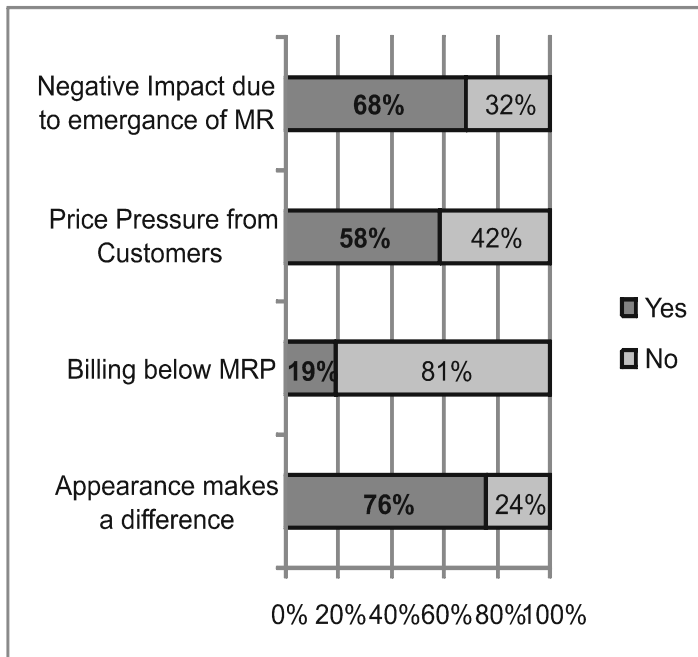
PRIMARY RESEARCH

Based on the exploratory study, a questionnaire for market survey was prepared. The questionnaire was targeted towards three major parameters: 1) Impact on business, 2) Future plans for business and 3) Possible model for the future.

Most of the questions were with Likert scale options, so that we get a measurable response suited for analysis. A sample survey of 182 Kirana stores was carried out. These stores were from various parts of Mumbai, Thane, Kalyan and Nashik. The main idea behind targeting urban stores was to survey those stores where businesses have seen after-effects post emergence of modern retail.

BUSINESS IMPACT

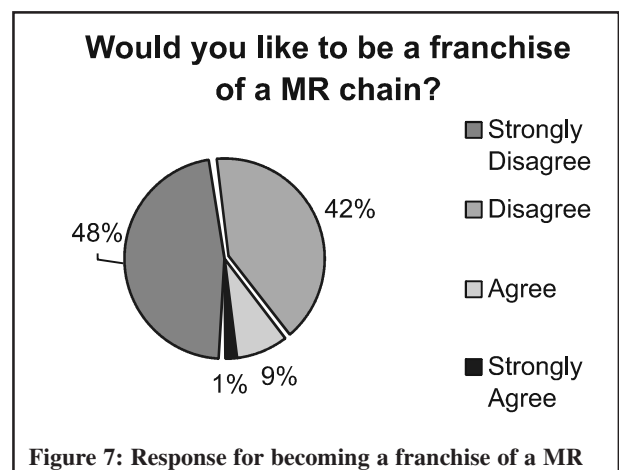
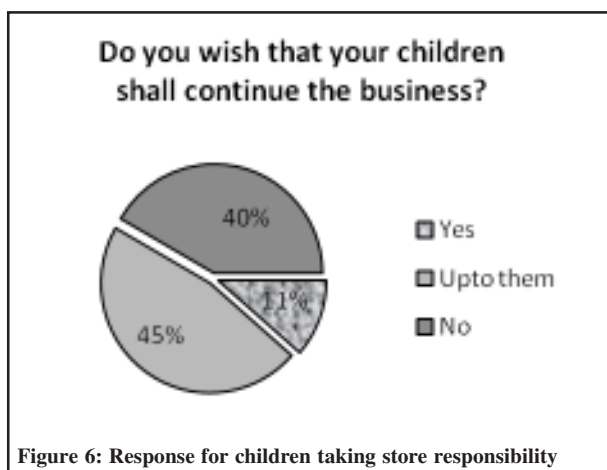
68% of the storekeepers agreed on their business getting hit negatively because of Modern Retail. 58% also agreed to the fact that discounts provided by MR are putting Kirana stores under pressure to sell products below MRP to customers. But because of tight margins, only 19% of the Kirana stores are able to pass the products to the customer below MRP. Modern Retail has also changed the neatness aspect of business and 76% of store keepers have agreed on increasing importance of in-store appearance.



FUTURE PROSPECTS

In response to the questions about the future of their own Kirana store, 93% of store keepers are not willing to sell their shop and exit from business. But when we asked about the plans of their next generation, only 11% owners show willingness to involve their children to continue in this business.

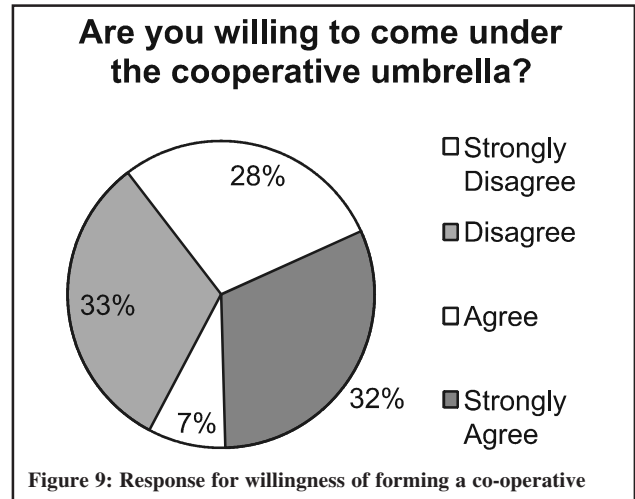
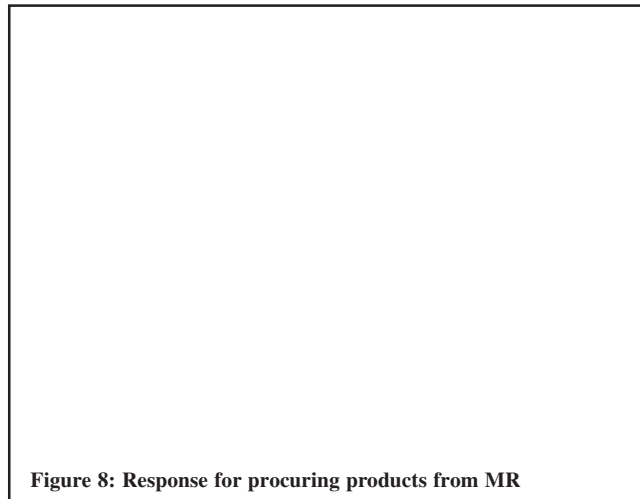
This raises the question of existence of Kirana stores in years to come and also defines the need for a better business model for the future.



MODEL BASED RESPONSES

1) Tie Up with Modern Retail

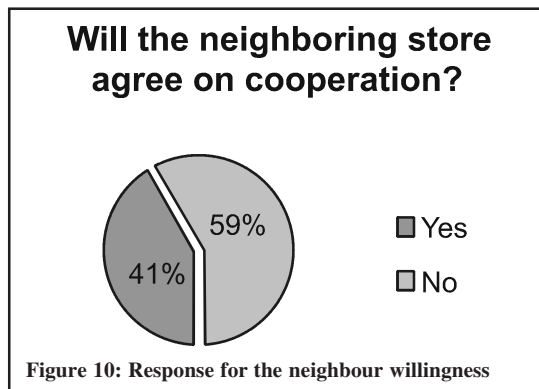
We then tried to test the feasibility of models which are operative in other developed countries. But there is disagreement on being a franchise of a Modern retail chain. The shopkeepers feel that by adopting systems of modern retail chain and getting monitored by them will affect their freedom of operating the store. This fear of losing their independence makes them hesitant to be a franchise partner of such a chain.



But, at the same time, there is considerable agreement on sourcing materials from these modern retails under the quality assurance label of the MR Chain. Weighted average of 2.57 on 1 to 4 Likert scale (1: Strongly Disagree, 4: Strongly agree) shows slight inclination towards business to business sourcing.

2) Forming a cooperative

Another model which we tried to test for acceptability is forming cooperative with neighbouring stores. This model is beneficial as it gives an opportunity to leverage economies of scale in sourcing. Agreement with 2.85 weighted mean on Likert scale was observed (1: Strongly Disagree, 4: Strongly Agree). This model entirely works on trust.



To check the willingness of the storekeeper to trust his neighbouring stores for such cooperative, an indirect question was raised. And only 41% of store owners responded positively to this question suggesting lack of trust.

The overall analysis of primary research suggested that existing models of franchising or co-operatives cannot be adopted “as-is” in the Indian scenario. Although there is conceptual agreement, there are certain reservations which need to be answered. Further brainstorming was done to find a solution to these issues and we came up with two possible business models:

1. Modified Cooperative Model
2. B2B sourcing Model.

MODIFIED COOPERATIVE MODEL

The *Kiranas* cannot get cost benefits in purchase since the quantity they procure at a single time is very small as compared to modern retail. Therefore, it becomes necessary for them to come together and consolidate their purchase. Once the bulk requirement is in place, they can approach the distributor directly thus eliminating the non-value adding entity in their value chain.

Therefore, the *Kiranas* need to form a cooperative with each other for bulk procurement of goods. But we have seen from the survey that there is a lack of initiative to form the co-operatives among the *Kiranas* store owners. With all the willingness among the Kirana store owners, the only thing they require is a third party or an intermediary which will facilitate the formation of the cooperative and make it self-sustainable. Therefore, an NGO, similar to the one which has facilitated the formation of cooperatives amongst unorganized labor, should come in to play a

similar role for the Kirana stores. The NGO can tie up with existing business entities like Metro Cash and Carry etc. for bulk procurement.

NGO ROLE

- With the benefits of bulk procurement very much clear in the minds of the Kirana stores, the NGO will not face problems in forming a cooperative.
- Thereafter, the NGO can facilitate the up-gradation of Kirana stores with adequate infusion of capital.
- Better in store visibility, layout and meeting the demands of customers in a better way are the factors because of which the Kirana stores are fast losing out to the modern retail. Therefore, training the Kirana stores in this aspect becomes an important role of the NGO.
- Kirana stores at present hardly make any attempt towards marketing themselves. Organizing them under the banner of their respective cooperatives will give them the much required marketing boost.

BENEFITS OF COOPERATIVES

The first and foremost benefit of a cooperative formation to the Kirana stores will be the achievement of competitive prices due to the economies of scale. Further, it will help the Kiranas to pool their financial resources and conduct business activities they could not perform efficiently when they were independent entities. It will also help in reducing the monopoly of wholesalers.

TARGETING & POSITIONING

To launch this model, we need to identify a proper target. Overall, there is 60% agreement on cooperative model among storekeepers. But to improve probability of success, we once again went back to survey findings. Demographic data was correlated with response to this model. Among 39 shops having an area of more than 400 sq. Ft., 67% showed acceptability to this model. If we consider the location of store with respect to nearest modern retail store, 70% of stores in radius range of 1km to 2km agreed on cooperation. Typical age group of owners favouring this model is 30 to 40 years in which 30 out of 52 respondents were willing.

B2B SOURCING MODEL

Another Model which we recommend is business to business sourcing. In this model, we propose to modify the supply chain. As per this, Kirana stores, instead of procuring supplies from traditional route of wholesaler, will procure directly from modern retail chain. Modern retail chain is benefited from this as it generates additional revenue from existing warehousing facilities without any spending on front end outlet. This gain is over and above sales from existing chain of stores.

The feasibility of this model is tested with detailed study. We defined a basket of goods and purchase prices for such a typical basket were compared for Kirana store and organized retail store. A revenue sharing model was proposed by considering typical margins earned by various supply chain partners in existing supply chain routes.

BASKET OF GOODS

Basket of goods is an indicative list of products which are consumed by every family in India. For defining the basket of goods we considered different FMCG & grocery products consumed by a middle income class family consisting of four members. Products were then sorted based on the availability at both Kiranas & modern stores and availability of the corresponding value chain details. Quantities consumed of these products per month were also considered.

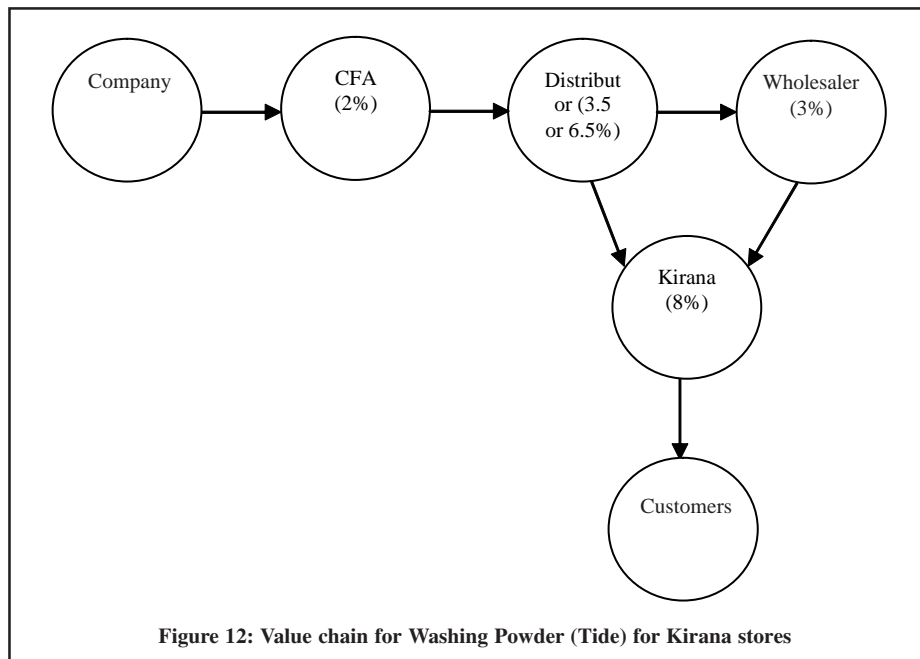
The final list of products is as follows:

| | |
|--|---|
| Washing Powder(tide)–2Kg | Ground Nut–1kg |
| Sugar–3Kg | Ground Nut Oil–2Lt |
| Rice(ambemohar)–4 Kg | Wheat(sihore)–5 Kg |
| Tea (Red Label)–500gms | |
| Toilet Soap Lux–2Piece Lifebuoy–2Piece | Biscuit Parle- G – 2Piece Hide&Seek–2Piece Good day–1Piece |

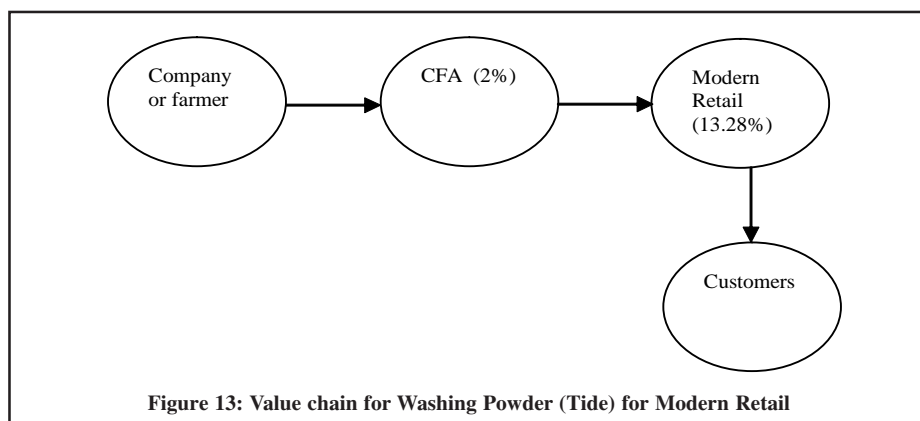
Figure 11:
List of basket of goods

VALUE CHAIN

After finalizing the list of products, we studied the value chain of each item separately for both Kiranas as well as modern retailers. For example, “Washing powder” - the product generally comes to the Kirana store via the wholesaler, who in turn gets it from the distributor. In some cases, the distributor directly supplies it to the Kirana store. The distributor purchases washing powder from the CFA, who directly procures from the company. It was observed that, for the C&F agent, the profit margin was 2%⁹, whereas distributor had a margin of 3.5% for wholesaler sales and 6.5%¹⁰ for Kirana store delivery. Wholesaler gets a margin of 3%¹¹ by supplying to the Kirana stores. Lastly, a Kirana store makes a profit of 8%¹² by selling it to its customers.



When we analyzed the value chain of modern retailers for the same product i.e. washing powder, we found that they have only one intermediary - the C&F agent, between the company & modern retailer. Hence, the profit sharing is simplified & is more effective in comparison to the Kirana stores value chain. The C&F agent gets the same profit margin when they supply to the modern retailer and the Kirana store i.e. 2%¹³, but the modern retailer enjoys a higher profit margin at 13.28%¹⁴. Hence, they are able to supply the product to its customers at a cheaper rate thus attracting the price conscious customer.



Thus, a pack of washing powder (Tide – 1 Kg) which costs 52.80 Rs. at the C&F agent reaches the customer at Rs. 62 via Kirana stores and Rs. 61 via the modern retailer. Similarly, we studied the value chain for each product in the product basket and took the weighted average by assigning weights as per their respective monthly

consumption. By this, we get the average profit at each point of the value chain for Kirana store as well as modern retailer for a particular month.

ANALYSIS OF THE PROPOSED REVENUE SHARING MODEL

As per our proposed model, we calculated the profit margin of the modern retailer from the extra business that they get by supplying directly to Kirana stores. Assumptions made for this calculation were 1) Kirana stores are not willing to compromise on their profit margin 2) Customers are willing to pay a little higher price to get the same quality product that is available at modern retail due to the convenience and other factors and 3) Modern retail will see this small profit margin (in comparison with their direct sales margin) as an additional margin from the new business. As per the new supply chain, the C&F agent gets a margin of 1.93%, modern retailers get a margin of 13.28% by directly selling their goods to the customer and 5.11% from sales to the Kirana stores. Profit margin for Kirana stores remains the same at 9.21%. Thus, a product which is available at the C&F agent for Rs. 100, will be available to the customer at Rs. 117 if they buy it from the Kirana stores and at Rs. 115.69 if they buy it from the modern retailers.

COST-BENEFIT ANALYSIS OF THE MARGINAL BUSINESS

For the cost benefit analysis, we refer to our primary survey findings. Let's take an example, if a modern retailer wants to cater to the Kirana stores in Borivali (Mumbai) area, he will get a business of at least Rs. 20,00,000 per month from the very first month. We also assumed that the company is currently fully utilizing their resources. Thus, for catering to the new business, we identified the additional required resources

- 1) Space – 500 sq.ft.(Cost of 1 sq.ft.= Rs 5,000¹⁵)
- 2) Store supervisor – 1 (Salary = Rs 3,08,000¹⁶)
- 3) Store worker – 1(Salary = INR 75,000¹⁷)
- 4) Tata Ace – 1(Cost = INR 2,25,000¹⁸)
- 5) Miscellaneous Expenses = INR 50,000

By assuming cost of capital at 15%, the current investment gives a breakeven point in the 5th Year. Not only this, but also the business will give a positive PAT from the very first year. On the other hand, if a modern retailer has partially utilized resources, then they will benefit more from this model. For example, if a modern retailer has unutilized space available with them, then they can avoid investment in buying/leasing new space. In this case, the breakeven will be struck in the 2nd year itself.

BENEFITS OF B2B MODEL

The benefits of this model for each of the stakeholders starting are as follows –

Modern retail: We know that there is a fierce competition among the retail chains to grab a larger pie of the market. This model will help them to expand their consumer base; specifically those consumers who prefer to go to the Kirana stores. They will get greater brand visibility due to sale of grocery under their quality label. Also, they can fully utilize their warehouse capacity.

Consumers: They will get the best quality goods at a lower price.

Kirana: Their margins will be retained and they can sell the product at competitive prices. They will enjoy convenient procurement on one hand and increased sales on the other.

TARGETING AND POSITIONING

Overall, there is 53% agreement on cooperative model among storekeepers. Correlation of demographic data with B2B sourcing model reveals that primarily shops which are farther from MR store (beyond 2 km) are inclined towards this model (61% agreement). Among 106 shop owners aging over 40 yrs, 58% agreed on feasibility of such sourcing. 66% of surveyed 41 graduated store owners appreciated the benefits of this model. Typically smaller shops (area less than 200 sq ft) were agreeing on this model. (63% consensus)

FINAL THOUGHTS

If mom and pop stores become extinct, it will not be because of the growth of organized retailing or external environment, but because of the unwillingness of the Kirana stores to innovate, survive and flourish. The suggested

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model can work out as a solution. Implementation of these models will result in lesser resistance to modern retail, a retained customer for Kirana, and the customer will get quality products at lower prices.

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