

PROGRESSIVE GROCER

OCTOBER 2012

AHEAD OF WHAT'S NEXT

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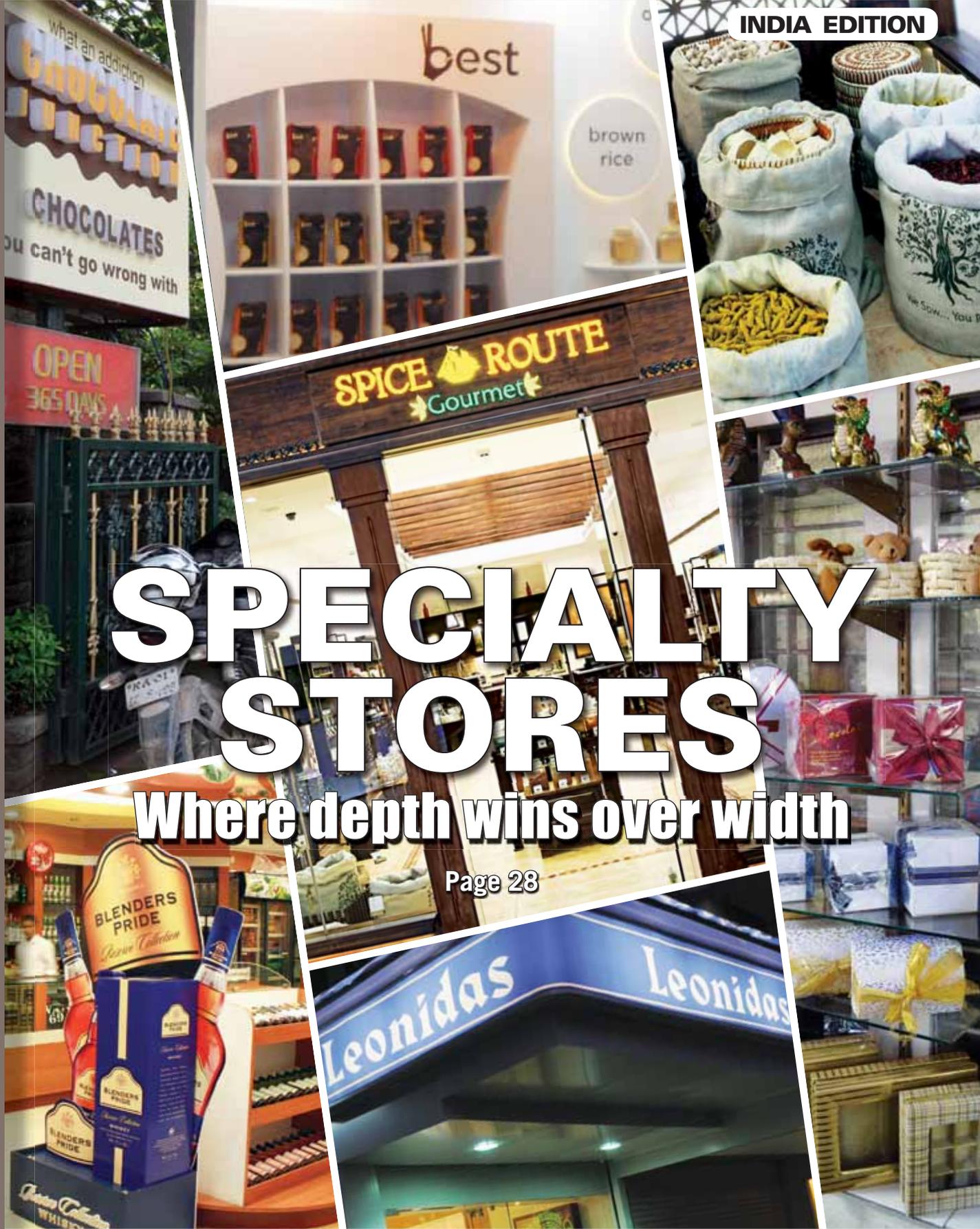


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Retail's new face

In a marketplace bursting at the seams with stores loaded with every imaginable product, a specialty retailer manages to create a distinct retail environment.

In fact, such a store is very different from other stores in terms of product assortment, pricing and in-store environment. Such a retailer may have a narrow selection of products within his chosen category, but the depth will more than compensate for the lack of width.

But for the specialty store retailer, a critical decision is in determining his customer. He will also have to be more closely attuned to the needs and shopping behaviour of the customers in his catchment area in order to effectively attract footfalls and drive sales.

Specialty retail is not alien to the general consumer, but in the food and grocery segment, it is a recent phenomenon. In this issue, we have featured several such specialty retailers who are doing good business in their chosen product category from chocolates and wines to spices and rice. They are also enjoying the first mover advantage.

Bringing cheer to the F&G industry is the Government's announcement of allowing FDI in multi-brand retail. The past few years have seen increasing modernisation and expansion in food retailing. At the same time, retailers are having to deal with increasingly demanding customers, and intense competition from their peers. With foreign investments flowing in the share of organised food sector is set to grow rapidly.

Retail players would also benefit from an efficient logistic support system which is crucial for ensuring timely supply of fresh produce, reducing wastage, and enabling better fill rates and inventory management at the retail end.

Growing at the rate of 30 percent, the Indian food retail sector is poised for a takeoff and will be a major driving force for the retail industry given that food accounts for the largest share of consumer spending.



Amitabh Taneja
 Editor-in-Chief

All feedback welcome at editorpgindia@imagesgroup.in

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PROGRESSIVE GROCER



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ROUNDTABLE Mumbai Chapter

The primary aim of the Food and Grocery Roundtable was to discuss challenges and limitations that restrict growth of the sector

After the inaugural Food and Grocery Roundtable in Delhi, the second edition got underway at The Club in Mumbai. Moderated by retail consultant Raakesh Gambhir, the primary aim of the Roundtable was to discuss challenges and limitations that restrict growth of the sector.

In addition to the long-standing debate between brands and grocers on margins and promotional schemes, the discussion moved steadily towards other real issues such as understanding of F&S law, refund of VAT, need for retailers redressal system, training of front line staff and including courses on front line retail in institutes like ITI, the acute shortage of floor merchandisers, the need to define modern trade, and regular updates and awareness of relevant laws and guidelines through sms or newsletter.

While the grocers did express their concern over, what they felt, was the brands' hesitancy in partnering with the traditional format stores, and were more keen on the national chain stores, Manoj Verma from Cadbury assured the group that this wasn't so.

"There are different channels and the investments are unique to those channels. It all

depends on simple parameters like ROI. Some traditional store at some point may have slipped out on the benefits, but that doesn't reflect the intent of the company," added Verma.

Chetan Sangoi of Sarvoday stores brought Verma's attention to the fact that some brands do not pass on the benefits and freebies that they shell out to the national chains, which is important for category growth.

A need was felt for greater and deeper channels of communication between grocers and brands. Verma also admitted that traditional stores contribute almost 90-95 percent of sales, and manufacturing firms are keen to explore newer avenues to take this association further. It was agreed that the need of the hour was to build consumption at the retailer level and to build synergies between manufactures and retailers.

One of the key issues discussed at the Roundtable included lack of awareness regarding regulations such as the Shop and Establishment Act. The panel felt the Act needed to change in view of the changing times. Most retailers expressed lack of knowledge regarding retail regulations that differ from state to state. One such regulation

which the retail community lacks awareness of is the Stock Limit license. "Some retailers who do not have knowledge of the regulation have had their stocks confiscated, resulting in heavy losses," stressed Sangoi.

The Food Safety Act which lays down laws governing the manufacture, storage, distribution and sale of food items to make them safe for consumption continues to baffle retailers. According to the Act, it makes it mandatory for a retailer to source goods only from a distributor and transporter who has compliance to the Act. The retailers at the Roundtable felt they didn't have the infrastructure to implement the Act in India.

Talking on Octroi, the panel felt that it should be abolished. There is no octroi in other states in the country; it exists only in Maharashtra. The decision of cancelling octroi is only in the hands of the state government. The government should immediately take a decision on octroi. Goods from the grey market continue to plague retailers in India. The panel felt the need to alter import duties so that retailers are not encouraged to stock items from the grey market. It was unanimously decided to stop stocking goods from the



During the second edition of the Food and Grocery Roundtable held in Mumbai a need for greater and deeper channels of communication between grocers and brands was discussed

Past, Present & The Future



Niyas KN, Chief Information Officer, MK Retail, charts the progress of his family business over 85 years

By Roshna Chandran

In the past 10 years, Indian retail has grown significantly.

As per industry reports, organised retail has grown from 3 percent in 2010 to the current 10 percent. There is a boom in organised retailing as more and more grocers are beginning to upgrade their stores, expand their product offerings, and improve their customer service and staff training. We too have gone through several changes; from a kirana store we have grown to become a supermarket, in fact, we are bigger than a regular supermarket. The need for supermarkets is also growing as consumers

are flocking to such stores where they can buy all that they want under one roof and in a comfortable environment.

Unlike a traditional grocer, we offer our customers more than just the basic requirements.

We have a total of 60,000 skus which include stationery items, footwear, garments, cosmetics, frozen food, dairy products, staples... all of which may not be full-fledged offerings but they meet the basic needs of any customer.



 Niyas KN



MK Retail

Total number of stores: 7

Store Size: 4000-25000 sqft

Daily footfalls: approx 5,000 across all stores

No. of staff: 550 across all stores

Sales growth over the past 5 years: 25% per annum.

Monthly overheads: 3-4 % of sales

Sales as per product categories:

Staples: 35 % of sales in food category

FMCG - food and non food: 65%

Space allocated to PLs: 40%

Average billing size: Rs 750 to Rs 1500

Our fast moving products are staples, which is our private labels (PLs). All the food grains that we sell are mostly PLs. We have been seeing growth in almost every vertical ... every category is growing. Processed food is growing very fast which in turn affects sales of staples. Our sales from FMCG food is about 50 percent of our overall sales, followed by non-food

There is a boom in organised retailing as more and more grocers are beginning to upgrade their stores, expand their product offerings, and improve their customer service and staff training

which is about 25 percent, and another 25 percent is from consumer durables. We have imported products in all categories so we have not allocated a separate area for international brands. It is not a separate section, it is all mixed.

We have a strong base of loyal customers who have been shopping at MK Retail stores since they started.

We plan to have more promotions and develop customer loyalty programmes. We are also working towards giving home delivery to our customers. No doubt, the sales staff is the primary connect customers have with our brand, so having good staff is crucial. But

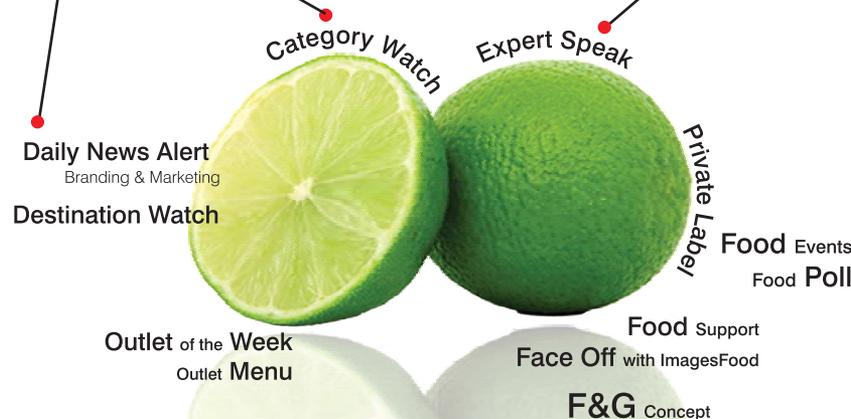
acquiring manpower is very difficult nowadays. We only get freshers. There is also a lot of uncertainty whether they will stay on or not. Attrition on the whole is very high as people only look for higher salaries; so there is no loyalty to any company. If they get a hike of even a few hundreds they will just move on.

We have lots of promotional schemes and offers - at least 100-150 skus are currently on schemes.

This keeps changing month on month. Each category has an offer, like Ariel detergents on which we are offering 40 percent discount. We take up each category and put an off price on one of the fast selling skus within that

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Warming Up to Innovation

Better-for-you, single-serve and ethnic flavours are among the market drivers for frozen and refrigerated foods

By Anna Wolfe

Product innovation and convenience are spurring growth within segments of the frozen food industry. Last year, frozen and refrigerated food sales topped \$100 billion at retail, according to Schaumburg, Illinois - based market research firm Nielsen. However, rising prices contributed to dollar sales growth, while unit sales were off.

Julie Henderson, VP communications for the Harrisburg, Pennsylvania-based National Frozen & Refrigerated Foods Association (NFRA), describes last year's frozen food sales as "flat," adding, "We've seen that trend continue in many of the categories during the first half of 2012."

However, there are bright spots. Driven by products that meet consumer demand, select segments of the frozen food industry are posting impressive growth.

Small eats, big sales

Despite the lackluster economy and increasing food prices, the \$1.6 billion frozen snack market grew by 21.6 percent between 2006 and 2011, according to Mintel's *Frozen Snacks - US - May 2012* report. Part of this increase can be attributed to cash-strapped consumers switching from restaurant meals to more entertaining and eating at home.

Aggressive innovation by smaller companies has helped them grab 24.9 percent of this segment's market share, Chicago-based Mintel says. These savvy companies — and the retailers that sell their products — are heeding consumers' demands for healthier alternatives.

Across all demographics, snacking has universal appeal. In 2012, snacking accounts for 53 percent of all eating occasions, says

Laurie Demeritt, president and COO of The Hartman Group. Adults snack as much as children do, while women snack slightly more than men. And as for millennials and baby boomers, more than half of their eating occasions are snacks — 55 percent and 52 percent, respectively, according to research conducted by the Bellevue, Washington-based research firm.

Whether the snacks are fresh or frozen, it's important to understand "what consumers are eating and where they're eating it," Demeritt explains, adding that foodservice establishments, such as Starbucks with its midmorning snacks, Qdoba with its afternoon tacos and Taco Bell with its late-night menu, are going after the snacking market with affordable mini-meal options.



Frozen snacks are well poised to compete. Fresh-frozen technologies blend the best of both the fresh and convenient worlds, explains Thom Blischok, chief retail strategist and a senior executive advisor with Booz & Co.'s retail practice in San Francisco. Now and in the future, "frozen snacking will be powerful," he says. "We're going to continue to see an evolution of unique items such as frozen mini hamburgers, or sliders, that have just-off-the-grill taste. There's going to continue to be much more of that kind of innovation."

Hand-y options

Another rising star is frozen handheld food. The \$2.7 billion market for this segment has posted double-digit growth since 2006. Total sales (including price increases and food inflation in 2008) grew 18 percent, according to Mintel's *Frozen Handheld Food - US- June 2012* report. Within the next four years, Mintel forecasts this market to surpass \$3.8 billion in total retail.

Tapping into consumer demand for convenience and value, frozen breakfast handheld food sales have skyrocketed by 40 percent in the past two years and are forecasted to grow by 10 percent annually through 2016, reports Mintel.

New product introductions in frozen breakfast handheld foods have helped create excitement in the segment. Breakfast sandwiches made with whole grain muffins, egg whites and turkey sausage meet the growing consumer demand for better-for-you products.

Pot pies

With their comfort-food-meets-convenience appeal, pot pies are the fastest-growing segment of the \$7.9 billion frozen meal category. Pot pie sales grew by 8.2 percent

We're going to continue to see an evolution of unique items such as frozen mini hamburgers, or sliders, that have just-off-the-grill taste

in 2011 to an estimated \$431 million, Mintel reports. While only a small segment of the category, pot pies will continue to grow through next year.

However, single-serve frozen meals, which account for two-thirds of frozen meal category sales, increased sales by 0.9 percent to \$5.3 billion last year. Mintel predicts that 2012's sales will be off by 2.9 percent, while sales of multiserve frozen meals will dip 1.1 percent this year. The market research firm expects both to post annual growth during 2013-16.

Changing faces

Overall, the future looks bright for frozen food. "There are several areas of opportunity for frozen, such as investing in more innovation throughout the department in areas such as health and wellness, meeting the needs of varying demographics, and tapping into the Hispanic and millennial markets," says NFRA's Henderson.

Part of that recipe for success is to understand changing demographics and meeting their needs.

The number of Americans age 18-34 will grow by 2.7 percent from 2011-16, but the number of those age 55 and up will grow by 14 percent. The Hispanic population, which is one of the highest consumers of frozen foods, is projected to grow by nearly 16 percent between 2011 and 2016, and the Asian population by 14.4 percent, according to the U.S. Census.

Today's grocery consumers may be misunderstood or overlooked. "Twenty-eight percent of all households are single, while only 30 percent of households have children," The Hartman Group's Demeritt says. "Mom may be drawing the most volume in marketing dollars, but up to 50 percent of men do all the grocery shopping in their households." Another phenomenon to be aware of: The number of multi-generational households is also increasing.

These different groups have varying fresh and frozen food needs. "Millennials are choosing more fresh products over frozen, and Hispanics cook more from scratch, requiring companies to communicate differently with them," says Henderson.

Channels

How consumers are shopping has changed, and that, too, has affected their purchases of fresh and frozen foods.

"Since 2005, there's been 130 million square feet of grocery category space developed outside of grocery, in the form of supercenters and value chains," says Booz & Co.'s Blischok.

Currently, the grocery channel has 60.9 percent of frozen meal sales, according to Mintel. Now more than ever, supermarkets are competing head-to-head with more retail formats.

Discount retailer Target is expanding the food selection at 1,100 of its 1,772 stores. By October, the Minneapolis-based discounter will have added its P-Fresh format, which includes 10,000 square feet of fresh, frozen and shelf-stable foods, to an additional 30 stores.

Dollar stores, which have opened more than 3,800 stores since 2005, are also vying for shoppers' fresh and frozen food dollars. Goodlettsville, Tennessee-based Dollar General has updated its format to include up to 50 feet of frozen and refrigerated space, and offers up to 20 skus of produce. Half of Dollar Tree's 4,100 stores offer fresh and frozen foods.

Drug stores and convenience stores are also enhancing their selections of fresh and frozen foods. At drug stores, the top 10 fastest-growing categories are all edibles, and six are frozen or refrigerated, while at c-stores, UPC-coded fresh produce tops the list, according to Nielsen.

These efforts increased these channels' sales of frozen foods by 17.5 percent from 2009-2011. Despite this double-digit growth, Mintel estimates last year's drug store sales at \$45 million, or less than 1 percent market share.

With so many options, where consumers are spending their grocery dollars has changed.

According to The Hartman Group report *Shopping Topography*, club stores are the top channel for stock-up trips among 50 percent of the consumers surveyed, followed by traditional grocery stores, at 47 percent.

It's Snack Time!

Strategies for success in India's snack food market

By Gehan Wanduragala



India's booming 40,900¹ crore snack food market is attracting the hungry eyes of many profit seekers; from the budding local start-up to multinational giants. Yet potential entrants salivating at this market's potential should first consider the possible risks and develop their strategies accordingly. Such an approach will ensure their eyes aren't bigger than their stomach for the fight in this increasingly competitive sector.

Ravenous growth

Thanks to the growing population and rising income levels, the Indian food sector has one of the strongest growth fundamentals of any industry. For packaged snack foods, these fundamentals are complemented by two further growth drivers: convenience and the nation's eating habits.

With smaller families leading busier urban lives, the time and resources for regular home cooking are rapidly declining. At the same time longer working hours and lengthy commutes leave less time for regular sit-down meals. Snack foods have been a long-time favourite in the Indian diet and now packaged and branded variants of namkeen, sweets and wafers have become the natural solution to the culinary cravings induced by the modern Indian lifestyle. The combination of these factors is propelling the snack food sector toward a projected compound annual growth rate of 14 percent from 2011 to 2015².

□ ITC's Bingo has been heavily promoted to create a distinct position for itself in the market



1. Edelweiss, February 2012
2. Euromonitor

Snack food sector is projected to grow at a CAGR of 14 percent from 2011 to 2015

An attractive sector for new entrants

Established snack food players like Haldiram's and Pepsi Lehar have been joined by a new wave of market entrants in recent years, attracted to the sector, thanks to its high growth rate and the relatively low level of capital required to establish production.

Amongst the new arrivals are many regional entrepreneurs who have backed themselves to succeed based on a better understanding of India's distinctive local tastes and delicacies. Meanwhile large FMCG players have bet that their brand name and marketing expertise can extend their clout to a new product category.

Although the market is large and diverse enough to accommodate a broad range of both existing players and new entrants, those moving into the sector need to be aware of a number of challenges to long-term success and develop their strategies accordingly.

KEY CHALLENGES AND STRATEGIC RESPONSES

Challenge: Competition from above and below

Companies entering the Indian snack food market need to be braced for competition on all fronts. Simply transposing the competitive scenario from the national level to a regional setting could be a recipe for over-optimistic sales projections. In many areas, local producers catering to specific regional tastes may actually be a greater threat than the leading national brand names.

At the other end of the spectrum, the existing pan-India competition may be disrupted by large consumer goods firms and major retailers making a foray into the snack food sector. ITC has been the most notable example of this through its heavily promoted Bingo chip brand. With the scope of



Pricing Strategy	+	-
1. Increase prices	Maintain margin	Risk lower sales
2. Reduce pack size	Maintain margin	Risk poor customer perception
3. Keep prices the same	May gain market share if competitors raise prices	Lower margins or losses

organised retail ever expanding, private label brands such as Tasty Treat from Big Bazaar will also pose a stiffer challenge to snack food manufacturers hoping to sell through this increasingly important channel.

Response: Develop an entry strategy based on your own strengths

Companies entering India's snack food market should build their entry strategy around their own key strengths to ensure they are better prepared to take on the competition. For example, those companies starting out with a more limited product range may benefit from launching in multiple locations in order to achieve sustainable volumes and gain sufficient customer insights. On the other hand, those companies possessing a wide variety of products may do well to focus on a particular region first. Allowing them to achieve penetration across categories as well testing the more complex distribution, this entails before they expand elsewhere. In both scenarios, companies need to carry out detailed analysis of consumer tastes and conduct competitor mapping at the local and national level before deciding on their preferred points of entry.

Challenge: Rising input costs

Input costs are a critical factor in the food industry and commodity prices have been rising at record rates in recent years. In India, the vagaries of the monsoon have a major effect on the price of snack food staples like wheat and potato, and the volatility of the Rupee creates additional challenges for those using imported ingredients like cocoa. Furthermore, as food accounts for a high percentage of the average Indian's budget, even small price movements can have a major effect on demand.

Private label brands such as Tasty Treat from Big Bazaar will also pose a stiffer challenge to snack food manufacturers

Responses: Develop a clear pricing strategy, innovate lower cost alternatives and pursue backward integration

With global food price inflation set to persist, snack food manufacturers need robust strategies if they are to sustain growth and protect margins.

Firstly, snack food manufacturers need to develop a clear pricing strategy so they can respond in a timely and effective manner to rising costs. When confronted with such a scenario, they have three possible options: increase prices, reduce pack size or keep prices the same.

All of these options have advantages and disadvantages but manufacturers should prepare their response according to their target customer, the response of their competitors and their long-term strategy. For example, a mass market potato chip manufacturer with highly price-sensitive customers may seek to absorb lower margins to gain market share from competitors who immediately pass on rising costs to their customer.

In addition to pricing strategies, manufacturers could develop lower cost alternatives to their existing products to retain price-conscious customers. Due to high cocoa prices, a number of leading Indian brands have launched biscuits with lower cost vanilla fillings rather than the traditional chocolate in order to keep prices affordable.

Thirdly, India's highly fragmented food chain offers plenty of scope for backward integration. This would eliminate the margin captured by a large number of non value-adding intermediaries, resulting in lower input costs. Pepsi Lehar pioneered such a strategy through contract farming in Punjab. By agreeing directly with the farmers to purchase potatoes at a fixed price in advance, they can guarantee future supplies at stable prices. With the regulatory environment becoming more favourable, such initiatives will become a critical factor for long-term success in the Indian snack food market.

Challenge: Diverging consumer trends

In a large market like India, with such extremes in income levels and lifestyles, consumer trends can seem to move in conflicting

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Darjeeling tea, Green tea or tea from the
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