

PROGRESSIVE GROCCER

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AHEAD OF WHAT'S NEXT

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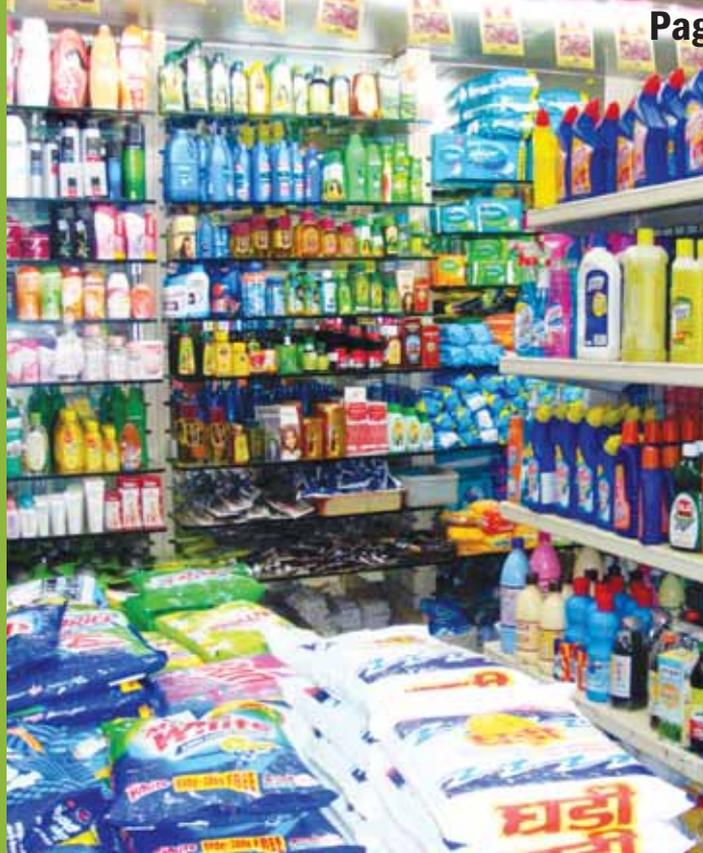
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The Store Next Door

Providing ease of shopping,
quality products, and speedy delivery

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When small could mean big business

In an era where convenience, quality products and speed of instant delivery are the order of the day, grocers are vying to capture footfalls by offering all three. "Small is big" is the current buzzword, what with economic slowdown, high real estate costs, and fear of taking investment risks. Big retail chains are also restructuring their business to focus on smaller stores, neighbourhood formats, and small cities. Examples that come to mind are that of KB's Fair Price and Sahara Q that have opened kirana-like shops with similar product-mix, albeit with the look and feel of a modern store.

In fact, many kirana store owners have shown great alacrity in upscaling to modern stores, while leveraging their personal connect with the community in their catchment. They are transforming their business model, revamping the interiors, upgrading to automated billing systems, operating a self-service layout, and enhancing their merchandise assortment to meet the changing needs of modern-day shoppers.

Organised food and grocery retail holds only 3 to 4 percent share in the overall retail landscape; so there is a huge scope for it to get more organised over time, Shifting consumer preferences are also motivating traditional mom & pop stores to embrace modern retail practices and formats. Read about the 'modern wave' that is changing the food and grocery retail landscape in our story 'The Store Next Door'.

We also present a preview of the upcoming Food and Grocery Forum of India (during 23 and 24 Jan 2014) where key issues, developments in grocery retail, and consumption trends will be deliberated upon by industry experts. The Hospitality sector will be represented by established hotels and restaurant owners, a large chef community, and entrepreneurs. Participating member companies of FIFI and international trade bodies from the US, Spain, Canada, Dubai, Equador and others will also be seen in large numbers. If you want to grow your business, ensure your presence at FGI'14.



Amitabh Taneja
Editor-in-Chief

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PROGRESSIVE GROCER



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Organised stores conveniently located have revolutionised the way Indians shop for groceries and other daily essentials. Essentially, an urban phenomenon so far, it is gradually picking up in small cities and towns too. Moreover, growing consumer awareness for convenience, quality and service is impelling even traditional shop owners to go for a modern makeover

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Fresh avenues to expand and grow

A banner for an event showing a busy trade show floor with many people walking through aisles lined with various food product displays. The displays feature images of products like biscuits, soups, and frozen fruits. One prominent display for 'BAKER' lists products like 'KHARIS TOASTS', 'RUMKS - NANAKHATAI', 'COOKIES - BISCUITS', and 'SOUP STICKS'.

Event

FGFI 2014

A Preview

The mission of the Food and Grocery Forum India is to accelerate food retailing by creating ideas, knowledge, network and opportunities for Modern Trade. The theme of FGFI'14 will be accelerating growth of Modern Food Retail by building appetite for food consumption in India



Modern Food & Grocery industry moving up the growth graph

The Food & Grocery Forum of India, positioned as India's premium knowledge platform for the food and grocery industry, sets the highest benchmarks in food production, distribution and retailing by bringing to the fore global best practices and processes through a series of discussions and debates that highlight key issues and challenges for food specialists, purveyors, decision makers, producers and sellers. Its objective: to propel the industry toward faster growth

Increase in organised food retailing is changing the way food is viewed and sold. In fact, the entire food business is acquiring a new, and very modern status that is slated to become even more organised and sophisticated as more and more food business operators in the unorganised sector come into the fold of modern retail, and the industry gets the much needed support from allied industries to upgrade the existing infrastructure and develop further.

As the modern food and grocery (F&G) retail market moves up the growth graph, the debate shifts from "whether food and grocery retail would grow" to "how fast can it grow" and "what more will it bring to consumer's table". This will take us to the next level of growth and, of course, to a fresh set of challenges as well, which would make the industry even more dynamic and exciting.



Modern trade stores such as SRS enable ease of shopping



Tata Strategic Management Group (TSMG) projects that organised F&G retail in India could grow to Rs 1750 billion (at current prices) by 2015 representing ~11 percent of overall F&G sales. Along with the increasing organised retailing, growth is being driven by India's huge production capacity, increased export opportunities, a favourable regulatory environment, and government support.

Calling all stakeholders

A lot needs to be done - the F&G industry must find solutions to the large number of unorganised players, lack of skilled manpower, meeting international quality standards (such as HACCP, Global GAP, Codex Alimentarius, etc), research and development for increasing yield, machinery, packaging, emerging foods like functional foods, health food, etc, deployment of technology, regulatory bottlenecks and restrictions on exports and imports, taxation issues, tariff barriers and uniformity in pricing, upgradation of food processing facilities, and back- and front-end support in the food value chain.

All of these present a huge opportunity for both domestic and international players in associated industries such as food and machinery testing labs, R&D centers, IT enablers, food processing and farming machineries, retail training institutes, distribution and marketing, promotions and brand building, architecture and design of retail spaces, warehousing, supply chains and logistics, and developers of real estate for food parks and wholesale markets,

and bring first-mover advantages for investors in India's food and grocery sector.

To realise all of these opportunities from "farm to fork", there is a need for coordinated efforts by the concerned companies/industries, including the government, and bodies like The Food Safety and Standard Authority (FSSAI), which is already playing an important role in bringing food quality standards and hygiene in keeping with international standards, and offering a "single window" solution. FSSAI laws have set more stringent standards of food safety, thereby raising the bar on the quality of food manufacture, storage, distribution, sale and import.

At the Forum, industry experts, professionals, manufacturers, distributors, market analysts, and other stakeholders will give fresh insights on current and projected status of the food and grocery sector. They will discuss the many structural changes in the offing, new store formats being conceptualised by large retail chains, government policies that will favourably impact retail, new product categories that are emerging as consumers become more discerning, quality control and testing standards being followed in internationally certified labs, why brands are finding opportunities in tier 2 and 3 towns and cities, how regional retailers are growing from strength to strength, why the kirananwala cannot be dislodged from the consumer's shopping itinerary, and the changing dynamics of the fast evolving food and grocery sector.



The Store Next Door

Organised stores conveniently located, have revolutionised the way Indians shop for groceries and other daily essentials. Essentially, an urban phenomenon so far, it is gradually picking up in small cities and towns too. Moreover, growing consumer awareness for convenience, quality and service is impelling even traditional shop owners to go for a modern makeover

By Namita Bhagat

The Indian convenience store market is intrinsically unorganised and dominated by traditional or family-run stores. However, the rise and success of organised chains like Reliance Fresh, Safal, Future Group's Fairprice shops, Easyday, More, Spencer's, Nilgiris, Namdhari's Fresh, D-Mart etc, has revolutionised the way Indians shop for groceries and other daily essentials. Offering superior shopping experience, variety and ease, they are attracting more and more footfalls.

"The idea of a convenience store is to provide daily necessity items at the convenience of the customer. Location, price, service and availability of products are vital to its success. We at Safal ensure that all these requirements are met. Our stores are located at walking distances in most localities, and our robust system helps in maintaining the right quantity of stocks as per consumer feedback,"

informs Pradipta K Sahoo, Business Head, Horticulture Division, Mother Dairy Fruit & Vegetable Pvt Ltd, the parent company of the Safal brand. There are 350 Safal stores across Delhi/NCR.

"Nilgiris has, over time, brought in all that a consumer can expect in terms of experience in modern trade format, thus becoming a part of the neighbourhood community. Our stores strive to provide quality products, personalised service to shoppers and also have the ability to respond to specific catchments needs," says Murali Krishnan, CEO of Nilgiris, a supermarket chain with 136 outlets across south India.

Organised retail fortifies

Organised retailers are increasing their market share organically; inorganically (mergers and acquisitions); or by joint venturing and franchising. Aditya Birla's 'More' brand currently running 500 plus supermarkets

would like to add new outlets every year. Vishak Kumar, CEO of More Supermarkets shares, "We are looking to open 50-60 stores a year and this has been the zone of expansion even last year. We have seen an aggressive double-digit growth and it's been a good year for us, so far."

D-Mart with 65 stores in Maharashtra, Gujarat, Andhra Pradesh and Karnataka, is also seeking expansion. Safal is looking at 40-50 new stores in Delhi/NCR and Bangalore, while Nilgiris expects to grow to 150 stores by the end of this financial year. Kishore Biyani led Future Group's neighbourhood stores called KB's Fairprice (KBFP) is currently active in Mumbai, Delhi and Bangalore through 200 stores. KBFP is targeting a huge scale-up by tying up with franchisees, with plans for opening more than 1,000 outlets by 2016 in Delhi, Mumbai and Bangalore. The year-old Q Shop, Sahara Group's retail business, has

Small is big' seems to be the trade mantra and the focus has shifted to smaller stores, neighbourhood formats, and small cities. Big store works if the owner is able to ensure right productivity for its size. Given that high real estate costs and assortment of SKUs (both in range and depth) impact productivity, they have to struggle

— Ankur Bisen, Technopak

India's retail landscape		
Retail Play	Present	Expected
Market size	\$ 500 bn	\$ 750-850 bn (2015)
Organised market	7% of current retail	20% of retail (2021)
Food & Grocery (CAGR 5.5 %)	69% of total retail	\$ 425 bn (2016)
Organised Food & Grocery	3% of organised retail	

Modern vs Traditional Formats	
Modern	Traditional
<ul style="list-style-type: none"> • Wide product mix • Comfortable environs • Better display, easy selection • Self service, freedom to choose • Skilled manpower • Superior service • Time saving shopping • Loyalty programmes • Combo deals • E-payment facility • Computer-generated invoices 	<ul style="list-style-type: none"> • Deep rooted • Customer familiarity • Home delivery • Credit facility • Quantity as per need • Softer exchange policy 

also banked upon franchisees and is operating 900 plus stores in more than 400 cities.

Regional retailers join forces

As the bigwigs march ahead, regional marketers have also joined forces, giving a fillip to the organised market. "Organised stores are growing rapidly due to rising incomes, improved lifestyles and changing consumer preferences. The current penetration levels in metros and mini metros are quite encouraging, but they are still low in rural areas," observes Manoj Satia, owner of Navi Mumbai-based Direct2U Supermarket. Presently, a single 2,700 sqft store, Direct2U's expansion is underway through own locations, e-commerce, and franchising.

Pune's Kutwal Foods, manufacturers of dairy products, soft drinks and packaged drinking water under the brand name Urja, has setup 'myUrja' stores to sell its products. The company's managing director Ram Kutwal shares, "The look and feel of our outlets is contemporary and vibrant. The direct supplies from our factory to the outlets help in avoiding any major storage or transit delays. So, customers can expect fresh stock at all times."

They have swiftly expanded to 75 stores in Pune and Mumbai region, mainly through franchisees.

When Nishith Gupta rolled out the first Sapana Supermarket in Aurangabad in 2000, he knew that the modern format was the order of the day. He explicates, "We were already into manufacturing of plastic carpets, and the foray into retail was a diversification of our business. We recognised that the operations had to be technology driven, scalable and not dependent on family members." Sapana, with 10 locations in Aurangabad, prefers long-term real estate deals in prime areas of the city for spreading out.

Bangalore-headquartered M K Retail, a multi-crore supermarket chain, operates seven outlets in the city. Its co-promoter Niyas K N asserts, "Being in the business for so many years has taught us a lot. We have evolved and know the pulse of our customers. We have always believed in organic growth rather than 'no game bet' yet we are open to expansion based on opportunities."

Vijetha, has 23 supermarkets in Hyderabad and another three in Visakhapatnam. "We are considering expansion to tier 2 cities in coastal



Organised store chains like More have revolutionised the way Indians shop

In It To Win It

Amid an increasingly fragmented and competitive environment, Kroger continues to grow and thrive, led by great people focused on a superior customer experience, both inside and outside its stores

By Jim Dudlicek

As part of its sweeping policy of “community engagement,” Kroger this year is celebrating the fifth anniversary of its Perishable Donations Partnership, having donated the equivalent of 175 million meals to needy families through the programme it launched as a component of its long alliance with Chicago-based Feeding America.

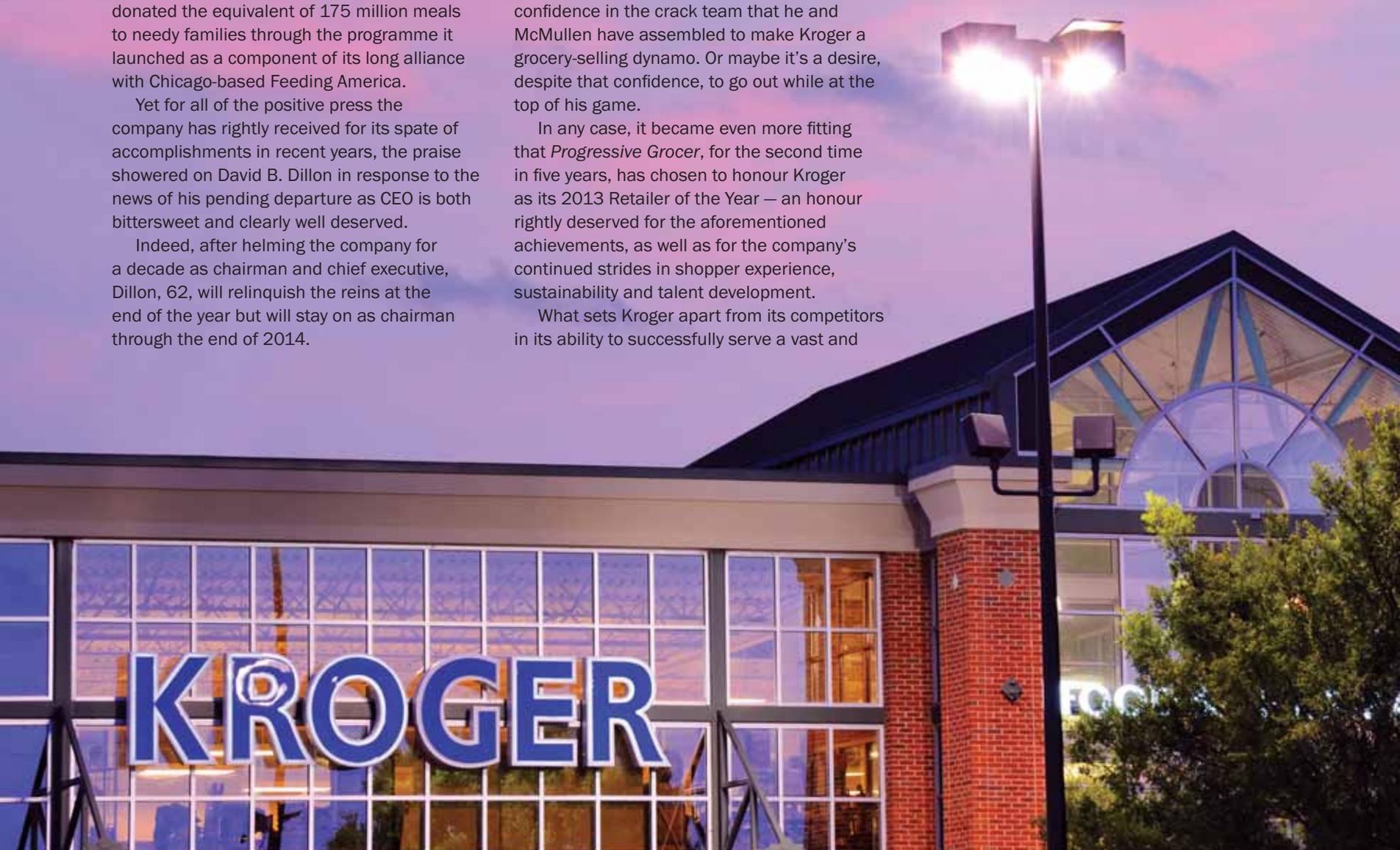
Yet for all of the positive press the company has rightly received for its spate of accomplishments in recent years, the praise showered on David B. Dillon in response to the news of his pending departure as CEO is both bittersweet and clearly well deserved.

Indeed, after helming the company for a decade as chairman and chief executive, Dillon, 62, will relinquish the reins at the end of the year but will stay on as chairman through the end of 2014.

Kroger’s leadership torch will be passed to Dillon’s loyal lieutenant and fellow company veteran W. Rodney McMullen, 53, current president and COO, who will assume the top spot in January. Perhaps it’s Dillon’s confidence in the crack team that he and McMullen have assembled to make Kroger a grocery-selling dynamo. Or maybe it’s a desire, despite that confidence, to go out while at the top of his game.

In any case, it became even more fitting that *Progressive Grocer*, for the second time in five years, has chosen to honour Kroger as its 2013 Retailer of the Year — an honour rightly deserved for the aforementioned achievements, as well as for the company’s continued strides in shopper experience, sustainability and talent development.

What sets Kroger apart from its competitors in its ability to successfully serve a vast and



diverse shopper base? According to Jim Hertel, managing partner of Barrington, Illinois-based Willard Bishop, “Value for customers, operational discipline, and a clear perspective on their chief competitor — Walmart — and what they need to do to win.”

A ‘Virtuous Circle’

“As we have shown quarter after quarter, our consistent execution of the ‘Customer 1st’ strategy deepens customer loyalty, increases sales and creates sustainable shareholder value,” Dillon said during the company’s second-quarter investor conference call last month. “We have just completed what is nearly 10 years of positive identical-sales growth. We have invested in price for each of those 10 years when compared to the year before. At the same time, we have focused on lowering our costs. We have actually lowered our costs now for over eight consecutive years.”

McMullen says growing Kroger’s business and profitability “will help us create more jobs and career opportunities, and enhance job security, for our associates.” As he noted at the company’s first-quarter conference call in June, “over the last five years, we’ve added 33,000 jobs.”

Kroger continues to pursue an aggressive, targeted expansion strategy to increase square footage and store penetration in existing and new markets to drive sales and further refine its market-specific store formats.

“The industry has certainly become even more competitive in the past decade,” notes Neil Stern, senior partner with Chicago-based retail strategy firm McMillanDoolittle. “In order to gain share, as Kroger has done, you need to take share from someone else. Some of that is coming from traditional conventional grocers, but some also is coming from the alternative channels, such as Walmart Supercenters, that comprise the outside threat.”



Our consistent execution of the ‘Customer 1st’ strategy deepens customer loyalty, increases sales and creates sustainable shareholder value

— David Dillon, Kroger chairman and CEO

Kroger is engaged in what Stern calls a “virtuous circle” that has lasted for a decade. “They have lowered prices and gained more sales, and have continued to make these investments to continue to drive ongoing same-store sales increases,” he says. “This leads to more productivity and the ability to then offer lower prices. Additionally, they have made significant investments in a best-in-class loyalty program, strong private label, and reinvested in their stores and technology. In other words, they are leveraging their size and capabilities in multiple areas.”

Kroger cites Nielsen Homescan Data showing that its overall market share rose some 20 basis points during fiscal 2012. This data also indicates that its share increased in 10 of the 19 marketing areas outlined by the Nielsen report, while declining slightly in nine (Walmart is a primary competitor in 17 of the 19 marketing areas). According to Kroger’s own internal tracking of competitive store openings, its divisions compete with more than 1,200 Walmart Supercenters.

“The progress we have achieved these past 10 years sets a wonderful foundation on which to build for an even brighter future,” Dillon said during the second-quarter investor conference call. “And the most important part of all is that the team at Kroger is large, broad-based, with dedicated associates — Team Kroger — who have collectively come

2013 is a year of milestones

Barney Kroger opened his first grocery store in Cincinnati, still the headquarters city of what has since grown to be the nation’s largest traditional grocer, with more than 2,400 stores under multiple banners across the country.

The company is closing in on 10 years of consecutive quarterly same-store sales growth — an unprecedented achievement in the cutthroat retail food business. The widely admired national retailer also polished off a stellar 2012 fiscal year with \$80.8 bn in sales, putting it in second place behind Bentonville, Arkansas-based Wal-Mart Stores Inc among the top U S grocery retailers. Kroger also continues to boost its market share amid an increasingly competitive and fragmented retail environment.

This past summer, Kroger announced plans to merge with Matthews, North Carolina-based Harris Teeter, the well-respected 212-store southeastern regional chain, in a \$2.5 bn deal that will extend Kroger’s reach even further and leverage the best qualities of both top-notch operations.

together to achieve these results, and it is that combination that I think is unmatched in the industry today. The results achieved by our team make me most proud.”

‘The Ultimate Winning Team’

Dillon is quick to shower praise on the collective team that has built Kroger into a nationwide grocery retailing powerhouse able to increase sales and market share amid incursions by Walmart, supercenters, club stores and other formats that have further fragmented the consumer’s grocery-buying dollar. In all, it takes some 343,000 associates across the breadth of the company to achieve such consistently stellar results.

Together, Dillon and McMullen have not only assembled a stellar management team, they have also invested significant resources in developing and nurturing talent throughout the company to ensure that Kroger will continue to



The ability to be able to impact the entire company, to work with counterparts across the company, to build upon the contributions of all the talented men and women across the company ... We have so many who want to give back and that’s something I get great joy out of

— Tim Massa, Kroger VP of Talent Management

Going with the Grain

From breakfast cereals to biscuits and noodles, oats' health properties are opening fresh opportunities for brands to innovate with the grain

By Juhi Sharma

Market indications over the last few years point to the growing consumption and demand for oat-based products among Indian consumers. This health driven change in eating habits has extended the window of opportunity for manufacturers to roll out a variety of oat-based products that offer health benefits, convenience of preparing and consuming, and without compromising on taste.

Today, the market offers oats as breakfast cereal, easy-to-cook oats in sweet and salty flavours, oat biscuits, noodles, bread, upma, etc. For a long time, the market was led by manufacturer Bagrrys India, which was quick to recognise the potential in this grain much before others, and successfully created a supply-led market. Then sometime in 2006, PepsiCo rolled out Quaker Oats. By 2011, buoyed by increasing opportunities in the health and wellness food segment, along with unexplored potential in oats, several big companies such as Kellogg India, Marico, GSKCH, Britannia, Top Ramen and Dr Oetker Fun Foods, had launched their own versions

of oat-based products. MTR is the most recent entrant on the block.

"There is a growing perception that oats are good for the heart and reduces cholesterol. Consumers now believe that oats are an excellent source of carbohydrate, protein and dietary fibre. Hence, oats are seen as a great way to start the day. Oats in all forms have been seeing a phenomenal growth, be it cereals, breads, cookies, or snack bars," states BVK Raju, Joint Managing Director, Q-Mart.

According to Shreyansh Kocheri, Research Analyst at Euromonitor International, "Oats have successfully grabbed a significant share of the breakfast cereal market in India. Sales of oats have been on the rise due to rising health consciousness and growing Western influence on food preferences. Additionally, growth in modern retail outlets that offer large shelf space to this food grain and other breakfast cereals, is playing a big role in influencing consumers."

"The government of India is also taking steps to promote consumption of oats; it has encouraged widespread use of oats by exempting the grain from excise duties

imposed by various state governments. It also does not levy any import duties so there are no tariff barriers for oats in India," points out Kocheri.

Value additions and flavours

Despite the introduction of several oat-based products, oats as a breakfast cereal continues to be the most popular and preferred. "There is no doubt that there has been a sharp rise in consumption of oats, but it is largely in the form of breakfast cereals and the new easy-to-cook savoury oats. In comparison, other oat-based products are moving slowly. Instant savoury oats are performing better than sweet oats, as there are a host of sweet breakfast cereal alternatives," points out Sunil Sanklecha, Founder and Managing Partner, Nuts 'n' Spices.

According to a report by Nielsen titled 'Oats making waves in Indian breakfast table', the Indian breakfast cereal market has soared by 38 percent during 2012-2013, and oats constitute 26 percent of the Rs 720 crore (USD120 mn) breakfast cereal market. According to it, the most popular form of oats



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