

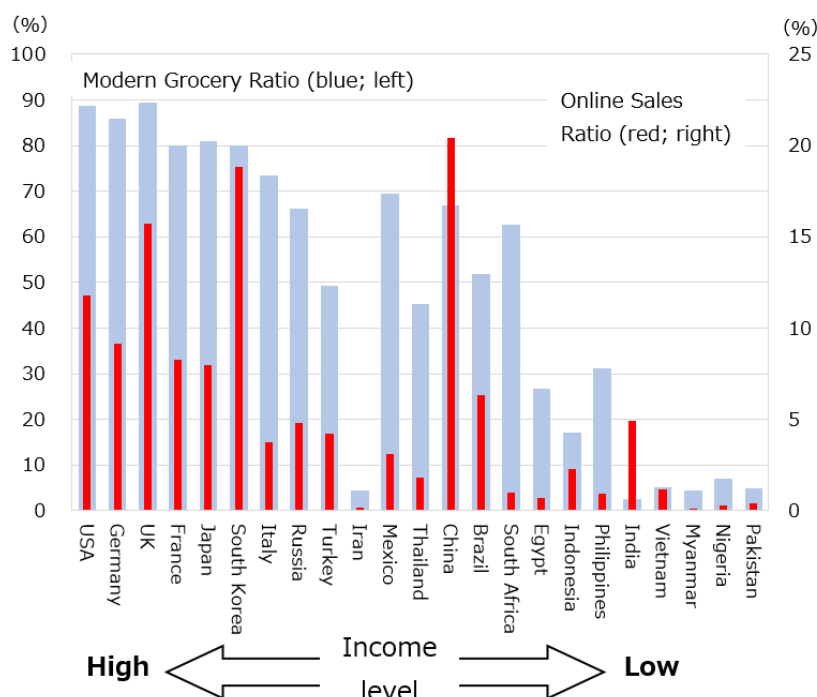
LOCAL KIRANA SHOPS OFFER VARIOUS BUSINESS OPPORTUNITIES IN RETAIL AND DISTRIBUTION MARKET IN INDIA

Yukiko Nozaki
Industrial Research Dept. II
Industrial Studies Div.
Mitsui & Co. Global Strategic Studies Institute

INDIAN RETAIL AND DISTRIBUTION MARKET AND KIRANA SHOPS

In India, as in other low-income countries, modern retail formats including supermarkets are not fully developed. In recent years, however, online sales have been expanding rapidly, backed by the wider use of the internet and smartphones. The ratio of online sales to total retail sales is 5% in India, which is higher than that for other countries with similar income levels (Figure 1). That said, such online sales center on products with relatively high unit prices, such as computers and apparel. As it is difficult to add delivery costs to items with low unit prices, online sales of foods and daily necessities account for only 0.1% of the total market for such products, which is said to be about USD 400 billion.

Fig.1 Modernization of Retailing in Major Countries (2017)



Note: Countries with GDP of at least USD 2 trillion, or population of at least 50 million as of 2017, for which data is available. Modern Grocery Ratio represents the ratio of sales in modern retail channels to total retail sales of foods and daily necessities.

Source: Prepared by MGSSI based on Euromonitor data.

Against this background, India's food and grocery retail market is largely occupied by small-scale, family-owned mom-and-pop style "kirana shops", with a 98% share. The number of such stores is estimated to exceed 12 million, which translates to about ten stores per 1,000 people in India. The density of stores is high compared to other countries in the world.

Kirana shops deal with rice, beans, edible oil, snacks, as well as daily-used items such as shampoo and soap. Many of them offer unpackaged agricultural products and other items including detergent in large open sacks at the storefront, and sell them by weight (Figure 2-1). Typical kirana shops sell their goods over the counter (Figure 2-2). Although recently there are some shops where customers can walk inside the store and look for what they want (Figure 2-3), the mainstream is still an over-the-counter format, where customers talk to the shop owner and the shop owner picks up requested items from the shelves or suggests a substitute when they are out of stock.

Fig.2 Examples of Store Formats of Kirana Shops



1. Agricultural products contained in a large open sack and sold by weight



2. Typical over-the-counter type kirana shops



3. Walk-in style kirana shops

ADVANTAGES OF KIRANA SHOPS

Kirana shops are located in the neighborhood and maintain personal relationships with customers.

Due in part to such characteristics, kirana shops are widely accepted by Indian people. One reason for their popularity is that customers can buy on credit based on the trust that develops between the shop owner and a customer. In addition, discounts are sometimes offered, although items are usually sold at the maximum retail price.

Meanwhile, not many households own a refrigerator in rural areas. People do not make a bulk purchase but tend to buy what is necessary every day. Kirana shops are convenient for such people because of the proximity to their homes. They also address the needs of the poor, who cannot afford to buy a bottle of shampoo but instead buy a sachet for 3 rupees (about 4.5 yen) each time.

In terms of the proximity, kirana shops are superior to modern large stores. When customers go to a large store, they are often caught in heavy traffic congestion on their way, and need to go through a security check or wait in line to check out. As such, not a few people regularly visit large stores while also using kirana shops. Of note, the kirana shop is also referred to as “a convenience store” as it delivers goods in several minutes with one phone call.

BUSINESS TO SOLVE ISSUES OF KIRANA SHOPS

Kirana shops thus have a solid customer base, but at the same time they are faced with problems with inefficient distribution.

Wholesalers which sell products to kirana shops are mostly unorganized. There are some organized modern wholesalers, including Reliance Market operated by Indian conglomerate Reliance Industries, but their market shares are still small. The retail distribution systems in India are inefficient overall, and fail to secure stability

and transparency. In the trading of agricultural products, poor-quality products are sometimes mixed in by middlemen.

Procurement is another burden for the kirana shop owner. As for snacks and daily necessities, distributors regularly visit kirana shops – typically once every one or two weeks – but the frequency of visits is not enough to prevent stock-outs, and they do not visit rural areas. As for agricultural products, there is no such system of distributors. In the case some products are out-of-stock, the shop owner needs to purchase them at the retail price at another kirana shop or spend his time and money to visit a wholesaler in a distant place.

In response to these problems, B2B marketplace targeting kirana shops is emerging. Most such services are offered by startup companies which aim to revolutionize the supply chain. Smartphone apps to handle each part of the process from order management to packaging, shipment/delivery, and payment collection, are provided free to kirana shops.

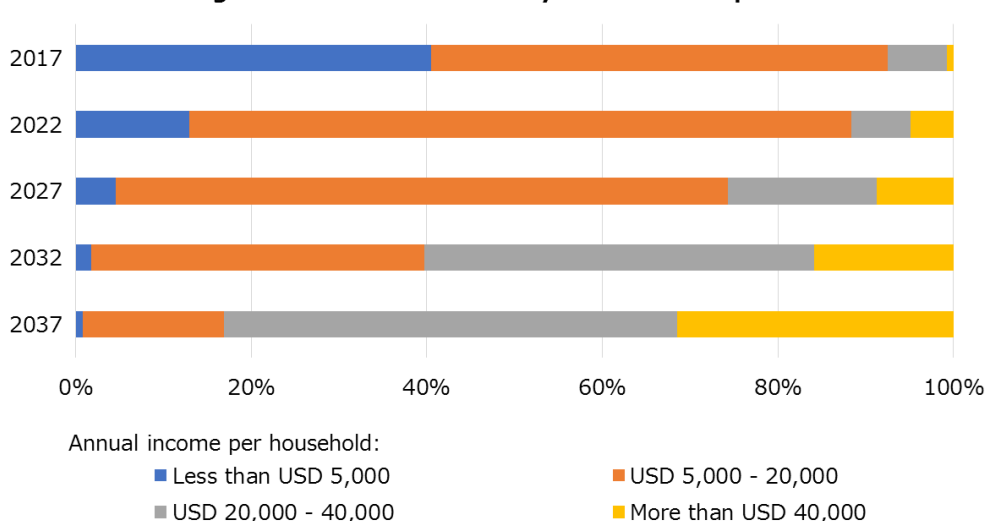
By using such services, kirana shop owners are now able to order anytime of the day or night. Products ordered will be delivered in 24-48 hours, leading to reductions in time and costs necessary for procurement as well as higher transparency in transactions. There will be only one payee, and purchases on credit will be available in many cases, which is more convenient than cash-only transactions with existing wholesalers.

Leading providers of e-commerce for kirana shops include Jumbotail, which was established in 2016. It is one of the most promising companies in India, and ranks in the top 25 Indian startups selected by LinkedIn in 2018. With its strength in multilingual mobile apps and a wide selection of products including staples, spices, dry fruits, packaged foods, and FMCG (fast-moving consumer goods), the company has provided services to over 13,000 kirana shops in Bangalore. Meanwhile, ShopKirana targets kiranas in Tier II cities, and has already acquired a thousand of mom-and-pop stores as customers (as of July 2018). The company aims to expand its operations to cover 100,000 kirana stores in 30 Indian cities and also eyes the markets in Southeast Asia and Africa, where many small retailers exist as in India. Of note, some service providers use cutting-edge technologies to add value to their services. For example, SuperZop, which was established in 2016, uses AI technology for product quality visualization by automatically adding information on agricultural products.

More recently, there have been some moves by B2C online retailers to start distributing products to kirana stores. For example, India's leading online grocer BigBasket, which received funding from Chinese e-commerce giant Alibaba in April 2018, is conducting wholesale business targeting kirana shops.

Going forward, India's income levels are expected to rise along with its economic growth (Figure 3). If more households buy refrigerators and get into the habit of making bulk purchases, they may call for volume discounts

Fig. 3 Indian Households by Income Group



Source: Prepared by MGSSI based on IHS Markit data.

to be offered by kirana shops, as are offered by modern large retailers. Even so, if inefficient middlemen are eliminated and the supply chain becomes more efficient thanks to the success of new business targeting kirana shops, kirana shops would see their profitability improve and could offer products at lower prices.

Many emerging businesses that support the operations of kirana shops are aggregators, which connect manufacturers or farm producers, and kirana shops. This aggregation business could evolve into a franchise business model (i.e., organizing kirana shops along the same lines as Japanese convenience stores are) in competition with modern retailers.

FURTHER UTILIZATION OF KIRANA SHOPS

Payment on credit is one of the greatest benefits that kirana shops can offer to their customers. Recently, however, an increasing number of kirana shops are introducing electronic payment systems including Paytm, which are even more convenient. Purchases on credit based on the trust between the shop owner and the customer will likely be less important going forward due to the spread of electronic settlement as well as income growth. Even so, the number of stores per area (and per person) and the established foothold in the neighborhood will continue to remain strong points of kirana shops. We note that some players are focusing on such advantages and trying to utilize them in other sectors than retail.

For example, Amazon and apparel online store Myntra, of which a majority stake is held by Flipkart, have already started to use kirana shops as part of their distribution functions. Both companies aim to reduce delivery costs by making kirana shops themselves, instead of drivers, deliver packages to individual houses. Kirana shops can play a significant role in the last mile delivery, and online retailers among others see great opportunities on this front.

In addition, some companies have started to use kirana shops as a place for sales promotions. Amazon and StoreKing, an emerging rural e-commerce company, are working together to encourage people with no online shopping experience to use their platforms. At kirana shops, kiosks are installed, and customers are able to use Amazon services by asking the store owner how to use. Myntra also announced that it would use the space of kirana shops to display its apparel items. As such, moves to merge online and offline services are accelerating.

There are also moves to utilize data obtained at kirana shops. Snapbizz, a Bangalore-based startup, collects and analyzes kirana shops' sales data to support FMCG companies' marketing activities.

Furthermore, new financial services using kirana stores are emerging. Such services are aimed at meeting the needs of people who work away from home. When they send money to their families once a week, it is more convenient to use the services at kirana shops than those of a bank ATM, because the remittance charges are lower and the operating hours are longer.

As described above, kirana shops are evolving from a retailer into a social infrastructure, by catering to local needs as a neighborhood store with high density. Players in various sectors will likely focus more on the potential of engaging with kirana shops and step up their initiatives to utilize them.