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Expanding Reach

Grocers debate over moving beyond familiar territories

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AHEAD OF WHAT'S NEXT

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Forward Bound

Our cover story in this issue addresses the concerns of independent grocers with respect to increasing their retail presence. Having successfully established their brand name and value, these grocers are keen on progressing, and are confident of creating new demand pockets in different locales. While they may baulk at entering new regions, they are not averse to checking out new locations within their own region.

No doubt, expansion is necessary if a grocer wants to compete in the marketplace. But if he wants to set up store in a new market, he must be prepared to do a lot of research and planning, and chalk out a strategy to ensure timely opening of the new store.

First of all, he must identify his target market, check out the competitors in each location, and understand the demand for his product. In a highly competitive environment, the local grocer would find it increasingly difficult to survive, especially if there are equally or stronger brands in the same location. Other concerns that he would have to deal with are construction costs, or if he plans to take a place on rent, then he has to consider the rising rent which will impact his budget in a big way.

Unlike a large grocery chain which will have the money and other resources to conduct feasibility studies to test new territories, and can even withstand possible closure in case the project fails to be financially viable, an independent regional grocer will have to move more cautiously.

Achieving profitability continues to be an issue for many retailers as factors such as high real estate costs, high capital borrowing costs, shrinkage, high debt levels, training of qualified staff and a costly supply chain can eat into his operating costs. Unless the new store fetches good returns on his investments, expansion would not be deemed successful.

As Dinesh Kumar, Managing Director at Brown Tree says, "Expanding into new territories means catering to new demand pockets. This is eventually a path, which most retailers take and have been taking in the past to expand, but it has to be done in a phased manner, and only once the retailer has got a foothold in his local area."

Read about the views, experiences and opinions of several grocers who have expanded within their regions and beyond...and tasted success.

Amitabh Taneja
Editor-in-Chief

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PROGRESSIVE GROCER

Right Time, Right Place

Sandeep Agarwal, Managing Director

Manish Bhartiya, Director

With no retail knowledge or legacy to lean on, but led by passion and unflinching determination to become one of the best supermarkets in the twin cities of Hyderabad and Secunderabad, two entrepreneurs ventured into food and grocery retail business in 1991. Managing Director, Sandeep Agarwal talks to Juhi Sharma about Ratnadeep's journey to success

Number of stores: 13
Total retail carpet area: 66,750 sqft
Average store carpet area is: 5,200-5,400 sqft
Minimum store carpet area: 3,000-3,500 sqft
Maximum store carpet area: 10,000 sqft
Average investment per store: Rs 1.25 - 2 crore
Number of bills per day: 1,200-1,500
Average monthly sales per store: Rs 1.45 crore

Looking back

In 1991, the concept of a modern supermarket was rare; people thought it would be very expensive to shop in it too. So when Brij Kishore Bhartiya (now late) and I bought a supermarket called Ratnadeep with an investment of Rs 10-12 lakh in Hyderabad, we knew that we were taking a huge risk. What's more, neither of us knew a thing about retailing, or even what selling food and grocery entailed. But we were willing to take a chance.

I was young (studying commerce at the time), adventurous and desperate to do something different. Mr Bhartiya and I had explored various business options, before we chanced upon Ratnadeep in 1991, which had been struggling to survive since its inception in 1987. At the time, the store measured around 3,500 sqft, and was generating a turnover of around Rs 8 lakh per month.

Looking back, our spirit and confidence to venture into a new business with no background knowledge about it, and one that was hardly successful, would be considered foolhardy, but our passion and enthusiasm to make it a success paid off. Following Mr Bhartiya's demise, his son Manish joined the business in 2002.

Our strength was the catchment area in which we operated the store; it comprised of our target group of well-educated and much-travelled people who had higher expectations from the retail environment. Then a major transformation took place between 1996 and 1998, and changed the way consumers perceived food and grocery shopping. Big companies began to open retail chains in the city, such as RPG Enterprise's Spencers Retail - a thoroughly modern grocery store. We observed that people travelled 7-8 kms to visit it. Since we were still learning the retail business, it was a practice with us to visit neighbouring cities in southern India where big modern retailers had established their stores. This way, we sought to gather a closer understanding of the business. Soon enough, we decided to emulate the modern grocery format of Spencer's, and give Ratnadeep a complete makeover.

Today, we are a chain of 13 stores, which together generate close to Rs 17 crore per month

From a store with slotted angle racks, about 20 tubelights, 10 ceiling fans, an ordinary water cooler, the store was air-conditioned, new shop fit-outs and display units were installed, and we brought in bar coding and the POS. We expanded our product range to include frozen foods and further increased the dairy segment.

Best performing categories at Ratnadeep are juices (5.12% revenue), dairy segment (4.32% revenue), and breakfast cereals (2.50%)

Measuring success

Today, we are a chain of 13 stores (4 of which are in Secunderabad), which together generate close to Rs 17 crore per month. We attribute our success to our close understanding of the regional market, the consumer's need for local produce, and our focus on meeting their demands.

We also owe our success to the prudent choice of locations for our new stores. Ironically, most of them are in places where other retailers failed to run their business successfully. For instance, one of our stores in AS Rao Nagar in Hyderabad is not a prime location, and the previous retailer was making only Rs 20-25 lakh per month, which was barely sustainable. When we took over, from the first month itself we began to earn Rs 80 lakh, and are now expecting Rs 90-95 lakh turnover from it.

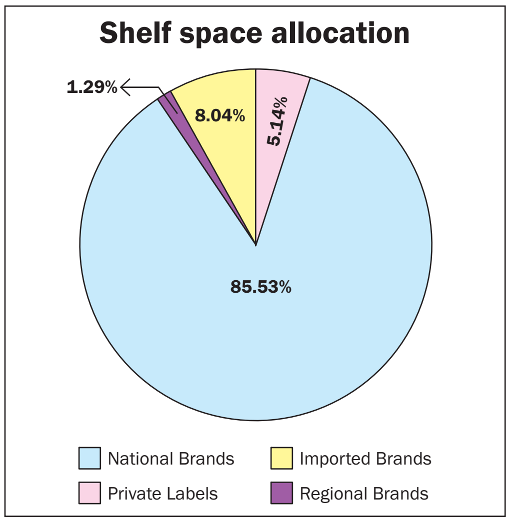
In some of our stores, we are paying a high premium on the rent; in some locations we have paid 10-20 percent higher rents compared to our rivals. Now, after having created a brand name, we are offered space at competitive rates and as per our terms. We prefer to open stores in residential areas, and in places which have the potential to grow.

Our best performing store is in Hitech City, Madhapur, Hyderabad. The area is surrounded by high profile IT professionals and a lot of young crowd. The area also has upper class and upper-middle class residents who are our target group.

It is a reflection of our capabilities that while earlier, it used to take 60 days to open a new store, we have streamlined all the processes to the extent that we can open a new store within a month! We have fixed vendors for lighting, fixtures, furnitures, technology, etc, so there is no waiting or checking time, though delays can happen if imported items such as Carrier chillers and freezers from China, do not reach us on time.

On private labels

Our private label brand Excella is in the staples category; these are sourced locally and packaged in-house. All our PLs are competitively priced besides being high on



Expanding Reach

Having successfully established their brand name and value, many independent grocers are confident of creating new demand pockets in different locales. However, expansion into new territories or within tried and known regions, involves an appraisal of the strengths and weaknesses of the existing business in order to gauge the ability to expand

By **Juhi Sharma**

Pix: shutterstock.com

Local retailers with a single or chain of stores are increasingly considering to expand their presence in the marketplace by creating multiple locations. Expansion gives them an opportunity to leverage on their retailing skills including their products, customer service, a strong customer base, etc, which they can build on or replicate in another store in a new location. By extending their reach into newer territories, they can further reinforce and enhance their brand image. However, unlike big chains who have the money and resources to conduct feasibility studies, test new territories, and can even withstand possible closure in case the project fails to be financially viable, independent retailers, specifically regional grocers, have to move more cautiously by adopting the most appropriate strategy

Expansion is necessary if the retailer wants to compete in the marketplace. By offering consistent customer service, he can relicate the success achieved in another location and garner a larger share of footfalls and customer loyalty, while at the same time maximise his profits. However, the expansion of a retail store, by all means, must fit within the retailers' ability to grow, which implies that his internal support systems, external suppliers, and his workforce are in a position to handle the additional load created by the expansion. As a retailer expands, the expansion should be at an organic rate of growth, and not at a forced rate of growth. An organic rate of growth means that a retailer can only expand as rapidly as he has the ability to reinvest resources to further the expansion and maintain current operations. A forced rate of growth means he is expanding beyond the supporting capacity of his resources.

Brown Tree, Bangalore

Brown Tree

Store count: 12

Cities: Bangalore and Chennai

Store size: 1,000 sqft

Expansion plan: 2 more stores by year-end

Dinesh Kumar, Managing Director

Expansion for some regional retailers means expanding across the length and width of the country so that they are seen as national retailers, while some prefer to restrict their operations within select regions and be seen as 'big' regional players. There are some, who believe in aggressively increasing their store locations in a short span of time, while others prefer to take a slow, cautious approach. The Aditya Birla Group, for instance, aggressively expanded its supermarket and hypermarket network to over 570 locations across the country in about 5 years. It took around 6 years for Hypercity to establish its presence across 12 sites in north, south, west and central India, while in the same period of time, SRS Value Bazaar became visible across 23 locations in north India; and Chennai-based Nuts 'n' Spices in over 10 years of its operations, confined its presence across 19 locations only in southern India.

Planning & strategising

Retail expansion is not just about easy access and acquisition of a site, but an outcome of several strategic decisions. This is evident by the different approach adopted by different retailers. Elaborates Sunil Sanklecha, Managing Partner at Nuts 'n' Spices, "It is not that we do not want to expand outside our territory or do not have demand coming from outside our region, in fact, we get around more than 400 enquiries for franchising from all over the country, and even from far off places like Guwahati. I have no clue how they know about Nuts 'n' Spices! The reason why we have restricted our expansion is that we are awaiting implementation of GST, which will make operations much easier across the country. Once GST is in place, we will be able to expand across India and there would be

While many retailers are expanding and opening new stores, profitability continues to be an issue for many factors such as high real estate costs, high capital borrowing costs, shrinkage, high debt levels, training of qualified staff and a costly supply chain add significantly to operating costs. Until recently, many Indian firms lacked the expertise to launch a modern food retail chain. As mul-tinationals and Indian firms have invested in the food processing sector and consumer and business exposure to foreign retail has increased, industry's understanding of how to adapt modern food systems to the Indian environment has improved. Some chains have had to slow their expansion plans to better focus on developing the "backend" of their operations, but all major retailers now seem to recognise the importance of developing supply chains, inventory management and quality control systems. While labour costs are relatively low, stores will also have to continually emphasise the training of their staffs at all levels to ensure that standards are met in a sector where staff turnover is reportedly very high.

Source: Gain Report 'India's Food Retail Sector Growing' by USDA

Retailer of the Month

The Winning Formula

Nilgiris - South India's leading chain of retail stores - is considered a pioneer of modern retail in India. The company owes its 100 years of success to its personalised customer service and highly effective franchise model

By **Roshna Chandran**

Considered as one of India's pioneers of modern retail, the first Nilgiris supermarket owned by the Mudaliar family opened in Erode in the year 1971. Subsequently, 20 more stores were opened in Karnataka and Chennai. Today, there are over 125 Nilgiris stores spread across 4 states of South India.

In 2006, UK-based private equity investor, Actis LLP, invested around Rs 300 crore in the company and became a 66 percent shareholder. They started by investing in a professional management team to drive the group's back-end manufacturing and supply chain capabilities. The stores were upgraded, layouts and planograms were standardised, and the latest technology was put in place for inventory management and other operations. Although the company morphed into a modern retailer, but it continued to retain its strong traditional roots and position as a friendly "mom and pop store."

The company, that has spanned successive generations, has become a household name in South India, offering a wide assortment of products that include grocery, general merchandise, personal care products, and a wide range of international food products. Its private labels sold under the brand name Nilgiris 1905, continue to grow in strength appealing to old as well as new customers. Consumers are assured of their freshness, quality and value, thanks to the Nilgiris's in-house manufacturing capabilities.

Nilgiris owes its higher than average trading density to its private label offerings; a very wide assortment of merchandise (packing almost three times more skus per sqft than other neighbourhood stores); and its high level of personalised customer service

Franchising success

From its humble beginnings as a single store on Brigade Road in Bangalore with butter and fresh cream as its mainstay, Nilgiris grew from a traditional dairy and bakery products company to a chain of over 125 retail stores. These stores, which are spread across India's southern states, operate through individual franchisees. In addition to operating retail stores, Nilgiris Dairy Farm also generates revenue from general trade, its bakery and dairy products, and also undertakes manufacturing for some leading brands.

"We have a very successful franchise model, where the franchisee brings in a very strong customer connect while Nilgiris provides all the back and front-end technical know-how of operating a store. We have a deep understanding of diverse customer preferences in various states, and our private label range of staples is able to address this diversity pretty effectively. Also, franchisees understand the specific taste and needs of the customers in the catchment, based on which, we constantly evaluate the assortment mix. So it is an excellent proposition bringing a Mom and Pop kind of personalised touch to the consumer with unique differentiated private label portfolio which helps draw footfalls," says Murali Krishnan, CEO, Nilgiris.

The Nilgiris team identifies locations, decides on layout and planogramming , provides a centralised software for the stores and training to the franchisee and his team. By empowering its franchisees, the company has enabled store-level profitability while bolstering the operating margins of the company. "We work very closely with our franchise partners, engage with them on inventory management, bring in the right assortment of products which meet the local needs of each catchment. We also strive to constantly improve and upgrade our capabilities including customer service and high quality product offerings at the right price points," adds Krishnan.

In the past, as part of the evolution, the chain had experimented with Master Franchisee Route but found that the model was not delivering the kind of customer value which an individual franchisee brings. After closing its master franchisee stores, the group has grown its retail footprint by adding multiple franchisees who are personally involved in running the stores as per specified guidelines.

The Origin

The origin of Nilgiris Supermarket chain of stores can be traced back to the early 1900s when Muthusamy Mudaliar, a mall runner for the British in colonial India, carried mall for the British from Coimbatore to the hill stations of Ooty and Coonoor. During his trips he was frequently called upon to carry dairy products. In 1905, he opened a small shop after buying the butter business from an Englishman in Vannarpet, and established The Nilgiri Dairy Farm.

The company commissioned its 100th store in Chennai in 2010, and aims to touch the 150 store mark by 2013

In 1936, he moved his shop to Brigade Road, Bangalore. The Nilgiri Dairy Farm sold dairy products, bakery and chocolates. Muthusamy's son Chenniappan expanded the company by setting up a modest store in Bangalore to sell Nilgiris own products. However, after Chenniappan's visit to the US and Europe, he upgraded the store to a supermarket, but retained the local flavour and culture. Soon, the Nilgiris supermarket chain spread to Coimbatore and Chennai.

Among all the retail chains in India, we are the only one who operate a franchisee operation in the front end and the only retailer to have company-owned factories in the back-end; this is part of our heritage **– Murali Krishnan, CEO**

Each store is rated according to its sales per square feet, based on the potential of the catchment area. According to Krishnan, Nilgiris does almost twice the sales per square feet as compared to the industry average for revenue than any other retailer in a similar neighbourhood format. The stores clocked over Rs 500 crore in FY 12.

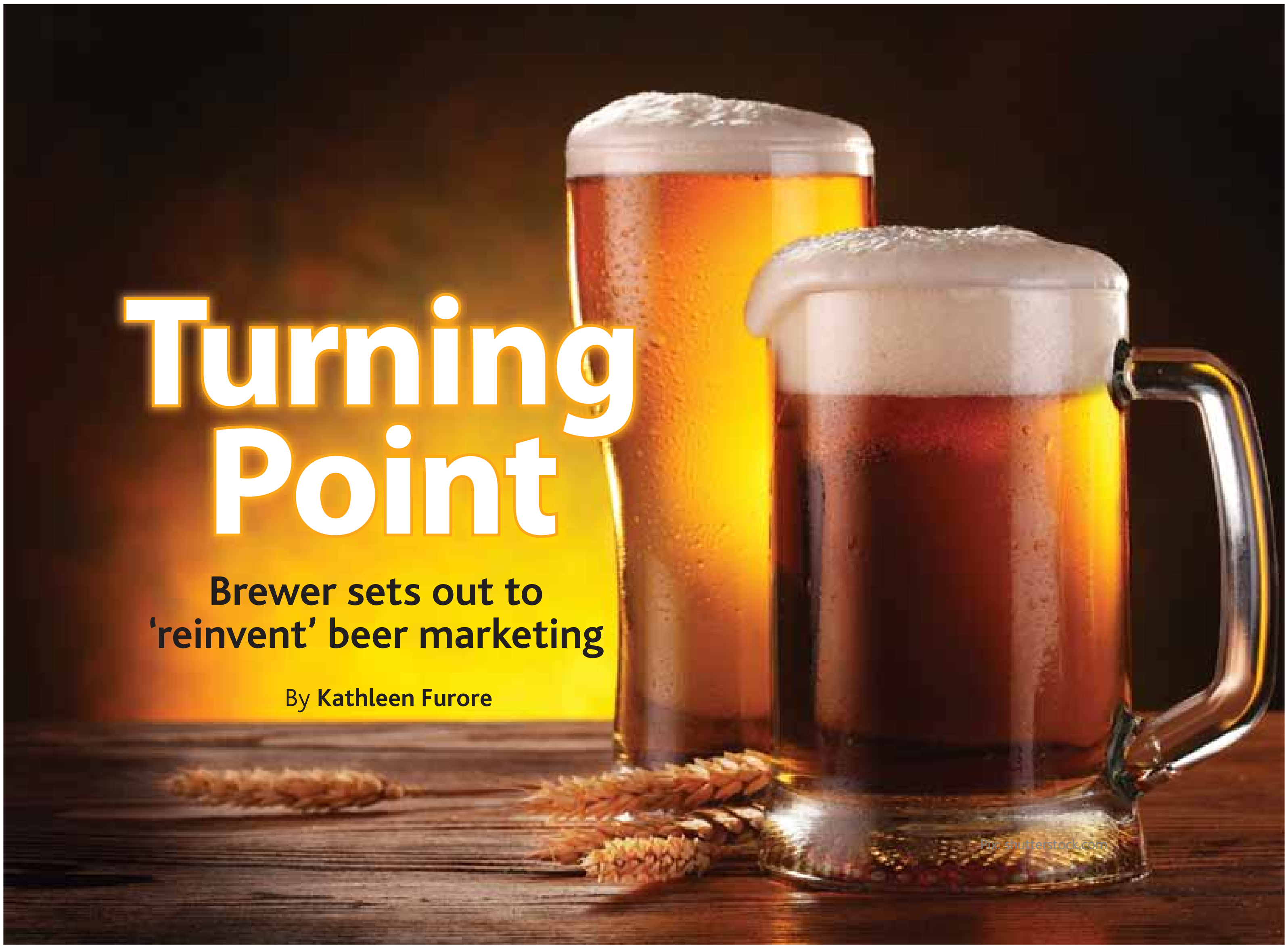
Private labels

Says Krishnan, "Among all the retail chains in India, we are the only one who operate a franchisee operation in the front end and the only retailer to have company-owned factories in the back-end. This is part of our heritage, and we continue to manufacture all our private labels within these factories."

"Our high-quality private-label goods have been the hallmark for Nilgiris Dairy; they are driving sales and the profitability in all our stores. We have managed to maintain their consistency, because we are proactively furthering their image and premium positioning at all times," avers Ashok Sinha, Vice President - Merchandising,

It's true that Nilgiris owes its higher than average trading density to its unique private label offerings; a very wide assortment of merchandise (packing almost three times more skus per sqft than other neighbourhood stores); and its high level of personalised customer service.

About 25 percent of the Nilgiris business comes from its private labels, with a list that has close to 900 skus in dairy and bakery products and in spices and condiments, which are sold under the brand name Nilgiris 1905. Unlike other chains in the country, which do



Turning Point

Brewer sets out to ‘reinvent’ beer marketing

By **Kathleen Furore**

Beer matters.

That was Heineken USA’s message to the 1,400-plus attendees at the White Plains, New York-based company’s National Distributors Conference held in Atlanta earlier this year.

After portfolio presentations and product tastings at the Marriott Marquis, guests traveled to the historic Fox Theatre for a multimedia spectacular featuring live musical performances, videos and presentations by Heineken USA executives that demonstrated how the company will become the upscale leader with its portfolio of brands.

“The beer industry is at a turning point. Wine and spirits are gaining share, and beer has stagnated. It is becoming less relevant to millennials, to women, and to other key consumer segments,” says Scott Blazek, SVP of sales. “Beer has to matter over wine and spirits. We have to return our product to centre stage where it belongs. We have to make an emotional connection between our beer and the customer. With our portfolio, we have an unbelievable opportunity to lead in upscale. With our people, our values and the passion of the Heineken team, we are ready to write the next chapter of this great company.”

How will Heineken USA make that chapter compelling to retailers and consumers? The goal is becoming the “upscale leader in category management” through flawless execution of creative marketing, merchandising and advertising plans.

“The category is ripe for reinvention,” says Lesya Lysyj, chief marketing officer. “Beer marketing has been the same for a long time, and we plan to break the mold.”

While on-premise is critical to success — “60 percent of millennials try on-premise first, so we need to win there to grow and profit,” Blazek says — retail is a crucial component of Heineken’s brand-building strategy.

“We want to be the go-to supplier for retailers to help them grow the upscale beer segment,” Blazek says. “Consumers are all about upscale, but they don’t differentiate between imports and crafts, which reinforces the need for clarity.”

The category is showing promise: Retail is skewing upscale and brand Heineken sales are up 5.1 percent

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