

PROGRESSIVE GROCCER

DECEMBER 2012

AHEAD OF WHAT'S NEXT

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Win-Win for all

India's food and grocery market is a huge opportunity for both Food, FMCG and retail companies, especially so over the next two years. At this juncture, it is critical for companies to address all concerns and challenges if they want to exploit this opportunity to their advantage.

They must seek practical solutions to issues such as how modern retailers and government agencies can work together to bring in global best practices, reduce wastage in the food supply chain and contribute towards meeting food security goals; what role can retailers and brands play in driving better in-store implementation to grow their business; what consumer insights will help them create a distinct mind space; how FMCG brands can develop a fruitful partnership with modern retailers, and so forth. Knowing the answers to all this and implementing them will create a win-win situation for all involved.

It gives me immense pleasure to inform you that the Food & Grocery Forum India, which is being held during 12 and 13 December in Mumbai, will provide all the answers to the above, and a lot more information by industry experts. They will also discuss how the market is shifting, what trends are defining this change, and the blue print for the future. Progressive grocers will share their success stories, and reveal how upgradation to a modern retail environment has infused their business with fresh thinking and a profitable ROI.

So, be there and hear it directly from the experts....



Amitabh Taneja
Editor-in-Chief

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On ensuring fill rate...

For retailers in India, the biggest challenge is to ensure availability of products at all times on their store shelves. Most of the top retailers are hovering around 70–80 percent of fill rates. That means 20-30 percent of the orders do not get executed by the supplier. When products are not found on the shelves, it is a huge loss in terms of sales and more importantly loss of customers confidence

Inability to ensure a high fill rate is generally observed more due to gaps on suppliers' part. Though in certain cases it is also due to process lacuna on retailers part. In our food and grocery segment we have around 10,000

skus, and we have to keep track of all of them. It is not easy, but it is possible if you have the right processes in place.

Sometimes, in the process of ensuring stock availability, retailers end up investing in stocks more than the required level. In shampoos, for example, brands such as Head & Shoulder, Dove, etc, are the top sellers, so we cannot afford to go out of stock. In these cases, we tend to buy more than the required quantity, so that we have a holding stock to tackle any gaps in supply. However, we can do this only for selective skus, else we would end up blocking our capital as well as space.



□ Ponnu Subramanian

Our products are classified into core, top 1, top 2, etc. The importance of any sku is based on the local city trend/customer usage. Products like Dove is a core product in Bangalore; in Hyderabad it is the Santoor brand. Such classification is based on external research on the local market by an expert company plus our in-house data. After comparing the two reports, we decide on the core skus for a particular city. Everyday we keep track of on-shelf availability of our core and top 1 skus so as to ensure that we have the desired availability levels of these skus.

On managing shelf space ...

Sizing of a category and its space allocation on the store shelf is based on research and understanding of consumer behaviour within each catchment area. Through our own experience in various cities where we are present, we have been able to make a rough estimate of the desired allocation for each category. Within each of the categories,



□ When products are not found on the shelves, it is a huge loss in terms of sales and customers confidence



Expiry dates are most relevant in food products and also in non foods such as health and beauty products

between cities or locations within a city, the proportion changes to some extent.

Besides our in-house knowledge and experience, we also take market inputs from an external market research agency to understand customer behaviour, consumption trends, etc, to get better insights into sizing of the categories. Such research helps us decide in which particular locality, which category is likely to grow more, which is likely to underperform, and so on. So, largely through internal and external research, and with some trial and error, we have been more or less successful in managing our categories - both food and non-food.

60,000 sqft store like ours. Many of their packaging design/size/shape do not take into consideration the stacking or display issue of the product on a store shelf. For instance, when they offer a freebie with a product, the freebie often comes as a separate item. For us, the immediate concern is how do we store it, how do we display it, how do we preserve it, how do we handle it in every store, when every day the store registers more than 4,000 bills? When the footfalls are so high on a typical weekday, and which double over the weekend, how do we make sure that the particular freebie reaches the customer? The companies do not realise that in many cases the intended

category, and take into account the height and width of the products. For example, in the masala section, the shelves are narrow and low in height, but in the breakfast cereal section, the shelves would be taller. Sometimes companies introduce a new pack which is double the usual size, or they will include a free jar which is more than the usual height, and place the product inside it. It becomes impossible for us to keep the jars on our shelves since they do not fit. Changing the shelves to accommodate a product category is a laborious task. Companies need to pay heed to such operational challenges in modern trade.

On insufficient margins...

Unlike traditional stores which are owner-driven and have lower operational costs and overheads, modern stores have to contend with real estate prices/high rentals, interior design, shopfittings, lighting, staff employment, training and service, etc. But the margin structure of most of the companies does not take into account these overheads. In fact, the issue of margins is a common grouse with both large and small retailers as well as with the kiranaawalas.

Clearing off near-expiry merchandise...

Expiry dates are most relevant in food products and also in non foods such as health and beauty products. As consumers are becoming more aware now, they check out the labels on the products, especially on perishables, for the manufacturing and expiry dates, and even on cosmetics.

Retailers invariably follow the first in first out (FIFO) system - it is an inventory discipline which reduces expiration at the shelf. We also have a clear-cut SOP (standard operating procedure), that is, how many days prior to the expiry date, the product should be pulled

Research helps us decide in which particular locality, which category is likely to grow more, which is likely to underperform, and with some trial and error, we have been more or less successful in managing our categories

Some challenges posed by companies...

In modern stores where customers browse and pick up products off the shelves, it is unfortunate that even now quite a few FMCG companies fail to consider the operational complexity in F&G retail, especially in a big

freebie will not reach the customers due to the complexity in self service store! Also it creates negative impression on the part of the retailer from customers perspective.

In most stores, the shelves are designed and arranged according to the product

off the shelf. This way, we ensure that the customer does not get an expired or almost-expired product. What happens to products that we take off the shelves? Some vendors take them back if it is on our contract, else we have to dispose them off at our end.

The Rise & Rise of Modern Retail

Although modern retail commands a minuscule percentage of the overall Food & Grocery retail market, its influence on the consumption patterns across urban centres has been significant, and this trend is expected to continue in the future

By Seema Gupta

Modern or organised retail in the F&G segment refers to convenience stores, supermarkets and destination outlets called hypermarkets. Although such stores constitute less than one percent of the total food retailing, it is fast picking up to be the next major industry as India is experiencing a consumption boom driven by rapid urbanisation. Food accounts for over 60 percent of customer spend, and food retailing is growing at a rapid rate of 30 percent; it currently accounts for about 14 percent of the total organised retail trade in the country. This is also a strong indicator of the growth potential of the modern trade format.

According to a Gain report prepared by USDA titled 'India's Food Retail Sector Growing', upto the mid-1990s, there were an estimated 200 modern grocery stores operating in India. These were typically chains in south Indian cities (mainly Bangalore) that were not much larger than kirana stores. These stores were distinguished by their emphasis on a more modern self-service shopping environment that offered a range of products. A few cities also had cooperative stores that were owned by consumer societies. However, the Indian market was dominated by kirana stores and government-run food distribution outlets supplying essential commodities. The emergence of larger chains and stores began around 2005 and the sector has since grown to nearly 3,000 modern retail outlets across India.

In food and grocery, the penetration of organised retail is only 2-3 percent of the total. But in urban India, shoppers are using both modern as well as traditional stores for their

needs. In fact, organised retail has gained momentum with increasing numbers of urban crossover shoppers who patronise multiple store types; they visit modern stores but also rely on their neighbourhood kirana stores for their daily needs. A study by Nielsen on shopping trends states that over a third of the Indian shoppers, on average, frequent two or more types of store formats.

While large stores offer a better shopping experience, attractive deals and a wider variety of goods, the traditional kirana stores are being visited by shoppers for topping up or replenishing stocks at home with small or quick purchases. But shoppers prefer modern stores to buy better quality products. So while the volume growth in modern and traditional stores is similar, growth in terms of value is higher in modern format stores.

According to the Nielsen report, mushrooming of modern retail formats across

the country is impacting shopping behaviour in major cities. Sales of home care, personal care and food products in modern stores is now nearly one-third of the sales of such products in traditional stores in 17 major Indian cities.

Daily use products like hair oil, refined edible oil and toothpaste, and impulse-driven categories such as biscuits, beverages, salty snacks, instant noodles and chocolates are growing much faster in sales value than the number of units sold in modern trade.

Modern retail shoppers seem to be less impacted by economic factors like inflation, high interest rates and slower growth. Industry officials say this trend also has to do with consumer's shopping motivations. Consumers are purchasing larger packs, and more value-added products in modern retail since they are showing a tendency to complete their monthly shopping in such stores, and topping up with smaller purchases from kiranas.



Retail Formats: Store count and share in retail space in 2011 and projection for 2016							
Format	Average Size (sqft)	2006		2011		2016	
		No. of Stores	Share in Total Space (%)	No. of Stores	Share in Total Space (%)	No. of Stores	Share in Total Space (%)
Supermarkets	2,000	500	5	4,000	9	8,500	8
Convenience stores	700	100	0	400	0.3	2,000	1
Hypermarkets	50,000	40	10	300	17	1000	25
Discount stores	1,000	500	2	1,500	2	4,000	2
Speciality stores/EBOs	1,500	10,000	75	30,000	50	50,000	37
Department stores	30,000	50	7	600	20	1,400	21
Cash & Carry	70,000	2	1	30	2	200	7
Total		11,192		36,830		67,100	

SOURCE: WAZIR ANALYSIS FOR INDIA RETAIL REPORT 2013

Size of the Market	Total Retail (in Cr) 2012	Total Retail (in Cr) Est. 2015	Modern Retail (in Cr) 2012	Modern Retail (in Cr) Est. 2015
Food & Grocery	17,12,000	27,41,961	24,300	53,387

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Modern retail in tier 2 and 3 cities

There is a surge in growth in modern trade in non-metros. Data by Nielsen show that tier 2 markets like Surat, Indore, Jaipur, and Vizag are witnessing rapid growth in modern trade, and registering strong double-digit numbers. Trend is present in towns like Aurangabad, Surat and Kolhapur. Max has outlets in Coimbatore, Vijaywada and Mangalore. Bharti Walmart operates its wholesale cash and carry stores in Ludhiana, Guntur, Meerut, Agra, Amravati, etc. Metro Cash & Carry India has opened wholesale centres in Ludhiana, Jalandhar, Zirakpur and Jaipur, and the most recent one in Vijayawada.

According to Nielsen, tier 2 cities are seeing rapid growth in consumer spending. While the modern trade sector grew 28 percent annually in 2011 nationwide, sales in modern retail stores in cities such Jaipur, Indore and Surat grew approximately 40, 39 and 27 percent respectively – a trend that is likely to gain momentum.

According to Devangshu Dutta, CEO of consulting firm Third Eyesight, tier 2 towns offer retailers lower rentals and other associated costs, and competition from modern retail is less. But in small towns, a store size would average between 15,000 and 25,000 sqft, as compared to 80,000-1 lakh sqft in metros. The biggest challenge faced by retailers in these cities comes from their expectations on ROI in these markets.

Says Sushil Patra, Principal Consultant - Retail at Technopak, "Although bulk of the consumers of modern retail is concentrated in the metros, the formats have had a significant influence on lower tier cities as well. This has been driven by opening of malls and modern food and grocery formats in lower tier

cities. Consumers in tier 2 and 3 cities are increasingly opening up to spend for a better lifestyle, driven by rising incomes and greater awareness of products, with modern retail becoming an enabler for the distribution of products in such places. This is contributing to the growth of modern retail and value-added categories, and this trend is expected to continue. Of the product categories that have grown/emerged (driven by modern retail and which have the highest acceptability in tier 2 and 3 cities are branded staples, ready-to-eat /cook food and juices.



Tier 2 and 3 cities are now well accepted as the new frontier for Indian retail with increased purchasing power and consumers' propensity to spend. During a session titled 'The Opportunity in Tier 2 and Tier 3 cities' at The India Retail Forum (IRF) 2012, industry experts gave practical insights to retailers on penetrating the rural hinterland, and how they could explore the untapped business potential

The biggest challenge faced by retailers in tier 2 & 3 cities comes from their expectations on ROI in these markets

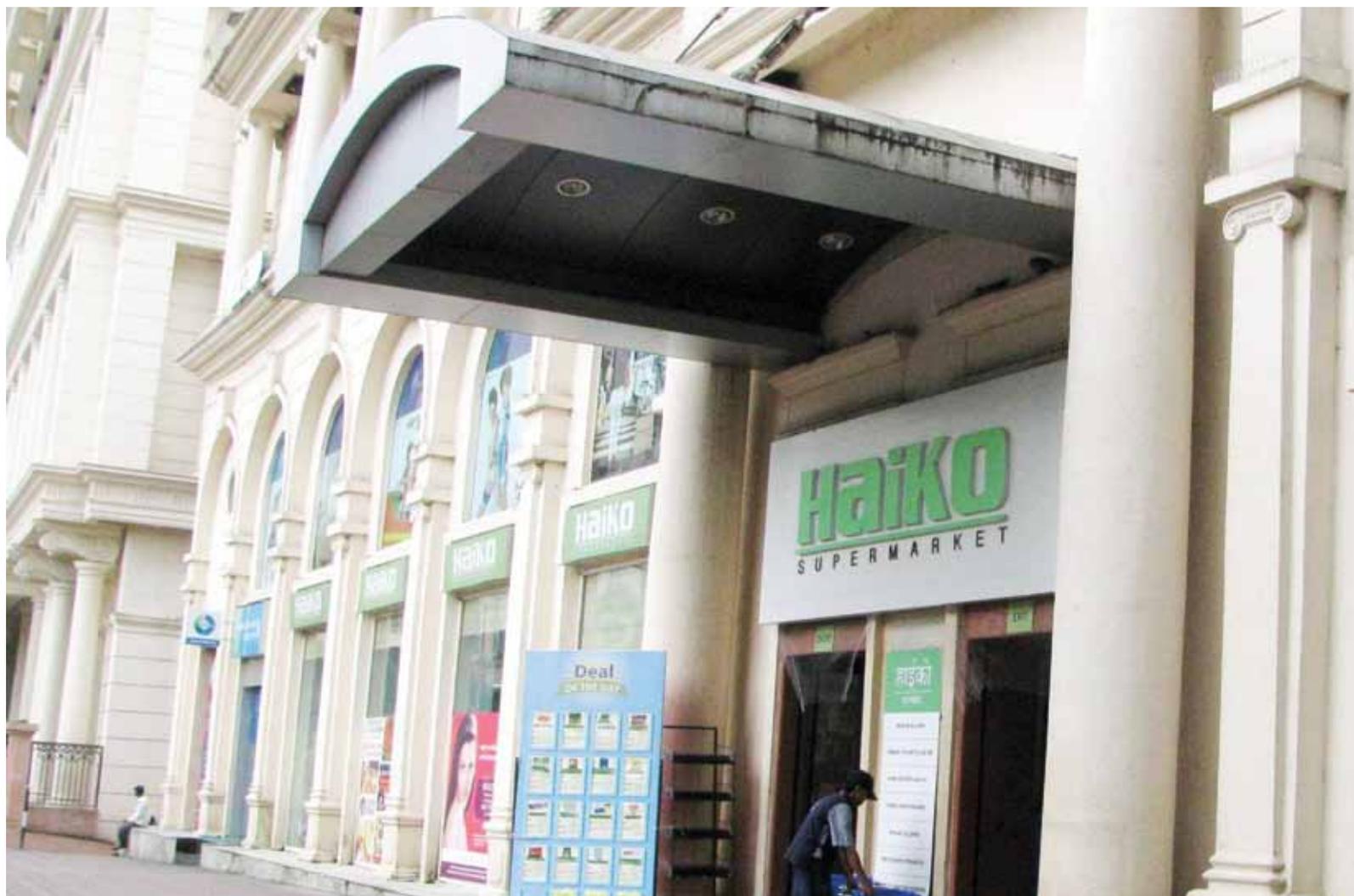
in small towns and cities, and the scope they hold for the industry.

With rentals and other operating costs being substantially lower than metros, many tier 2 retailers and shopping centres are getting higher margins on their investments.

According to Justin Sargent, MD, Nielsen India, consumers in tier 2 and 3 are becoming thirsty for better lives as their incomes are increasing faster. These are the people who are becoming better connected to the world, they see what other people have and they want to have it too. "The aspirations of the consumers are similar in all parts of the country. It's no longer a strategy for whatever business you are in to win just the major metros, winning in tier 2 and 3 is increasingly becoming more important. For instance, the FMCG growth in tier 2 and 3 has outpaced all other regions, and FMCG demand is percolating down to the small town India," he said.

Industry experts expressing their views said that there is a misconception that tier 2 cities are very easy to manage but that's not the case, because location of the stores is very important in these places. Another major challenge is the connection of the brand with the consumers, as are price points, because affordable pricing is a must for consumers in small cities.

Retailer of the Month



Quality & Variety at Haiko

This grocer has a well-oiled system in place which has been running the store operations smoothly and efficiently for over thirteen years

By **Shanti Padukone**

As India's food retail business began to evolve and modernise, several supermarkets began to mushroom across the landscape – providing competition to smaller stores and *kiranas*. One such entity was the (now 13-years old) Haiko Supermarket - considered a landmark at the upscale Hiranandani Gardens in Powai, Mumbai. However, the store's retail concept was based on the lines of *kirana* stores that cater to almost every household need of a customer, albeit with modern shopfittings, better

displays, POS systems, trained staff and a better in-store ambiance - all of which ensure a pleasant shopping experience. So, with a business ethos, which was to not only provide a wide assortment of products, but also to understand customer needs, and be aware of product quality as well as customer service, it put into place a well-oiled system to run the store operations efficiently and smoothly. Today, the store caters to a large population of middle- and upper-middle class citizens spread within two kilometers in the catchment area.

Foundation matters

Haiko Supermarket was established in 1999 by the Hiranandani Group's Lakewood Malls Pvt Ltd. When the store was started with a relatively large format (8,000 sqft), the objective was to cater to high-end customers, and provide them products that met all their household needs as well as products that were not easily available, such as imported and other exotic food items. At that time, there were no such supermarkets that could meet such expectations.

When the store began to build its product merchandise, imported products that were

not available anywhere in Mumbai, began to form a big part of the product assortment, albeit in lesser volumes. Given the limited number of distributors at the time, the food assortment at the store wasn't much. But, today, food comprises 80-85 percent of the total merchandise, while the rest is non-food. Gourmet food products have grown by 30-35 percent. The store's aim is to look at a basket that fills up with a customer's monthly household consumption.

Product assortment

Food takes up 6,500 sqft of space, while 1,500 sqft is reserved for other products. Fresh fruits and vegetables comprise 12 percent of the food section. "Every morning, at 4 am, a team from Haiko purchases fresh produce from the vegetable market at Vashi, which is transported to our 3,000 sqft godown where the fresh fruits and vegetables are packaged by around 30 people who are engaged solely for the cleaning, cutting and packing of these products," informs a senior spokesperson of the company.

Staples and beverages comprise more than 10 percent, frozen and dairy 10-12 percent. The store also boasts of one of the highest selling juice categories in Mumbai, besides a wide range of wines and beers (both local and imported), of which, imported brands sell the most. Customers can also find small though essential items like garbage bags, food storage clips, threads, pooja items, cotton swabs, etc, and even pet food.

This is where Haiko's retail format is different from other supermarkets. While they could easily replace low selling categories with better selling products (such as leather belts, etc), they do not want to compromise on their USP, which is the wide assortment.

Strategic sales

Gourmet products, which essentially include multi-cuisine ingredients like pastas, Italian, Thai and Mexican sauces, etc, have been part of the merchandise from day one. Haiko goes one step further by allowing customers to make informed decisions by placing gourmet and imported products alongside their Indian counterparts, for instance, a Bachelor's Noodles alongside a Maggi. Similarly, regular pulses are kept alongside their organic cousins, while Indian and imported chocolates can be found on the same shelf, such that customers can choose from a wide range of options, and consider the products' country of origin, their ingredients, prices, etc.

The spokesperson proudly states that the supermarket avoids the 80-20 route that most

Haiko was started to cater to high-end customers and provide them with products that were not easily available in the market

stores adopt, wherein the top 20 skus that give 80 percent of the sales are the only ones found on the shelves. At Haiko, the entire product portfolio of a brand is carried, even if some of the skus may not sell as much. As a result, a brand gets a platform to showcase its entire range and get feedback, while customers get to check out all the products and their variants.

Going private

All of Haiko's fresh produce and staples are sold under its private label - Haiko Farms. This ensures and conveys to the customer that the store is not dependent on an external vendor for quality. Having worked with the same supplier since inception, the store ensures that quality is maintained and pricing is controlled.



Food takes up 6,500 sqft of space, while 1,500 sqft is reserved for other products. The store also boasts of one of the highest selling juice categories in Mumbai, besides a wide range of wines and beers

Waste not want not

With so many products on the shelves, preventing wastage is a problem that Haiko has to deal with. But contrary to the usual 9-10 percent wastage in most supermarkets, Haiko records less than 5 percent wastage. This is because the store procures, sorts and packs the products at its own end. This is the first step towards curtailing damage through mishandling. Once on the shop floor, the products are rechecked and sorted. But, the first real step is when the food purchase team buys only one day's inventory for products with a one-day shelf life. In case of stock-outs, the supermarket has back-up suppliers who come to the rescue at short notice.

Moreover, the store ensures that its prices are on par with any local vendor in Mumbai.

But do the private label products sell better than a brand's? According to the spokesperson, every brand has its pull. For instance, while Basmati rice comes in ready packages, customers who want kolam or surati rice buy Haiko Farms' packs. To prevent the possibility of a stock out on any product, Haiko has partnered with two back up suppliers. Private label for fresh produce is 55 percent, with the rest being taken up by partnering suppliers, while for dry fruits, Haiko's share is 65-70 percent. "Such competition is good, since the team members are kept on their toes and



High on Energy

Increased urbanisation, rising disposable incomes, and growing health consciousness among the Indian youth is fuelling demand for energy drinks

By Inderpreet Kaur

Energy drinks are primarily classified as non-alcoholic, caffeinated beverages and sports drinks. The popularity of energy drinks in India is not merely due to its functional aspect as perceived in other countries. Over the past few years, sales of energy drinks have been driven by changing consumer lifestyle and increasing demand for alcohol mixers. Their association with high octane sports such as

the Indian Grand Prix and with eating out has further boosted sales and increased consumer awareness.

International scenario

The global energy drink market grew 14-15 percent in 2011 to USD 4.1 billion, accounting for 8-9 percent of the global soft drinks industry. In the US, the energy drinks segment continued its strong success reaching USD

700 million, growing at a CAGR of 6-7 percent. Red Bull, Hansen Natural's Monster energy drink and Rockstar remain the top three brands in the US. In the UK, energy drinks sales grew to USD 159.1 million at a CAGR of 6-7 percent as energy shots continue to expand the consumer base for energy drinks.

This growth is also witnessed in volume and is fuelled by increasing emphasis on packaging, convenience and design to attract

DISCOVER YOUR CUP OF TEA



Leaf tea or CTC, blended teas or dust.
Darjeeling tea, Green tea or tea from the gardens of Assam.
Tea that is full-bodied or tea that is light.
Whatever your preference in tea, you're sure to find it with AMEZ.
So, go ahead and discover your cup of tea.



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മനസ്സു നിറയെ കഴിക്കൂ!

Enjoy good food, everyday. With Double Horse.

Double Horse. Bringing you food that's full of natural goodness and taste, yet easy to make! Our delightful range of food products are made from the choicest ingredients and processed using the latest technology to retain their natural taste, nutrition and freshness so that you can enjoy good food that tastes great, everyday!



Range of Pickles



Hot & Sweet / Prawn / Chicken / Fish / Dates Pickle



Curry Mixes



"Curry is ready" - just add the slices



Instant Idiyappam & Rice Sevai
Ready in ONE Minute



Retort (Ready to serve in a minute)
& Kheer Mixes

Our Range of Products

- | Rice | Rice Flour | Instant Breakfast | Curry Powder | Ready to Cook | Spice & Condiments
- | Pickle | Vegetable in Brine | Wheat Products | Health & Herbal | Coconut Products
- | Sweet Dishes | Spice Masala paste | Ready to Eat