Food & Grocery Retail- Industry Trends and Insights

A report on the global trends in food retail, established and emerging grocery formats and contours of India's evolving grocery market

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Global Food & Grocery Retail Trends

Food is one of the key categories of spends globally and forms a large share of the consumer's wallet. The global food retail market is worth an estimated US$ 6.5 trillion and has grown at a CAGR of just less than 5% over the last few years. Over the next five years, the market is expected to grow at about 6% per annum, driven primarily by the increase in population and growing food demand in the developing nations.

Valued at US$ 2.2 trillion, Asia-Pacific is the largest market for food retail. Increasing incomes, growing level of education, nuclear families, increasing urbanization and changing food habits are the key factors driving the market growth in this region. Europe is the second largest market for food retail, followed by North America. Health and nutritional concern among consumers are the major factors fuelling growth of food retail market in Europe and America.

Pushed by the Chinese and Indian demand for food, the Asia-Pacific region is expected to remain the fastest growing market over the next decade. The other BRIC countries, Brazil and Russia are also expected to witness high growth rates and move up the ranks of the largest food retailing nations. China has already overtaken the U.S. as the world's largest food retail market and the forecast for the next five years states that all BRIC nations will be in the top five grocery markets. The projected food retail market for BRIC countries is shown in table 1.

Table 1: Projected Food Retail Market for BRIC Countries - 2015 (US$ Bn.)

Country	Projected Food Retail Market
China	1,300
Russia	370
India	320
Brazil	170

Source: Global Agricultural Information Network (GAIN), Published data

Global Retail Formats & Key Retailers

The global food retail industry covers a variety of store formats to sell to consumers. On a broad level, food retail can be characterized into the formats as exhibited in table 2.

Supermarkets and hypermarkets globally account for the highest distribution share with more than 50% of the food being sold worldwide through these formats (graph 1). However, future demands the growth of smaller stores closer to the consumers and new formats like discounters & warehouse clubs. Large global retailers are seen moving that way.

Besides these traditional channels, online retailers are also growing at a fast rate. Also there are mix formats evolving, based on new evolving customer needs.

Format Trends

- **Convenience regaining importance:** After years of building bigger and bigger stores to stock more products, many of the leading retailers are realizing that future triumph might come from going smaller and closer to the customer. Supermarkets and hypermarkets are still important, but consumers are increasingly relying on smaller formats such as traditional stores and kiosks, which fulfill their needs for convenience and speed.

  Walmart, for example, is betting big on the small format, with hundreds of stores in the pipeline. While Walmart's supercenter sales lagged, the retail giant tasted success with its two new, fast-growing chains of smaller formats, Neighborhood Market focused on groceries and Walmart Express selling daily essentials.

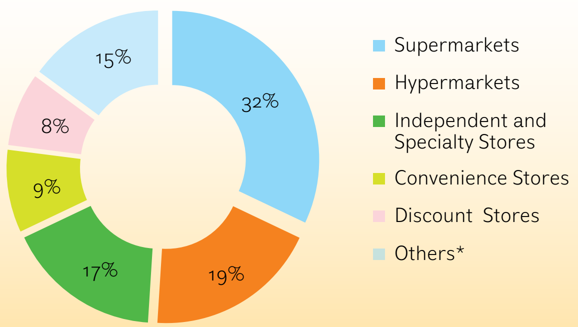
  In France, A2pas the convenience store, is the growth driver for Groupe Auchan. Since the opening of the first store in 2011, the group has expanded every year, predominantly through the franchising route, converting existing stores into A2pas stores. Store size varies between 2,000 and 5,000 sqft and assortment includes fresh products, fruit and vegetables, ready-made meals, organic and frozen products, snacking items etc.

Table 2: Key Food Retail Formats

Format	Store Size (sqft)	SKUs Offered	Format Description/ Value Proposition
Hypermarket	100,000- 250,000	80,000- 125,000	One-stop shop, offering a wide selection of products and services, generally located on the city periphery
Warehouse Club	100,000- 250,000	5,000- 15,000	"Only for members" store selling products in bulk packs at wholesale rates
Supermarket	20,000- 50,000	20,000- 50,000	In-city store selling predominantly food & household products
Discount Store	5,000- 20,000	1,000- 3,000	Store selling limited items at 10-30% lower prices in a 'no frills' ambience. High on Private Labels
Specialty Store	1,000- 10,000	2,000- 4,000	Offers limited width and high depth of products with emphasis on quality
Convenience Store	1,000- 10,000	2,000- 5,000	A neighborhood store which stocks small quantities of everyday use items

Source: Wazir Analysis based on published data

Graph 1: Share of Global Retail Formats



Source: Euromonitor International

*includes dept. stores, cash & carry etc.

- **Seeking better value:** Deep discounters are increasingly spreading their footprint and even the "premium consumer" is increasingly becoming value-driven. Deep discounters are hence directly competing with traditional supermarkets and driving them to improve efficiencies and decrease prices to hold on to their market shares. Private Labels of deep discounters are growing at a fast rate and national brand manufacturers are seeking greater co-operation with discounters for Private Label manufacturing. The onslaught of deep discounters and proliferation of their Private Labels is expected to continue as these formats seek newer markets.

Retailer	Country of Origin	Revenue (US$ Bn.)	Store Count	Formats	Revenue CAGR (Last 5 yrs)	PAT (US$ Mn.)	ROA	YOY Growth
Wal-Mart	U.S.A	485	11,460	Hypermarket, Supermarket, Convenience Store, Warehouse Club	3.25%	16,363	8.25%	1.8%
Costco	U.S.A	112	670	Warehouse Clubs	7.69%	2,058	12.00%	7.1%
Kroger	U.S.A	108	2,625	Department Store, Supermarket, Discount Store, Convenience Store, Specialty Store	5.37%	1,728	6.63%	10.3%
Schwarz Group-LIDL	Germany	99	9,800	Discount Store, Convenience Store	6.50%	-	-	-
Tesco	U.K.	96	6,780	Convenience Store, Hypermarket, Supermarket	2.87%	1,059	6.00%	0.2%
Carrefour (Data for 2013)	France	83	10,100	Cash & Carry, Convenience Store, Discount Store, Hypermarket, Supermarket	-4.00%	1,364	3.00%	-2.4%
ALDI	Germany	73	9,600	Discount Store, Convenience Store	5.50%	-	-	-
Target	U.S.A	73	1,900	Discount Store, Hypermarket, Supermarkets, Specialty Store, Convenience Store	2.89%	1,971	0.07%	0.2%
Metro	Germany	70	2,300	Cash & Carry, Hypermarket, Specialty Store	-1.70%	139	2.59%	-
Auchan	France	69	3,050	Hypermarket, Supermarket, Specialty Store, Convenience Store	-	787	2.00%	11.3%

Table 3: Top 10 Retailers - 2014

Source: Company Websites

- **Online Grocery shopping finally picking up:** With Amazon launching AmazonFresh, disrupting existing grocery models, the existing players will have to ramp up their "click" sales and leverage their network for delivery. According to a recent Nielsen Global E-commerce and the New Retail Survey, one-quarter of global respondents are already buying groceries online for home delivery and more than half (55%) are willing to use it in the future.

  Increasingly, retailers are innovating e-commerce models that make it even easier for tech-savvy, time-constrained consumers to get the items they want. Two such successful models are:

  i. **Click and Collect:**
  Though not the first to start this, early last year Walmart debuted its Walmart Pickup – Grocery service for registered customers. The concept allows customers to place their orders online any time from two hours to three weeks in advance and pick it up from a Walmart store, Neighbourhood Market or select FedEx Office location, free of any delivery charge. Assortment includes about 10,000 items including dairy, meat and produce as well as other frequent use items.

Walmart's Pick up Model

Tesco also started its drive through supermarkets as an extension to select existing stores. Customers order online, choose a collection time and later pick up their order from a designated area outside the store.

ii. **Online Subscription Service:** Consumers can create their order list online and select the frequency of replenishment. Orders will be delivered without additional charges at the specified frequency. Almost all online and click & mortar retailers have now got a subscription service in place.

This online- offline play will push the market in a new direction and the most successful retailers will be at the cross-section of the physical and cyber worlds, leveraging technology to satisfy shoppers, through anytime anywhere commerce.

- **Smartphones - The big game-changer:** In 2011, Tesco (Homeplus) introduced the first virtual supermarket in a South Korean subway system and the model has spread to many other markets since. "Virtual stores", are basically a virtual display of products on walls of metro stations and bus stops. Commuters scan the QR codes of the products on display with their smartphones, and place their orders as they wait for their trains or buses. In many cases, deliveries are made before the customer reaches home or the destination of choice.

  Smartphones are set to deeply change grocery shopping. Apps have been developed to pull traffic inside the stores and to drive brand engagement and loyalty. Further, the smartphone is likely to influence consumers by providing actionable information when they're standing in the aisles, ready to make the purchase decision. Supermarkets are already using the smartphones to:
  - Provide nutritional information about food items by scanning the QR code
  - Provide deals and discount information for products in the aisles
  - Allow shoppers to scan product barcodes, build a shopping list and reorder products

Snapshot of the Indian Food & Grocery Retail Market

Food & grocery forms the backbone of the Indian retail sector. With an estimated market size of US$ 320 Bn. (Rs. 20,000 Bn.) the category accounts for about 57% of the total retail market. There are an estimated 8-9 Mn. food & grocery stores (including local kirana shops, hawkers etc.) in India and the sector supports millions of other SME's and MSME's who cater to the demand.

Illustration 1: Koreans 'virtually shopping' at a subway station

Source: Lildoremi.org

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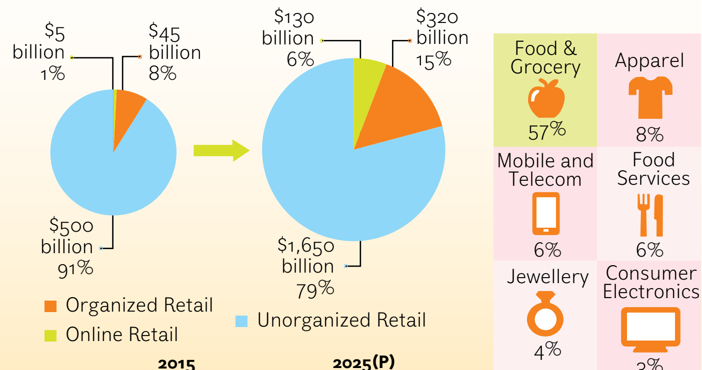
Illustration 2: Growth of the Indian Retail Market and Share by Categories in Brick & Mortar Retail



	2015	2025(P)
Indian Retail Market Size	$550 billion	$2,100 billion
Organized Retail Share	8%	15%

Source: Wazir Analysis based on published data

Illustration 3: Share of Organized Retail in Key Categories

Footwear	Apparel	Consumer Electronics	Home & Interiors	Mobile and Telecom
40%	35%	20%	18%	16%
Food Services	**Entertainment and Leisure**	**Jewellery**	**Pharmacy**	**Food & Grocery**
14%	13%	10%	6%	2%

Source: Wazir Analysis based on published data

As new categories come up and spends on aspirational categories increase, food & grocery's share of the consumer wallet is going down in percentage terms, though actual spend continues to increase. The food & grocery category will continue to grow at about 13-14% per annum over the next decade, though the decadal drop in terms of the share of consumer wallet and hence the retail market share would be about 2-2.5%. Thus, for foreseeable future, food & grocery retail is expected to dominate the market with more than 50% share of the overall retail market.

By 2025, the food & grocery retail market is expected to grow over 3.5 folds and be worth US$ 1,150 Bn. (Rs. 71,000 Bn.) A large part of this growth will be driven by inflationary price increase, and the balance by demand growth led by increasing population, increasing incomes and thereby higher spend on foods and lastly urbanization, which is changing food habits.

Concurrently, factors like increasing awareness and health consciousness, changing lifestyles and time poverty, increasing drift towards convenience and improving availability of convenience foods are increasing the share of processed and packaged foods (including ready to eat / ready to cook traditional and westerns food options, snacking etc.) in the consumer's food basket.

The penetration of modern organized retail in food is currently one of the lowest at 2-3%. However, this is also expected to change dramatically over the next decade as organized retailers penetrate the markets deeper. By 2025, organized retail is expected to capture at least 8-9% of the food & grocery market and be worth US$ 90-100 Bn. (Rs. 5,600-6,200 Bn.), growing at a CAGR of 25-30% from the current levels.

Online grocery stores too are also picking steam and "food & grocery" seems to be the next big opportunity in the e-tailing space. As on date there are more than sixty online food & grocery stores and more are coming up each week. Going by the way the global e-grocers are growing and the growth of e-commerce in the Indian market, Wazir believes that online would capture a small but significant market share.

Thus with the rapid growth of organized and online players there is going to be significant action in the market in the next decade. Local kirana stores and street hawkers will however continue to dominate the food & grocery market with a 90% plus share, even in 2025. The Indian market thus will be unique in its own way and will be a medley of extremes. Wazir believes that the unorganized, organized and online players will co-exist in the Indian retail ecosystem and will expand the market for each other, as all have unique strengths and the sector is large enough to accommodate all participants. Wazir believes that unique partnership models will emerge as the retail market matures and this partnership will further push the sector growth. Early signs of this are already visible as e-grocers aggregate orders and pass them on to brick and mortar grocery stores nearest to the consumer, for local delivery.

To a large extent this co-existence will be driven by the consumer who will not shun one channel for the other and will seamlessly switch between channels. The consumer approach to channel selection will thus be "inclusive" and not "exclusive". The point of view that as India becomes richer, its consumers would shirk roadside vendors, kiranas and other mom & pop stores to move to glitzy, air-conditioned supermarkets & hypermarkets has already been proven wrong. Local kirana stores continue to grow and dominate the market, while modern formats increase their footprint. The consumer shops at unorganized as well as organized stores based on his needs, convenience and perceived value proposition.

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Wazir believes that the traditional unorganized kirana stores will continue to grow due to their inherent strengths and hyper convenience. There may be temporary reshuffling of market shares, the timing for which will vary from one micro market to another, but overall the absolute revenues for local stores will continue to grow. There may however be fewer new kirana stores as the organized and online retailers may capture the new demand that is generated.

Detailed below are some of the unique strengths of local kirana shops that will continue to give it the push for growth:

i. **Consumer preference for traditional stores:** A large number of consumers continue to prefer unorganized retailers over organized ones for the following reasons:

- Convenience in terms of locational proximity and quick service
- Credit facility provided
- Longer operating hours
- Goodwill and relationship with the retail shop owner
- Personalization in service

Traditional retailers are also perceived to be cheaper, although this may not be true. Modern organized stores comparatively offer greater variety but it is not as big a competitive edge as a cluster of stores, together, which can offer almost the same range, especially in packaged food products. Further traditional retailers do keep most of the high selling products, so except for some "long tail" products the perceived advantage is not very high.

For consumers in India, foods and other regular purchase items bought two to three times a week are usually purchased from the local kirana stores. Supermarkets and other organized formats attract the affluent consumers, especially for bulk or less regular purchases such as packaged foods, few FMCG goods and staples, such as rice and pulses. Even affluent consumers otherwise prefer traditional stores, as they are closer to home and many even deliver the purchased items with no additional charge and with very little threshold bill value.

ii. **Local orientation of small retailers:** The biggest strength and advantage that a small neighborhood retailer has over its larger competitors is its local orientation. Food preferences are specifically very localized and differ by socio-economic strata, ethnicity and age profile of the residents of the given catchment and kirana stores offer a hyper localized assortment and service.

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iii. **Lower operating costs:** In unorganized retail, being owner managed, the control over everything is much better resulting in better and more efficient operations, more precise inventory planning, lower wastages and pilferages etc. Further, most unorganized stores are operated within premises owned by the shop owner and have higher stocking density than modern stores which are very particular about the visual merchandising aspects. Organized players, on the other hand, are subject to high operating costs in the form of rentals and other store expenses like power, manpower, IT etc. Thus operating costs are low for unorganized stores and the efficiencies are high, giving them an edge. This difference could be critical in food & grocery retail, which traditionally is a low margin business.

iv. **Penetration and market segments catered to:** Most organized formats still cater to the affluent and upper middle class families. However there is a large population of lower income groups, daily wage earners and urban poor and their requirements are significantly different from others. Local kirana stores best understand their requirements and are suited to cater to their demands.

Further, organized formats also lack penetration into smaller markets and rural areas and mom-and-pop stores continue to be the only point of sale in rural areas of the country, not just for food & grocery but for most of the other categories as well.

v. **Ability to offer and manage credit:** The role of credit is still very high in the Indian market. There are large sections of people who only buy daily consumables on credit, especially in the smaller towns, rural markets and even in markets catering to the lower income groups in large towns. Local kirana stores are a part of the social fabric of these areas and are able to give & manage credit well. These markets thus are not easily penetrable for organized chains.

Summarizing, the traditional kirana stores have unique strengths and will continue to play a leading role in the Indian food & grocery retail sector.

The modern food & grocery retailers on the other hand, have not had a smooth run and most are still experimenting to find the right format. As per most multi-format players, operating a big box hypermarket format is easier, but there are limitations of penetration and the format hence serves a limited customer base. Convenience stores, preferred by a much larger number of customers, are more difficult to manage as they need hyper localization as well as face various other operational and control issues. The spiraling real estate cost is also a critical barrier in the Indian market, especially for low margin categories like food & grocery. Some of the leading food & grocery retailers thus had to close a large number of stores and rejig their formats multiple times.

Organized retailers also find it hard to operate due to a number of other issues like the fragmented nature of the supply chain, transportation and logistics problems, infrastructure constraints and regulatory framework under which they have to operate. This has restricted them to make substantial investments in the supply chain. Further, the quantum of investment and effort needed vis. a vis. the incremental gain in the margins is not very lucrative, inhibiting investments.

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Key Categories within Food & Grocery

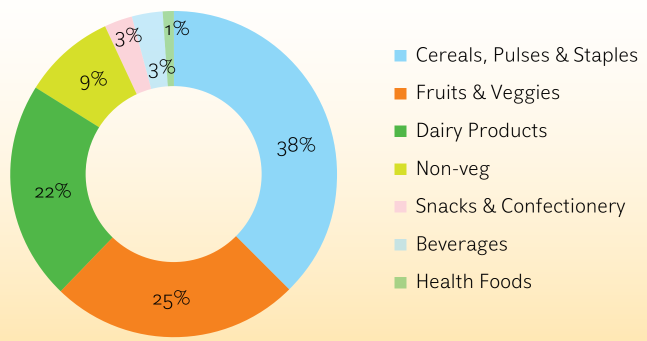
Cereals, pulses and staples form the biggest part of the consumption basket of Indians. However as the aggregate calorie intake of Indians is expected to increase from 2,140 Kcal to 2,568 Kcal between 2010 and 2025, there is expected to be a drift away from grains, pulses and staples to dairy, fruits and vegetables, edible oils and other processed foods. Even more growth is set to come from impulse products, like confectionery, ice cream, and sweet and savoury snacks.

The break-up of the Indian Food & Grocery retail market is shown in graph 2.

Each of these categories has been further broken down into sub-categories. Their key insights are provided from table 4 till table 8.

Apart from this, the fruits and vegetables market is estimated at Rs. 5,000 Bn. It is expected to grow at a CAGR of 16% to reach Rs. 10,500 Bn. by the year 2020. The retail market for non-veg products is estimated to be Rs. 1,800 Bn. and it is expected to grow at a CAGR of 13% to reach Rs. 3,370 Bn. by 2020.

Graph 2: Break-up of Indian Food & Grocery Retail Market



Source: Wazir Analysis based on published data

Table 4: Cereals, Pulses and Staples Market

Cereals, Pulses & Staples	Market Size 2015 (in Rs Bn.)	CAGR (Next 5 yrs)	Market Size 2020 (in Rs Bn.)	Branded Share	Leading Branded Companies
Rice	2,100	7%	2,940	6%	LT Foods, KRBL, Kohinoor Foods
Wheat	1,200	8%	1,760	5%	ITC, Shaktibhog, HUL
Edible Oils	1,160	12%	2,050	30%	Cargill, Agrotech, Adani Wilmar, Marico
Sugar	1,150	15%	2,310	1%	Mawana Sugars, Simbhaoli Sugars
Pulses	670	8%	980	2%	-
Spices	590	10%	950	15%	MDH, Everest, DS Group
Others Cereals	630	5%	880	7%	-
Total	**7,500**	**10%**	**11,870**	**10%**	

Source: Wazir Analysis based on published data

Table 5: Dairy Products Market

Dairy Products	Market Size 2015 (in Rs Bn.)	CAGR (Next 5 yrs)	Market Size 2020 (in Rs Bn.)	Branded Share	Leading Branded Companies
Milk	2,400	15%	4,830	35%	Amul, Paras, Nestle, Mother Dairy, Verka, Heritage, Nandini
Ghee	550	10%	890	12%	Amul, Parag, Nestle
Yoghurt & Buttermilk	450	20%	1,120	10%	Amul, Nestle, Mother Dairy, Britannia, Parag
Butter	280	15%	560	15%	Amul, Nestle
Dairy Whitener & Milk creamer	250	20%	620	30%	Amul, Nestle, Parag
Ice Cream	70	20%	170	60%	Amul, Kwality Walls, Vadilal, Mother Dairy, Candia (Creambell)
Cheese	30	20%	80	60%	Amul, Britannia, Parag
Other (Paneer, Khoya)	270	20%	670	20%	-
Total	**4,300**	**16%**	**8,940**	**25%**	

Source: Wazir Analysis based on published data

Table 6: Snacks and Confectionery Market

Snacks & Confectionery	Market Size 2015 (in Rs Bn.)	CAGR (Next 5 yrs)	Market Size 2020 (in Rs Bn.)	Branded Share	Leading Branded Companies
Biscuits	220	15%	440	60%	Parle, Britannia, ITC, Surya Food & Agro
Salty Snacks	180	18%	410	60%	Haldirams, PepsiCo, ITC, Bikaji
Chocolate & Confectionery	170	20%	420	70%	Mondelez, Nestle, Perfetti, ITC, Parle
Convenience Foods	70	20%	170	100%	Nestle, Nissin, ITC, MTR, HUL
Ketchups, Jams & Pickles	35	20%	90	50%	Nestle, HUL, Heinz, Nilon
Frozen Foods & Snacks	25	25%	80	100%	McCain, Mother Dairy
Total	**700**	**18%**	**1,610**	**-**	

Source: Wazir Analysis based on published data

Table 7: Beverages Market					
Beverages	**Market Size 2015 (in Rs Bn.)**	**CAGR (Next 5 yrs)**	**Market Size 2020 (in Rs Bn.)**	**Branded Share**	**Leading Branded Companies**
Tea	180	12%	320	55%	HUL, Tata, Wagh Bakri
Carbonated Drinks	150	12%	260	80%	Coca Cola, PepsiCo, Parle
Packaged Drinking Water	125	20%	310	50%	Parle, Coca Cola, PepsiCo, Parle
Coffee	70	15%	140	60%	Nestle, HUL
Fruit Based Drinks	55	20%	140	80%	Dabur, PepsiCo, Parle
Health & Energy Drink	15	25%	50	100%	Red Bull, PepsiCo, Dabur, Heinz, Hector Beverages
Powdered Drinks	5	20%	10	100%	Rasna, Mondelez
Total	**600**	**15%**	**1,230**	-	

Source: Wazir Analysis based on published data

Table 8: Health Foods Market				
Health Foods	**Market Size 2015 (in Rs Bn.)**	**CAGR (Next 5 yrs)**	**Market Size 2020 (in Rs Bn.)**	**Leading Branded Companies**
Malted Food Drinks	60	20%	150	GSK, Mondelez
Baby Food	20	20%	50	Nestle
Breakfast Cereals	10	25%	30	Marico, PepsiCo, Kellogg's
Others	10	20%	20	-
Total	**100**	**21%**	**250**	

Source: Wazir Analysis based on published data

E-Grocers: The New Wave in e-tailing

Online food & grocery sales is a more recent phenomenon, both in the international markets as well as the Indian market. While internationally, many players like Webvan tried earlier but were not able to make it, the second wave of players has been much more successful. In India the trend is just starting to catch on. In fact, online grocery is being seen as the next big thing, considering the fact that spending on grocery and daily essentials is the largest and most consistent share of the wallet for any household. Increasing convenience and standardization of grocery items has led to the mushrooming of numerous online grocery stores.

BigBasket currently stands as the leader in the market while several others have entered the market in the past few years like LocalBanya, ZopNow, EkStop, AaramShop, MyGrahak, Peppertap, VeggiBazaar, Fresh N Daily, Farm2Kitchen, etc. Many of these are hyper locals catering to single cities, sometimes even to only certain neighborhoods of a city. Online grocers are trying to woo consumers by offering services like free deliveries, quick deliveries within 1-2 hours, discount vouchers, etc.

However unlike other categories, this could be a challenging market for the players due to the following reasons:

Online grocery is being seen as the next big thing. Increasing convenience and standardization of grocery items has led to the mushrooming of numerous online grocery stores

- Lower gross margins in the category leading to inability of the e-tailers to go the discount route, as taken by e-tailers in other categories
- High cost of delivery as the weight to price ratio is skewed against the category
- Much higher competition form brick and mortar stores than in any other categories. Customers have umpteen food & grocery stores in their neighborhood. Also, local stores offer free deliveries and discounts without high threshold bill values.
- The supply chain created for one city may not be replicable for the other and scale up would need development of unique supply chains and delivery models in each city.

Thus while online grocery retailing is here to stay, the ride will be not as smooth as that for other categories and the players will have to innovate models and deliver value which the unorganized and organized grocers can't match. Some of the recent PE funding deals in the online grocery retail are listed in table 9.

Table 9: Recent PE Funding in the Online Grocery Retail Space

Company Name	Investor Name	Funding Amount (US$ Mn.)	Month & Year of Funding
ZopNow	Dragoneer Investment Group, Accel Partners, Qualcomm Ventures and Times Internet	10	April, 2015
Grofers	Tiger Global Management and Sequoia Capital	35	April, 2015
PepperTap	SAIF Partners and Sequoia Capital	10	April, 2015
LocalBanya	Shrem Strategies	~15-20	March, 2015
FreshWorld	Indian Angel Network and Infosys co-founder Kris Gopalakrishnan	-	February, 2015
EkStop	Unilazer Ventures	-	September, 2014
BigBasket	Helion Venture Partners and Zodius Capital	33	September, 2014

Source: Published Data

Deep Discount: An Opportunity Less Explored in the Indian Market

In spite of the presence of a varied number of formats in the food & grocery segment, Wazir believes that the deep discount format is almost missing in the Indian retail scenario.

Deep Discount stores are retail outlets selling small volume merchandise across categories - both Private Labels & National Brands. Located close to the customer, they offer 10-30% lower prices than the market. Discount stores are minimal in terms of their store environment and stock a very focused product range, largely skewed towards food & grocery and things of daily use. They focus on Private Labels and in most cases offer just 1-2 brands apart from the Private Label offer. However, sales per SKU of deep discounters can be 10-20 times higher, which leads to better economies of scale and adds to their ability to offer discounts.

Their thrust on keeping very focused and precise range results in:

- Easier and less complex supply chain for 1,000-3,000 SKUs for a deep discounter as compared to manifold SKUs of a supermarket or a hypermarket
- Much more efficient supply chain. Beyond a certain assortment size inefficiencies start to creep in the supply chain because of high number of SKUs.

While Subhiksha, in a way, tried treading on that path, various operational and financial issues hammered it while it tried to achieve the scale required to be a deep discounter. More recently KB Fair Price is trying to create a convenience discount format, but is still a soft discounter and is yet to achieve the scale required.

Wazir believes that deep discount stores, with some adaptations to suit the Indian market, can turn out to be the game changer in the Indian food & grocery retail segment, due to the following reasons.

- From a consumer's point of view:
  - Food & Grocery, which is the biggest category of consumer spend can be retailed best by a convenience based format. As per a recent Wazir Survey, two thirds of Indians shop for food & grocery and daily need products within one kilometer of where they live.
  - Indian consumers are highly price sensitive, thus the format offering cost advantage will be preferred by consumers.

  Deep Discount format best address the above two criterion. Thus from the consumer's acceptability point of view Deep Discount would be the best model.
- From an implementation point of view:
  - Deep Discount stores, being smaller in size, would be easiest and fastest in roll out thus giving a quick pan India footprint and scale
  - Due to limited range, have a simpler and thus easier to develop supply chain.
- From a competition point of view:
  - Would lead competition, due to their proposition of "extreme value at convenience"

Proposed Concept of a Deep Discount Store for India

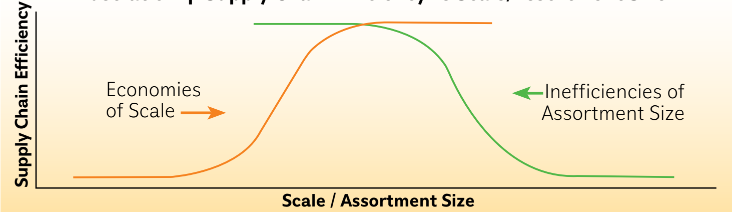
Value Proposition	Cheapest Prices at Convenient Locations
Target Consumers	Primarily SEC B & C. However, even SEC A consumers may find the offers equally compelling and will accept the model over a period of time
Typical Store Size	1,500-2,000 Sq Ft
Number of SKUs	1,000-1,200
Category Focus	Majorly Food & Grocery and other Low Cube/Volume items
Location	In/close to residential areas

Table 10: Global Deep Discount Stores

Name	Country of Origin	No. of Stores	Reach	Turnover (US$ Bn.)
ALDI	Germany	9,600	18 countries	73 (2014)
Schwarz Group -LIDL	Germany	9,800	28 countries	99 (2014)
Target	USA	1,900	-	73 (2014)
Dollar General	USA	11,500	40 states	16 (2013)
Dollar Tree	USA	4,900	48 states	8 (2013)
BIM	Turkey	4,800	3 countries	5.4 (2014)

Source: Published Data

Illustration 4: Supply Chain Efficiency vs Scale/Assortment Size



Challenges in Indian Food Value Chain

India is the world's leading producer of fresh fruits and vegetables, pulses, rice and wheat. Paradoxically, malnutrition is a common phenomenon in India. According to the Global Hunger Index of 2011, 21% of the population in India is malnourished. Following are some alarming estimates that would make us fret:

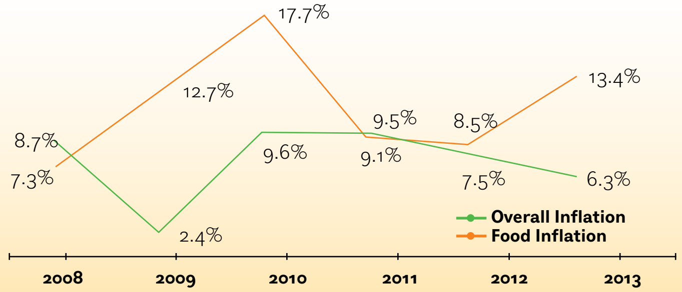
- An estimated 30-35% of all food produced in India is wasted every year due to poor infrastructure to store and transport the same.
- According to UN's Food and Agriculture Organization (FAO), about 40% of India's fresh fruit and vegetables – worth an annual US$ 8.3 Bn. or so perishes before reaching consumers.
- Every year about 21 Mn. Metric Tonnes of grains, largely wheat, rots in the custody of Food Corporation of India, due to improper storage facilities.

Poor supply chain is one of the most lethal setbacks of the agriculture sector, accentuated further by lack of cold chains infrastructure. This inefficiency in supply chain is also causing price rise and quality related issues. Food inflation in India has thus been higher than the overall inflation levels as shown in graph 3.

Key structural, policy and infrastructural issues that doom the food value chain in India and make it inefficient are as follows:

- **Fragmented Agriculture:** 80% of Indian farmers are small and marginalized having land holdings of less than 2 hectares. The small land holders though more efficient in cultivation, have high operational costs in accessing input and output markets and low volume of production, thus making them inefficient.
- **Numerous Intermediaries:** Before food gets from a farmer to a consumer, it typically passes through a number of intermediaries: Traders purchase and transport the produce and Commission Agents arrange transactions between farmers and traders. There are other resellers involved before the product finally reaches the consumer. The high number of intermediaries increases handling points and thus wastages.
  Commission Agents have little incentive to prevent wastage as they are remunerated based on the total deal value, without ever taking ownership of the produce. They also have no incentive to get the right price for the farmer since they generally receive only a 2-6% commission on sales and it is not feasible for them to invest time to find traders offering marginally higher prices. They can earn more income by completing more deals in the same time slot.
  Further, traders too also have few incentives to minimize waste. It is easier for them to deal with fewer goods at a higher price than more goods at depressed prices. As such, waste often occurs when these middlemen connive to inflate prices and lower transaction quantities.
- **Assymetry of Information:** Trade intermediaries block and distort the information to their advantage. Though the government has been doing a lot of efforts in this area, still small farmers most often don't know the price for their produce before they get to the wholesale market. Once at the market, the middlemen can dictate the price as it's not economical for the farmer to take the goods back in order to wait for a better price. Intermediaries then increase the prices at every level and capture a large share of margins leaving the farmers with only one-fifth

Graph 3: Inflation in India (% growth)



Source: Department of Industrial Policy & Promotion (DIPP)

80% of Indian farmers are small and marginalized having land holdings of less than 2 hectares

to one-third of the final price as compared to 50-65% in Western countries. Consumer prices are thus increasing while farmers continue to commit suicides driven by inability to earn their livelihoods.

- **High Price Volatility:** The structural challenges and information asymmetry in the market lead to high price volatility and unpredictable fluctuations, which compounds the waste problem further. When future prices are difficult to project and information is not easily available, farmers cannot plan to grow the most economically viable and efficient crops, as demanded by the market. This results in two key issues; first, farmers in general choose to grow crops that were profitable over the past few seasons. This herding behavior leads to over production and prices plummeting, making it uneconomical to harvest. Second, since farmers cannot estimate their income in the coming year, they are unwilling to risk any investments in better technologies and harvesting systems that could improve their efficiency.
  Companies like Reuters Market Light and Fasal Intuit are working towards countering the problem of information asymmetry by making agricultural information available to farmers at minimal costs. Since its inception in 2009, Fasal claims to have helped close to a million people and created additional value for farmers of over Rs. 135 Crores. However, this is just a drop in the ocean.
- **Archaic Laws:** The APMC act was introduced as a means to provide a market discovery platform to the small farmers so that they could get the best prices for their produce. Under the present Act, neither the processing industry nor the retail chains can buy directly from farmers and the farmer is also restricted from entering into direct contract with any manufacturer or retailer. Farmers have to sell their produce to middlemen approved by government in authorized mandis. This results in a multi-tiered supply chain with high inefficiencies. Contrary to the purpose for which the system was built, the middlemen have started taking advantage of the process by creating cartels, price fixing and hoarding produce. The high margins / commissions charged by the middlemen inflate the prices, resulting in farmer not getting the right price for his produce and consumer paying more than the justified price. So the purpose of bringing in efficiency and providing benefit to both, farmers and consumers has been defeated.

In India less than 2% of the road length is covered by National Highways which manage 40% of the cargo. The average distance travelled by an Indian truck is about 300 km/ day as against international standards of 700-800 km/ day

The APMC Act, which regulates Mandis, was amended in many states, however has not been able to completely sort the problems.

- Companies still cannot buy but only can lease fertile land from the farmer. They can buy waste land or lease it.
- Retailers find it difficult to work directly with the farmers and change the Mandi mechanism. Retailers hence source from mandis instead of developing their own supply chains.

Further, the Essential Commodities Act empowers the Govt. to control production, distribution & pricing, etc. to secure equitable distribution and fair pricing. This restricts interstate movement of goods. These regulations may have lost their utility and are hampering the growth & modernization of organized retail.

- **Poor Rail & Road Infrastructure:** India has the second-longest road network in the world, but less than 2% of the road length is covered by National Highways which form the backbone of cargo transportation. This 2% of the highway roads manage 40% of the cargo. Further, the average distance travelled by an Indian truck is about 300 km/day as against international standards of 700-800 km/day. Also, most of the roads in India can support only 16.2 tons as against an International norm of 36 tons. To add to this already slow and outdated structure, large number of cities do not allow trucks to enter the city during day time, leading to further delays in transit. Lastly, even to reach the highways is a painstaking task as feeder roads which link farms to highways are in poor conditions and local transportation services are not easily available. Thus, an estimated one fifth to one fourth of perishable produce rots in transit.

Railway cargo network is overburdened with other products and is even not very suitable for transportation of food items.

- **Lack of Proper Storage Facilities:** For food products two kinds of storage/ warehousing spaces are required; basic sheltered spaces for grains & pulses and temperature controlled spaces (cold storages) for fruits & vegetables. Both are critically low as compared to the requirement.

  Farm productivity has greatly increased over the last few decades but the sheltered spaces / granaries owned by the govt have not kept pace leading to a high mismatch between output of grains and the available storage space. This has led to storage in open spaces, leading to rotting and spoilage. Further, sprinkling salt on the wounds, about one fifth of the stored grains annually are eaten up by rodents, birds and other animals.

  Even when it comes to cold storage facilities, demand outstrips supply by 45-50%, thus leading to either the produce getting wasted or the farmer selling it at sub-optimal prices as he knows he can't store it for long. Further, a majority of this cold storage capacity is occupied by potatoes which are used by the chips making industry, leaving miniscule capacity for anything else.

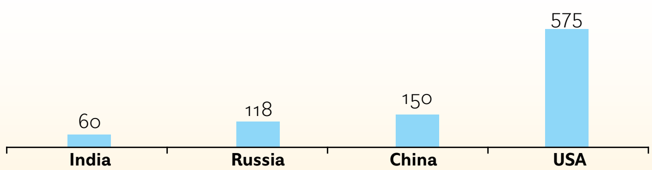
  Development of integrated cold chains and supply chain management can save an estimated Rs. 80,000 crores for the country annually besides gathering export income of Rs. 25,000 Crores. While few private sector companies like Adani Agri Logistics are setting up infrastructure for food storage, much more needs to be done on a war footing. Many private sector companies are also venturing into temperature controlled logistics solutions. These companies provide integrated cold chain logistics comprising post-harvest transport, cold storage, processing, and supply through refri-trucks to the distribution center and retail store. However, there capacities are currently limited and need to be expanded quickly.

An estimated one fifth to one fourth of perishable produce rots in transit

Concluding Remarks

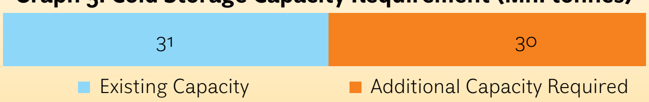
Concluding, the Indian food & grocery retail market has a long way to go and has a very positive outlook, driven by increasing demand and changing food habits. The fretfulness that kirana stores had about organized retailers wiping them out is already gone and all market participants see co-existence and growth as the way forward. However, the sector needs large-scale interventions and investments to make the supply chain more efficient and distortion free. These investments could be made both by the organized retailers as well as other third parties, provided the government creates an ecosystem conducive to investment and clears up the hurdles for FDI in multiple brand retail. The beneficiaries of this investment will not just be the retailers and the consumers, but also the government which has the responsibility of food security and feeding a billion and a quarter mouths.

Graph 4: Grain Storage Capacity in Different Countries (Mn. tonnes)



Source: Published data

Graph 5: Cold Storage Capacity Requirement (Mn. tonnes)



Source: Ministry of Food Processing Industries (MOFPI)