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Snacks sales are growing multifold as the culture of snacking catches on

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STRATEGIC POSITIONING

Hyderabad based Q-Mart wants to evolve into a supermarket chain by servicing a premium niche in F&G retailing



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The F&G industry in India is on the cusp of a transformation. New enterprises are springing up in the online grocery business while brick-and-mortar merchants conjure up newer ways to beat the e-commerce competition. Then there is the evolution in consumer behaviour with shoppers in larger numbers relying on hand-held devices to indulge their buying impulse. Clearly, the trend toward m-commerce is driving the next tidal wave of change in the grocery retailing industry. With mobile shopping on target for meteoric growth, not just the big guns of grocery retail but even the minions in our neighbourhoods – the network of grocery shops and stores spread out in different localities – are racing to embrace this change. With more numbers of consumers shopping over mobile devices the challenge for businesses going forward, large or small, is adapting to this change.

For the small grocery players with limited resources, coming onto the tech platform allows them to become more efficiently organised besides providing them the advantage of instant access to thousands of consumers, while avoiding the expensive process of building an e-commerce infrastructure from scratch.

Looking at the broader picture, these developments are helping to build a robust retail ecosystem in place for the food and grocery business. The upshot is that big and small retailers alike stand to benefit by reaping the fruits of mobile technology. Going forward, one can expect to see grocery stores in the neighbourhood harness technology and emerge as linchpins of modern merchandising.



Amitabh Taneja
 Editor-in-Chief

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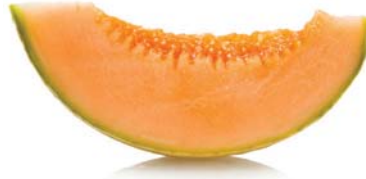
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Time for a Snack

Indian consumers work up an appetite
for snacking

By **Adrian Terron**

Several industries have been adversely affected by waning consumer spending and economic slowdown. However, one industry that has firmly bucked the trend is the Indian food industry. Clearly, Indians are willing to compromise on practically anything but their palate! According to Nielsen estimates, India's food industry is currently worth over INR 100,000 crore (\$16 billion) and growing at a CAGR of nearly 11%.



Adrian Terron,
Executive Director,
Nielsen India



Contributing to this uptick in the food market is the Indian snacking industry. A decade ago, snacking was clearly an indulgence. Today, several health experts recommend smaller, frequent meals over three square meals a day, thereby changing the concept of 'snacking' for good. While the jury is still out on the health-versus-indulgence debate, modern India consumers seem happy to be snacking their way through the day. Sales in the snacking category have grown more than six times from INR 8,000 crore in 2004 to INR 47,000 crore in 2013 driven by an increase in disposable incomes, a need for convenience and a cultural tradition of snacking between meals. Here are some factors and trends that are nudging the Indian snack market along the path to success.

Consumer confidence vs. consumer concern

The Indian consumer's financial concerns over the last four years seem to be slowly making way for hope and a confidence in the future. Nielsen's Consumer Confidence Index (CCI) is a study of the world's consumer sentiment, measuring consumer perceptions of job prospects, personal finances and immediate spending intentions across 60 countries. The survey findings of 2014 show a positive upswing in consumer sentiment in the first half of the year. If precedent is any indicator, then this confidence should loosen consumer purse strings over the next two quarters and result in higher sales of consumer goods starting with impulse purchases like snacks.

'Premiumisation' vs. parity pricing

Savvy marketers are finding ways around the challenging economic circumstances, amid a group of consumers looking for the best the market has to offer – premium products. Currently, the premium priced segment contributes to about one-fifth of the total FMCG market, in a clear indication that there

is a sizeable chunk of consumers who are willing to pay a premium if they see value in the proposition. Numbers re-enforce this trend since the super-premium segment currently accounts for 8% of the total FMCG market and is growing 1.5 times as fast as the premium segment.

The food category as a whole is growing at 12 per cent. The south zone is contributing the most to the premium food segment, while it is the north zone that is driving the growth of super-premium foods. What applies to FMCG also applies to snacking products which are priced to be impulse purchases and are among the first to fly off the FMCG shelves.

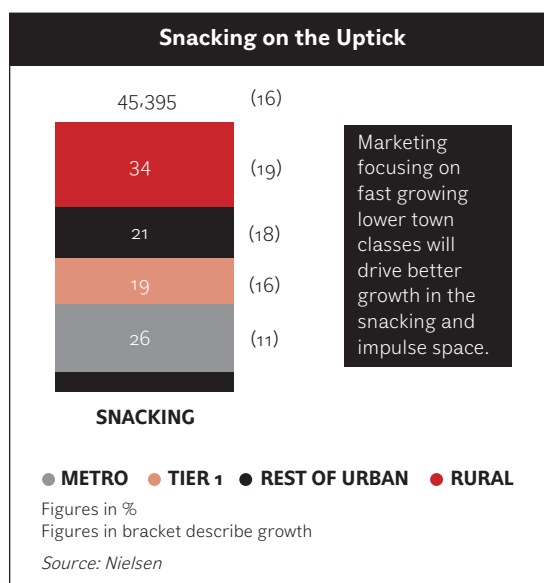
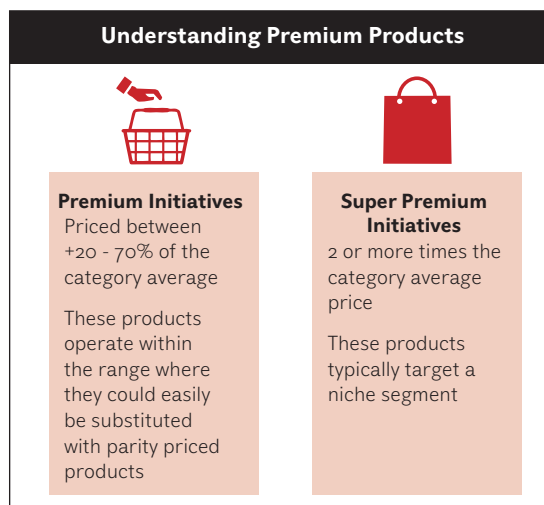
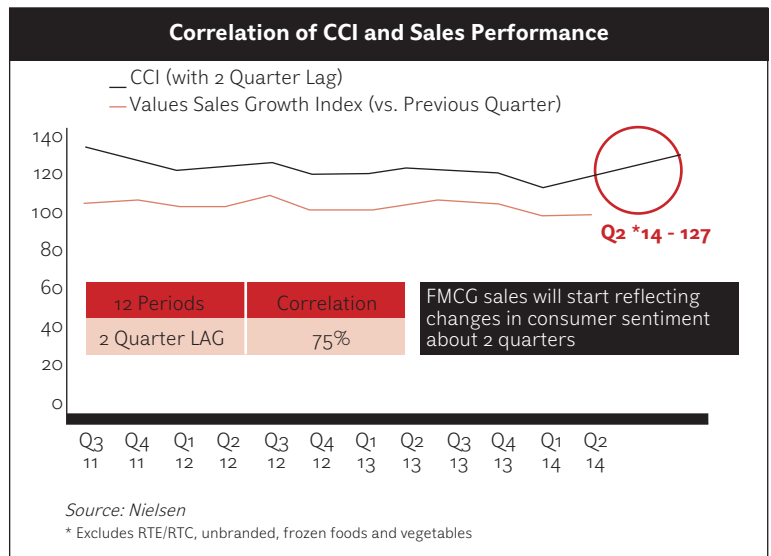
Convenience vs. conditioning

While snacking is inherent to the Indian food culture, a hearty meal has traditionally been sanctified. However, modern Indians across zones and classes have fast-paced out-of-home lifestyles that don't lend themselves to this tradition. Families are increasingly going nuclear resulting in an increase in socialising with friends and peers. All this has led to a gradual erosion of the 'family sit-down meal' culture. Convenience has now trumped traditional conditioning and made way for acceptance and proliferation of the snacking culture.

Changing lifestyles have an immediate effect on food-culture. The popular belief is that metros drive sales of convenience foods and snacks because of the fast-paced urban lifestyles of consumers. This may be true to some extent, but Nielsen studies show that this is no longer just an urban trend. Consumers' dietary habits are changing and they are more willing to try new things. In addition, children are having a bigger say in purchase decisions. All of this has resulted in an unexpected growth that is not restricted to urban areas. In terms of opportunity, tier 1 towns, the rest of urban and rural areas have emerged as high-potential opportunities for retailers and brands, implying that an increase in marketing efforts in these areas will contribute to growth.

Emotional vs. functional promises

With healthy growth seen in the snacking industry sales figures, it is no surprise that a slew of new snacking communication and concepts hit the market every year. Winning at the concept stage gives marketers a head start in the race for the consumer's wallet. Our studies show that creating a winning proposition in the snacking space is more difficult than other foods. In the past, marketers have tried everything from a purely emotional appeal to a completely functional one in a bid to relate with consumers. But the concepts that ended up doing well seem to have a good mix of both the emotional and functional insights with a little bit



Sales in the snacking category have grown more than six times from INR 8,000 crore in 2004 to INR 47,000 crore in 2013 driven by an increase in disposable incomes, a need for convenience and a cultural tradition of snacking between meals

Adding 'Style' to Grocery

The idea, promise and experience at Q-Mart can be summed up as 'fulfilling, exclusive and elite'. With a single store currently, this Hyderabad-based supermarket plans to evolve into an integrated brick-and-mortar supermarket chain and e-commerce portal, offering best-in-class merchandise

By **Namita Bhagat**

Hyderabad-based Q-Mart is an upscale supermarket concept store offering not just groceries but a 'lifestyle'. Operational since 1997, the venture is fostered by a group of entrepreneurs having diverse business interests in India, with BVK Raju and BH Rao as key promoters. "We started operations over 15 years ago when organised retailing in India was in a very nascent stage. Today, Q-Mart has positioned itself as 'the original world foods and lifestyle supermarket' catering to elite clientele that comes from all over the twin cities of Hyderabad and Secunderabad", states BVK Raju, Executive Director, Q-Mart Retail Limited. He handles the company's customer relations, imports and product category management.

Adds Rao, Managing Director, Q-Mart Retail, "The aim of the store since inception has been to carve a distinct niche for itself as a specialty

destination store. It services a premium niche in food and home needs retailing. Many of the products sold are available exclusively at Q-Mart." Rao manages the procurements, inventory and financial management for the business.

Market presence

Situated in the posh Banjara Hills, Q-Mart, presently operates through a single store spanning a total of 16,000 sq. ft. of retail space with an average footfall of over 1500 per day. In contrast to a regular store whose market is localised, Q-Mart serves as a one pit stop for discerning customers wanting quality, products with niche appeal and world-class service standards. As such, its sales have been consistently growing year-on-year. In FY 2013-14, Q-Mart's total annual turnover reached Rs 304 lakh, and its average monthly per sq. ft. sales were of Rs 1,585.





Product range

The boutique supermarket stocks an extensive assortment of food and non-food items. Rao says, “We always look for the best quality products and supplies and have established extensive contacts with importers and suppliers. Quality, range and uniqueness of products is our hallmark, and our store has one of the widest ranges of products.” Q-Mart’s regular product offerings include groceries, veggies, snacks and ice creams, meats, dairy products, chocolates and confectionery, juices and beverages, personal care products, cosmetics, stationery, toys and games, kitchen appliances, plastic ware and home needs, crockery and glassware, pet care items, cleaning products and detergents, et al. Moreover, it also deals in specialty products ranging from gourmet, delicatessen, diet and organic sourced from leading Indian and international brands.

Service bouquet

Apart from retailing food and grocery, Q-Mart as well offers services such as fulfilling party orders, corporate/institutional orders, sourcing rare and exclusive products, and order for special needs. In sync with its customer-centric approach, the store also offers home delivery in a 6 to 8 km radius on a minimum billing of Rs 500.

Operational gamut

Based on the experiences gained over the years, the store has been specifically designed with custom-built shelving and fixtures to suit the store’s philosophy. Raju elaborates, “We aim to provide an easier way to shop and achieve absolute customer satisfaction. Hence, the store planogrammy and ambience is quite different and unconventional than what many supermarkets, in general, follow. The design element is such that one sees only overflowing shelves with no branding or price

Key facts

No. of stores	1
Total Retail Space (in sq. ft.)	16,000
Total Annual Turnover (in INR Lakh) FY 2013-14	304.00
Average Sale per sq ft per month (in INR) FY 2013-14	1,585

Category Breakup

Product Type	% of Total Space Allocated	% Contribution to Total Sales
Food	50%	70%
Non-Food	50%	30%



L TO R:
BVK Raju
 Executive Director
 and
BH Rao
 Managing Director

markings visually cluttering the store.” As described by him, the ambience of the store gets the customers involved in the shopping experience as soon as they enter it. At the cerebral level, it exudes exclusivity, warm and friendly atmosphere and highlights the variety available, thereby facilitating indulgence.

Apart from alluring environs, the superior service also enhances the shopping experience at Q-Mart. “One of the key factors for our success is ‘the connection’ between our highly motivated staffs and enthusiastic customers. Many of our employees have been with us for years now; and the customers too relate with them. So, to a large extent, our employees are our major strength”, Rao notes. As regards employee training, he informs that even though no formal training is done on a regular basis, all new employees go through an orientation process and are put under the wings of senior employees who mentor them and slowly absorb them into the system. Moreover, the employees are totally empowered to take decisions to develop a sense of ownership in them. This helps in maintaining the service quality as well as minimising the attrition rate at Q-Mart.

Setting the bar for chocolate retail

From a retail opportunity standpoint, a category that has the potential to be a sales, profit and footfall driver has turned into a massive missed opportunity, writes Nitin Chordia



In every chocolate/confectionery conference across the globe, the industry talk is about India and China being the next largest consumers. The debate is also about how the chocolate production would live up to this demand. However, maximum attention is being given to China over India, which has certainly not managed to paint a pretty picture for global chocolate brands yet. No chocolate brand has any doubt about the fast growing Indian consumption story. However, the Food Safety regulations, complexities and general modalities of doing business are keeping them at bay. The Food Safety regulations in India have forced many imported chocolate brands to withdraw from the market and relook their India strategy. The impact of that is clearly seen on the retail chocolate shelf today. Every chocolate shelf of any so called premium or gourmet retail store across India has a similar set and limited assortment of imported/gourmet chocolates on display! Consumers are at the receiving end and have been restricted to shop for premium chocolates during their travels overseas.

At this point, it is important to understand that the term “premium” has not yet been truly benchmarked in the context of chocolates in India and there is a need to establish the same. Generally speaking, a premium product should mean a product of superior quality resulting in a higher price. A chocolate is considered premium if:

- The highest quality standards are adhered to during the process of manufacturing (whether in India or elsewhere)
 - If good quality cocoa beans from suitable origins are used
 - Only natural ingredients are used (cocoa butter is not substituted with vegetable oil – Max of 5% is allowed even as per EU laws),
 - Nutritional labels are in place along with manufacturing and expiry dates, batch details and
 - Packaging is designed to protect and provide the best experience to the chocolate consumer.
- As you will see, price plays no role in defining a

chocolate as premium. And it should not. However, considering if the above criteria is to be met, a price has to be paid for it. All the numbers regarding the premium chocolate market opportunity in India (of many million \$ in market size etc) are based on certain assumptions of premiumness. Some studies classify chocolates as premium depending on the price of the chocolate (wrongly assuming that the required quality is delivered in line with the price charged of the chocolate which is seldom the case in India). Currently, the chocolates category contributes anywhere between 2-3% of total category sales for a premium/gourmet retailer. This includes all kinds of chocolates. The contribution of premium chocolates is below 1%.

The way the import value chain works in India, even a standard supermarket chocolate bar becomes premium impacted by the costs added until it reaches the retail shelf in India. Starting from the cost of temperature-controlled transportation (even though many chocolates are not transported in the correct temperature) to the cost of clearance (high and complex import duties included) and distribution/retail margins, an imported chocolate seldom justifies the price. The cost structure puts pressure on the importers/brands to have a cost+ approach due to which even a regular super market brand becomes unduly highly priced by the time they hit the retail shelves.

However, we are at a stage in India where the premium chocolate category is in the process of being defined and every chocolate company likes to call its offering as premium. The benchmark of premium chocolates in India has until now been set by the few chocolate brands who have had the first mover advantage. It is similar to how retailers have misled consumers by calling their offerings and stores as premium or gourmet. This has become a trend of sorts. To an Indian consumer, premium chocolates most often mean only two things: Imported & Expensive. Ironically, quality is seldom a factor to determine the premiumness of a chocolate in India. Quality is sub consciously assumed to be directly proportional with price. In India, an imported chocolate brand sold in the modern trade channel at



a higher than justifiable price is considered premium. What aggravates the situation is that many Indian premium chocolate consumers still consider chocolates only as a substitute to sweets, use it to get their sugar fix or use it for gifting. This can be attributed to the lack of education of fine chocolates among Indian consumers. The understanding of premium chocolates (or the lack of it) extends to all the trade partners and the entire value chain as well. It is, therefore, fair to say that the chocolate industry in India is in a transition state where brands can get away with calling a product as premium and advertising it, even though it may not actually be premium.

From a retail opportunity standpoint, a category that has the potential to be a sales, profit and footfall driver has turned into a massive missed opportunity. The premium retailer in India does not pay attention towards qualifying the product as there is pressure on top/bottom lines always and margins become priority. Moreover, an imported product easily attracts the fancy "slotting allowance" and higher margins in comparison to their Indian counterparts! This is where retailers fail in most cases to deliver value and forget that the reason for their existence is to serve as a platform of choice (of good quality products at a fair price) to the consumer. There are innumerable examples of overseas brands selling their chocolate on Indian retail shelves upto twice the retail price that they sell in their own country. And these very chocolates are considered premium

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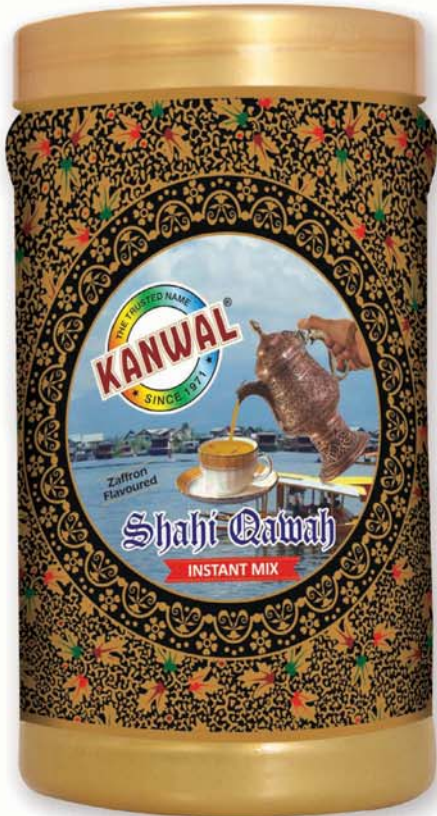
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