

# Why do Indians prefer the local grocer?

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Supermarkets don't get a lot of love in India. It's the local stores with friendly banter and personal service that draw loyal customers. But as the country gears up for growth in grocery e-commerce, there's promise for the big players. What does the future of the food shop look like in India?

## AUTHORS

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**LOCATIONS:**  
INDIA

**SECTORS:**  
EATING AND DRINKING  
SHOPPING



## HIGHLIGHTS

- 01** Supermarkets are failing to attract Indian consumers
- 02** People prefer the local option – family-run kirana that offer fresh produce
- 03** Even when kirana produce isn't actually cheaper, it's perceived to be better value, and people prize the personal touch intrinsic to its service
- 04** Large, out of town supermarkets fail to attract footfall, while tiny, inner city chains fail to offer an enticing shopping experience
- 05** E-commerce is preparing to penetrate the market, with promising growth already visible
- 06** Customers are gaining confidence previously when it comes to buying things online

## DATA

- Between 2013 and 2014, India's top ten modern food retailers reported accumulated losses of \$2.2 billion
- While 70% of India's retail trade comprises food – estimated to be a \$500 billion business – supermarkets' penetration is only 2.3%
- Supermarket produce is often up to 4% cheaper than at independent stores
- The number of online grocery retailers in India increased from 14 in 2013 to 44 in 2014
- BigBasket, India's largest grocery e-retailer, is finalising a fresh round of financing that's expected to bring in as much as \$16 million in investment
- At present, BigBasket delivers 4,000 orders daily

## SCOPE

On any given day, the Reliance Fresh store in Greater Kailash, a posh suburb of Delhi, is filled with customers. Customers picking up items from the shelves; putting them into their baskets; customers shuffling to make room for other customers and other customers' baskets.

There are no trolleys here, just baskets. That's because the store – like most others of its kind in India – is too small. Given the sheer volume of people in the store, you'd be forgiven for thinking that Reliance Fresh was making a juicy profit.

But the numbers on paper tell a different story. According to reports, India's grocery retailers have been suffering massive losses and are continuing to lose out to local corner shops – known as kiranas – which provide home delivery, quick service, and personalised banter. [1] But for Reliance Fresh and others like it, there may be opportunity in the midst.

## RISKY BUSINESS?

In 2014, India elected a new government. Prime Minister Narendra Modi would open up foreign investment in many sectors but it was widely acknowledged that grocery retail wouldn't one of them. Nirmala Sitharaman, the commerce and industry minister, said at the time that if they "opened the floodgates of multi-brand retail," India would be killing off the little guy – the farmers and small traders who depend on this retail to feed their families. [2] Further, it simply wouldn't make much sense at this point in time, given that several of the largest Indian companies already occupying the sector are racking up massive losses.

In 2013-14 alone, India's top ten modern food retailers reported accumulated losses of Rs 13,000 crore (\$2.2 billion). [3] These included Best Price Modern Wholesale stores, Metro Cash & Carry India, Aditya Birla Retail, Bharti Retail Ltd, Reliance Fresh Ltd, and Trent Hypermarket Ltd. "While revenues in the sector have ballooned from Rs 3,000 crore (\$500 million) in 2008 to Rs 23,500 crore (\$4.05 billion) now, losses have kept pace," it noted. And it is forecasted that things will get a lot worse for these retailers before they start getting better, with losses predicted to peak in 2017 at Rs 17,000 crore. [3]



Will the rise of e-commerce threaten small traders?

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The difference between grocery retailers in India and those in the UK and US, like Tesco and Walmart, is that while food and groceries account for more than 50% of revenues for these global retailers, the Indian stores face stiff competition

from the local kirana stores. Loyalty to these vendors is unparalleled; they are characteristically known to families for years, if not decades, and as such ingrained as a part of the culture. While 70% of India's retail trade comprises food and it's estimated to be a \$500 billion business, supermarkets in India have very low penetration rates. These reach just 2.3% because of consumer loyalty to local kiranas and the convenience the local guy offers. [3]

Anand Sharma, the owner of a local kirana store, also in South Delhi, once worried his business would come under threat from the big dogs. But he's no longer worried. "When they first started talking about these big superstores coming to the country, we were really worried. Everyone was talking about going out of business and finding alternate work," he says. "We've had this store for three generations. It was a very difficult time."

But that didn't come to pass because, Sharma says, his customers have been very loyal. "They prefer calling us and getting an instant delivery than going all the way to the shop. Moreover, we'll deliver small items – just six eggs or a loaf of bread – because it's easy for us to send the boy on a bicycle at no additional cost, whereas the big stores don't do home delivery and have to order a certain amount. It's not worth the trip if you only need a small item." [4]

As Ganesh Krishnan, the director of online grocery retailer Bigbasket.com, explained in an interview with Reuters, "You can go shop at Walmart or Tesco in the US and UK and they have parking. You can take the shopping carts right up to your car, so it's smooth. In India, none of this exists." [5]

In fact, most supermarkets in India are the size of small shops and offer a cramped, limiting experience. Despite the air-conditioned interiors and variety of products, the hassle of parking and space can be enough of a deterrent for many consumers. "When it gets busy, customers do start pushing and shoving," explains Grover. "It's not the best experience. People do get frustrated." [6]



Local culture is prized above the chain experience as shoppers stay loyal to kirana stores

Insight Instore, Creative Commons (2009)

## A BRIGHTER FUTURE?

While revenues fall, rents rise. And supermarkets in India are realising that their products just aren't a compelling enough draw for the average Indian consumer, who is used to milk that arrives fresh every morning, vegetable sellers who will call or text when they've procured the requested produce, and fruit they can taste before they buy.

Supermarkets seeking to penetrate and dominate the market were banking on modern Indian consumers preferring to ditch old-school practices and opt for the more modern convenience stores that they may have experienced on their travels abroad. But as it happens, the reverse has happened. Having tried Indian supermarkets, consumers have been even more convinced that their local kirana store, vegetable guy, and specialist fruit seller is bringing them the best produce at the lowest possible prices.

This isn't always actually true – produce at the supermarket will often be 3-4% cheaper thanks to supermarkets' offering staples as loss-leaders – yet the perception amongst consumers persists. And then there's that Indian expectation of freshness. The fruit seller's apples typically are redder and plumper than supermarket produce freighted long distances.

In fact supermarkets themselves in India, even in major metropolitan cities, tend to be relatively unappealing propositions. With small aisles, cramped displays, and rudimentary investment in interior fittings, most supermarkets in India would struggle to compete with the experience offered by even the most basic ones in the UK, for instance.

❗ They prefer calling us and getting an instant delivery than going all the way to the shop. We'll deliver small items – just six eggs or a loaf of bread – because it's easy for us to send the boy on a bicycle at no additional cost

Anand Sharma, local kirala store owner

Aesthetics are huge part of retail appeal that outward appearances would suggest the Indian grocery industry has underestimated. The chains are faced with a perplexing dilemma – either build spacious stores with a large range of products on the edges of the city and struggle to command necessary footfall, or build smaller stores in the heart of the city, which necessarily have more limited choice of produce, and make the logistics of transportation and delivery more expensive in spite of the greater accessibility of the store itself to consumers. After trying the large superstore model and failing, retailers have largely returned to the convenience store model now. It's making losses, so is there any future for it?

A brighter future does seem a possibility. Bharti Retail, the wholly owned subsidiary of telecom giant Bharti Enterprises, announced a major expansion plan last year and said they plan to open over a hundred stores in the next three years. Craig Wimsatt, the CEO of Bharti Retail told an Indian newspaper, "The seven supermarkets we opened in the last six months have given us good learnings for the ramp-up. Over the next three years or so, we will be adding over 100 new stores across both formats [supermarkets and hypermarkets]." [7]

"We have put together a very good plan for the next couple of years and certainly see a lot of growth happening in the next fiscal," he added.

"It's one thing to drive topline and sales, and it's another thing to drive profitable sales. The more you can do that by reinvesting in pricing and give some of that back to the customers in the form of price the better you can achieve it. The second is expanding footprint in the market," he added. "The key here is finding the right locations, good catchments, the type of customers that need to be served and then quickly roll out the supermarkets. Being much bigger in size, hypermarkets require more investments and take more time to set up."



So far Indians have stayed away from big supermarkets

Bernard Oh, Creative Commons (2012)

## INSIGHTS AND OPPORTUNITIES

As physical retail moves forwards somewhat sluggishly, the next big growth opportunity for Indian grocery is in e-retail, experts advise. And the industry is already gearing up for it to take off; according a US Department of Agriculture (USDA) report released last year, the number of online food and grocery retail outlets in India increased from 14 in 2013 to 44 in September 2014.[8]

“Indian consumers are overcoming biases against purchasing items without prior inspection and the safety of automated and online transactions. This shifting tendency is brought about by competitive pricing and the convenience of shopping for groceries from the comfort of one’s own home,” the report said.

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Ganesh Krishnan, director of BigBasket.com

It also noted; “Consumers are seeing that online retail provides some benefits over going to kirana stores (independent small grocers) or store-based retailers’ outlets. The availability of multiple payment methodologies such as online banking, cash-on-delivery, credit cards and debit cards have meant that it is convenient for urban consumers to shop online while saving both time and money.”

While most online retailers currently limit their distribution to a particular city (or even a few neighborhoods), they're set to expand rapidly as profits accrue. Just this month, BigBasket, India's largest grocery e-retailer, is finalizing a fresh round of financing that is expected to bring in \$15-16 million in investment. At present, BigBasket delivers 4,000 orders daily, with the average size of an order being Rs 1,800 (£18). [9]

Physical retailers aren't that far behind. Reliance Fresh recently entered the e-grocery arena as well, adhering to the age-old adage that if you can't beat them, joining them can be the only way forward. [10]

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