TRANSFORMING KIRANA STORES* TO DRIVE ECONOMIC GROWTH

An approach to promote retail sector modernization in India

In collaboration with Trust For Retailers and Retail Associates of India (TRRAIN)

*Traditional Grocery Retailers
Transforming Kirana Stores to Drive Economic Growth
India is a nation of shopkeepers and as of 2019 only 12 percent of the country’s retail trade is organized or modern. The rest is supported by small traders, retailers, and Kirana store owners. In the food and grocery segment, more than 95 percent of the business is in the hands of traditional retailers. Honestly, they run the Indian kitchen. It has been amply demonstrated during this COVID-19 pandemic, with these neighborhood stores serving 1.3 billion Indians without creating a sense of panic. The nation needs to salute that.

In today’s times when the preferences of the customer are changing, there’s a need for change in the working and operations of these unorganized or traditional store owners. Kiranas or traditional store owners play an important role in the Indian consumption ecosystem. These store owners have been friends of their customers, keeping an eye on their needs as well as adapting merchandise buying in line with the seasonal and festive needs of their customers. Even today if we go to our nearby Kirana store, he’d know the pulses we buy and the brands we use.

When Damodar Mall came out with his book Supermarketwala, a guide for marketers and modern trade enthusiasts, we spoke to him and asked him if we can do something for smaller Kirana owners, which can help them adapt to the changing times and grow their business. That conversation gave birth to our “Be A Supermarketwala” project. Our book, Be A Supermarketwala, was launched last year, and has found its way to thousands of medium and small businesses and Kirana owners.
However, at TRRAIN our endeavor is to reach millions of Kiranas and help them modernize themselves by adopting new methods of retailing, physical as well as digital, so that they can continue to serve the neighborhood and grow. We continued to invest in the project and have created a digital version of the book in a self-learning format so that the next generation of Kiranas can modernize themselves.

We reached out to Accenture to seek their support in understanding the impact of the transformation of Kirana stores, their customers, and the ecosystem. We were heartened by Accenture’s support and belief in our project. We believe this is the first such exercise being undertaken in retail in India, where we establish the pivotal role that the Kiranas play and the impact of their transformation not just on them and the industry, but also on India as a whole. I believe any Kirana store owner who modernizes his store will be able to add value to his customer and improve his business and profitability.

This report will help establish the role of Kirana in the community, its importance in the value chain and contribution it makes it to the country. We believe the report will serve as a foundation as we march on in our journey to impact millions of Kirana store owners in India, make “Vocal for Local” the way forward and support our Prime Minister’s message of being “Atmanirbhar.”

Namaskar,
B.S. Nagesh
Founder,
Trust For Retailers and Retail Associates of India (TRRAIN)
Local neighborhood shops need the support of the retail ecosystem and the government to adopt and sustain modern retail practices and reverse the trend decline in sales, profitability and employment in this vital part of the Indian economy.
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Executive Summary

Transforming Kirana Stores to Drive Economic Growth
A ubiquitous part of the Indian retail landscape, Kirana stores play a crucial role in the Indian retail sector, which in turn contributes almost 11 percent of the GDP in India and eight percent of its total workforce.

By 2021, it is expected that the share of trade managed by 13 million Kirana stores will reduce to 75 percent of the total retail industry from the current level of 88 percent.

Since consumers are increasingly buying online or shopping at supermarkets or larger, modern stores, Kirana stores are losing their consumer base. As they lag in adoption of modern retailing techniques such as digital payments, inventory management or even an efficient store layout, Kirana stores are unable to compete with other retail formats.
This ongoing disruption in traditional trade needs to be mitigated through the modernization of Kirana stores. In this report based on primary research, we first assess the impact of modernization at individual store level and then on the consumer and the economy. We then pivot to the role of all stakeholders in the retail ecosystem and consider strategies and initiatives that are necessary to reshape the Indian retail industry.

Our research reveals that all Kirana stores that modernized to keep pace with consumer preference for modern formats, reaped significant benefits in terms of sales, product category growth, and better cost management.

The gains from transforming an informal sector into an organized one are considerable—be it the increase in tax collection, the growth of local businesses or the positive impact on rural consumption and GDP.

The surge of consumer purchases from local Kirana stores during the national lockdown in the COVID-19 pandemic strengthens the case for their modernization. Our survey found more consumers preferred to buy from the neighborhood stores for their daily needs. Further, the local shops were better stocked than e-commerce companies that were struggling with the sudden disruption in their supply chain.

Our research and findings make it clear that the Indian retail industry needs to expedite the modernization of the small retail formats in a sustainable manner.
The future of small retail formats (Kirana stores) will hinge on the steps taken now to modernize this segment. The role the government and industry play will enable and accelerate this transformation.
PART 1

The Compelling Need for Transforming Traditional Trade
Surviving structural change in the industry

Millions of small shops—colloquially called Kirana stores constitute the major part of the retail sector which as a whole contributes 11 percent of the GDP (second after agriculture at 18 percent). Food and grocery (items that Kirana stores typically sell) accounts for more than 65 percent of the retail sector in India.

The retail industry employs eight percent of the workforce or approximately 43 million, with most of them in the unorganized and informal parts of it such as Kirana stores.

Although these traditional stores are a vital component of the retail sector and are protected by government policy against foreign investments, they have been on a slow and inevitable decline from the beginning of 2000, like what their peers in most developing countries have been experiencing.

The development of modern retailing and wholesaling which began in the USA in the 1980s spread all over the rest of the world in four successive waves.¹

Though retail modernization in India began in the early 2000s (in the third wave) it picked up speed only recently.

¹Reardon, Timmer, Barrett and Berdegué (2003) distinguish four waves of supermarket expansion that have encompassed different regions and countries
Since 2016 following the launch of extremely affordable 4G services by Jio and the push to digital wallets after demonetization, there has been an explosive growth of new business models. B2B e-commerce company Udaan became a unicorn in just 2 years; IndiaMart turned profitable and B2C e-commerce players like BigBasket, rocked the industry and spawned a rash of similar models that aimed to make daily grocery shopping easy as tapping an app. Many other startups like Swiggy and Dunzo have also entered grocery delivery during the COVID-19 outbreak. Suddenly, the supermarket chains and large modern stores were not the only ones taking away the market share of Kirana stores but also startups and even digital natives like Amazon.

**Consumption growth**

It is estimated that by 2030, growth in income will transform India from a lower-income-class-led economy to one driven by the middle class. Over 100 million households will be added to the high and upper middle classes and these will drive 60 percent of consumer spending (or almost USD 3 trillion of consumption).
Evolving consumer preferences

The growing popularity of the new retailing formats reflect new buying preferences of Indian consumers. A burgeoning millennial population is aspirational and willing to buy new categories as online players create brand awareness even in the smallest towns. Malls have sprung up in Tier II and Tier III cities such as Lucknow, Kanpur, Panaji, Udaipur.

Consumer purchases will also change further as more women become income earners. Discretionary spending is expected to rise as the number of women in the workforce will likely grow by 40 percent to touch 10 million over the next five years.

As consumer preferences change, more new retail formats will be needed to cater to the needs of the upper and middle-income segments of the population.

COVID-19 Crisis

During the lockdown, consumers turned to Kirana stores for their daily provisions as the big stores struggled to deliver due to supply chain disruptions. Kirana stores with their links to local distributors were better stocked and able to cater to the needs of the neighborhood. Most of these stores accepted payments through Paytm or other digital wallets. The unprecedented situation of the lockdown highlighted the fact that Kirana stores are almost an irreplaceable part of the consumer’s daily life. The fact that these small shops accepted digital modes of payment showed their willingness to upgrade to modern digital practices.
It's time to modernize

There is, therefore, a distinct need for Kirana stores to transform their operations and their shops, not only to survive the competition but also to tap into the consumer’s need for modern stores and new ways of buying. Additionally, transformation will help the stores withstand the ongoing structural changes in the retail sector.

Already the presence of modern retailers in major cities is causing many stores in nearby areas to either close down or lose their majority customer base. This trend is akin to what happened in the US where the first wave of retail modernization propelled nearly half the grocery and conventional discount stores in the country to shut shop.

It’s an uneven battle between new business models and old formats with success favoring the former as they leverage technology and consumer data to provide customer experiences that Kirana stores cannot and do not know how to match.

To sustain the modernization of Kirana stores, it is important that the government and other stakeholders assist the small retailers and local suppliers to adapt to the structural changes in the retail sector.
The same forces—the mobile Internet, software solutions and unified payments interfaces—that are driving the growth of modern retail—could also be leveraged to help Kirana stores become an important channel for growth for the industry and for the economy.

These factors have over the years attracted a lot of attention to the potential of making Kirana stores part of the formal economy. FMCG companies like Hindustan Unilever and retail giants like Reliance Industries, Walmart India and Metro Cash & Carry, startups like Kirana King, ShopX and even digital payments companies like PhonePe have created a range of engagement models to work with Kirana stores to modernize them, providing them tech solutions for customer-facing and backend operations or meeting their working capital needs.²

But even before the FMCG companies and big retailers had got into the act, the move towards modernization had already started nearly two decades ago. For example, Dadar’s Sarvodaya Supermarket had adopted a modern retail look and feel in 2003, after Kishore Biyani-owned Big Bazaar launched its store at nearby Phoenix Mills, in South Mumbai, in 2002. Following the success of his store, the owner has since helped many other traditional retailers in Gujarat, Uttar Pradesh and Maharashtra to upgrade their stores to follow modern retail practices.

The message and inspiration for Kirana store transformation was spearheaded by certain traders communities in India who own and operate family business related to Kirana stores. Many local Kirana stores followed their lead to modernize. Even a few standalone supermarkets were also established by individuals in the early 2000s (See Figure 1).

More and more Kirana stores are now participating in the transformation process. But most of them lack confidence and guidance to transform.

Many stores are adopting change towards modernization

What they lack is confidence and guidance.

Early adopters in early 2000s like ‘Sarvodaya Supermarket, Dadar West’

Spread the message mainly through Kirana trade communities

Transformation adopted by a few major Kirana owners (large provision) till 2015 + New standalone supermarkets established by individuals

After initiatives led by Kirana King, Walmart, Metro, ShopX etc., more Kirana stores are participating in transformation
Against this backdrop, Accenture decided to assess the transformation of Kirana stores and analyze what worked, what was the impact, and what needs to be done by industry and government to create and sustain positive change for the millions of small grocery stores that dot the Indian retail landscape.

3 The stores considered transformed or modernized have one or many of the following features:

1) An efficient grid layout with self-service format, check-out counters with POS and shopping trollies/baskets
2) Mode of accepting digital payments – cards and wallets
3) Use of technology such as retail ERP software and POS machines and digital wallets for billing, inventory management, MIS reports and other features assisting store operations and including technology for price monitoring
4) Use of modern retail principles for store management including product placement and assortment and pricing
PART 2

The Kirana Transformation Story

Transforming Kirana Stores to Drive Economic Growth
Research Methodology

Accenture Research, in collaboration with TRRAIN, modelled the economic impact of Kirana transformation for India. To estimate the economic potential of Kirana transformation, we analyzed key macroeconomic, demographic, social development and industry indicators across India and the retail sector. We also used economic value modelling across several scenarios based on the analysis of macro-economic indicators. This was further validated by retail expert interviews, in-depth interviews of transformed Kirana store owners and analysis of consumer behavior in transformed Kirana stores. The study covered transformed Kirana stores of different sizes, formats and store owner profiles across India\(^4\) to identify the outcomes at both the individual store and ecosystem level. In addition, the field research included the outlook of Kirana owners towards modernization and the barriers they faced in their transformation journey.

While there are many different types of Kirana stores, this report covers large and medium provision stores who are ripe for transformation on account of their location, size and owner profile:

- Large provision stores with a strong customer base of monthly shopping, typically spread over 500 to 2000 sq. ft. and have been in existence for more than 15 years. These are typically run by 2nd or 3rd generation owners.

- Medium provision stores that are around 200 to 500 sq. ft. in size, and largely sell to customers of their locality. These stores keep most of the product range but are limited in customer catchment area.

\(^4\) Many of the stores covered in the research were present in small towns (of Maharashtra) with population as low as 10,000.
Qualitative interview and transformation impact data of 57 Kirana store owners who had completed transformation Tier-1/2 cities in India and small towns (villages) in Maharashtra

18 from Tier-1 cities

16 from Tier-2 cities

23 from small towns
Key findings

Swift improvement in turnover

Each and every Kirana store that modernized reaped significant gains in sales turnover and profits and achieved better inventory management. The revenue growth ranged between 20 percent to 300 percent with an average of 135 percent, while the profits grew 30 percent to 400 percent, depending on the level of transformation undertaken (See Figure 2).

There were additional outcomes due to increased sales. For example, a store owner in Bangalore whose business grew 100 percent after modernizing was thrilled to achieve better cash conversion and did not need to extend credit to his customers.

For one of the store owners in a suburb of Mumbai, the biggest gain was the ability to manage his inventories better in his tiny 400 sq. ft. store. Many in saturated middle-and low-income neighborhoods felt empowered to compete with chain stores like Big Bazaar and Easyday. They reported sales improving by 10 percent solely because of better display on store offers and product launches on screens and shelves.

What made these stores undertake transformation?

While competition from modern retailers would be the obvious answer, the 57 store owners Accenture interviewed cited a combination of factors. For example, 56 percent of them said that the need for store revamp was a big driver, 52 percent had been approached by cash & carry retailers such as Metro, Walmart and consultants. Nearly half of them had found it difficult to manage the store operations effectively without any guidance. And only about one-third had been compelled by falling sales to make the decision to transform.

56% said that the need for store revamp was a big driver

52% had been approached by cash & carry retailers such as Metro, Walmart and consultants

50% had found it difficult to manage the store operations effectively without any guidance

33% had been compelled by falling sales to make the decision to transform
Figure 2
The impact of transformation on Kirana stores

- **20-300%** Revenue
- **30-400%** Profit
- **Median 20%** Customers
- **Median 50%** SKUs
- **Median 50%** Employment
- **Median 50%** Tax Contribution

**Average Sales Impact (% growth)**

<table>
<thead>
<tr>
<th></th>
<th>Tier-1</th>
<th>Tier-2</th>
<th>Town</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>123%</td>
<td>76%</td>
<td>184%</td>
<td>135%</td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
The sales impact shown is skewed based on level of guidance received by the stores we covered, and may not represent actual potential of city/town.

- 100% retailers’ said business has increased post-transformation
- Retailers with % sales growth after transformation

- Less than 0%
- 0 to 20%
- 20% to 50%
- 50% to 100%
- More than 100%
Increase in shopper basket size

As the stores modernized, they witnessed a qualitative change in what the consumers bought.

Before the transformation, most of these stores largely sold grocery staples such as rice, flour and oil. However, after the transformation, every store witnessed expanded sales in nearly all FMCG categories. Packaged food such as snacks, biscuits and branded grocery items saw the highest growth across 70 percent of the stores. Sales of large packs also increased across every store. Customers were also more willing to uptrade. For example, customers at a shop in Jalgaon, Maharashtra, switched to dish washing liquid from detergents and bars after product trial offers.

Low inventory costs

One of the biggest gains for store owners was a greater control on inventory, freeing up cash reserves. As store owners had little visibility into their inventory before the transformation they often were left with expired or damaged products. They would place orders for moving SKUs in an ad-hoc manner or mostly based on fortnightly visits from distributors. They would stock up non-moving SKUs for up to a year. The inventory pile would often attract rodents, adding to the cost of damage the owners would incur.

After modernization, with the use of inventory management systems, these stores were able to sell more SKUs (roughly 3000 to 7000 as against 500 to 2000 earlier). Orders of all SKUs began to be placed on sales generated, which resulted in inventory of moving SKUs coming down to 7 to 21 days while that for non-moving SKUs at up to three months. As all the stock was on the shelf, they suffered no damage.
Factors affecting the impact of transformation

While all stores benefited from transformation, the intensity of impact varied considerably and was correlated to three major factors—locality of the store, level of transformation, and store owner’s attitude and guidance received from experts (See Figure 3).

Based on these three factors, the impact was categorized by the type of store (or ‘archetype’)

The transformation provided competitive advantage to the retailers that had transformed their stores. More than 76 percent of the retailers reported increase in the number of customers, 67 percent said they increased their staff, 90 percent of the retailers felt they had more time for themselves, and most of the stores could avail more schemes and benefits from FMCG brands due to their classification into modern trade or incentives based on sales achievement.

A majority of retailers said that 30 percent to 50 percent of their sales were happening through credit card/digital payments pushing them to install digital payment systems either before or during the transformation.

The impact of transformation extended to the local community. TheAccenture study found that the medium-sized traditional stores run with the help of one employee increased their staff strength to three or four people on an average after modernizing.
### Factors influencing impact of transformation

<table>
<thead>
<tr>
<th>Level of transformation completed</th>
<th>Factor contributing to transformation impact</th>
<th>Impact on revenue</th>
<th>Typical reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>- Only change of shelves and store-layout enabling self-service for the customers</td>
<td>20% to 30%</td>
<td>• Increased visibility of all products, impulse purchases and sale of large packs</td>
</tr>
<tr>
<td></td>
<td>- Large-scale renovation of the store with additional space, floors etc.</td>
<td>20% to 50%</td>
<td>• Attracting upper-middle class customers (if present in the locality) and sale of premium range, attracting monthly shoppers from large modern retail chains like Big Bazaar, Easyday</td>
</tr>
<tr>
<td>02</td>
<td>- Store-location in high footfall area such as near railway station, market</td>
<td>30% to 50%</td>
<td>• Increased walk-in customer base, attracting customers residing in nearby areas</td>
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<td></td>
<td>- Store-location being in highly untapped consumption potential market e.g. outskirts of city, sub-urban markets, rural area</td>
<td>20% to 30%</td>
<td>• Availability of SKUs (aspirational)</td>
</tr>
<tr>
<td>03</td>
<td>- Know-how use of data and technology/expert guidance received in the field</td>
<td>50% to 100%</td>
<td>• Educated decision making</td>
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<td></td>
<td>- Store-owner DNA and involvement</td>
<td>30% to 50%</td>
<td>• Ownership</td>
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In optimistic scenarios, sales growth of 200% to 300% could be achieved, while on the lower side sales growth of 20% to 50% could be observed.

Source: Accenture and TRRAIN Analysis

Transforming Kirana Stores to Drive Economic Growth
Store Archetypes: The study identified and classified six distinct Kirana store transformation archetypes. Based on the outcomes of field research, Figure 4 briefly describes their characteristics and the impact of modernization.\textsuperscript{5}

\textsuperscript{5} Note: The store archetypes are directional
Transforming Kirana Stores to Drive Economic Growth
### Figure 4
The transformation impact varied according to the store archetype

<table>
<thead>
<tr>
<th>Retailer Archetype</th>
<th>Typical Store Owner Profile</th>
<th>Potential of the Locality</th>
<th>Shopper Profile</th>
<th>Impact</th>
</tr>
</thead>
</table>
| **Prosperous & Sophisticated** | • Family owned  
• 2nd/3rd generation currently active  
• Large provision store format  
• Fresh thinking. Aspirational young owner with ambitions to grow. Pride factor is important  
• Success is used for expansion to other areas/stores | Medium to High  | • Mixed-middle to upper middle income neighborhood  
• Ready to experiment with newer/uptrading products in some categories  
• At the same time monthly shopping of groceries is fixed | **2x - 4x**  
Sale in 3-6 months driven by new store |
| **Prosperous & Conservative** | • Family owned  
• 2nd/3rd generation currently active  
• Large provision store format  
• Happily serving customers in Kirana format, while applying modern retail techniques at slow adoption  
• Open for experimentation | Medium to High  | • Usually high to mid income consumers  
• Have a large shopping list on a monthly basis  
• Value conscious but could potentially uptrade | **1.5x - 2x**  
Sale in 3-6 months |
| **Young & Savvy** | • Self-owned business started few years back  
• 1st/2nd generation currently active  
• Medium to large provision store format  
• Aspirational, young, educated and computer-savvy with ambitions to grow the business  
• Highly positive and very open to receive external help/knowledge  
• Willing to invest for transformation | High  | • Uptrading mid/low income consumers  
• Highly value conscious, but aspirational  
• Both ‘list based’ buyers, plus growing walk in, impulse purchasers | **2x - 4x**  
Sale in 3-6 months |
<table>
<thead>
<tr>
<th>Retailer Archetype</th>
<th>Typical Store Owner Profile</th>
<th>Potential of the Locality</th>
<th>Shopper Profile</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constrained, but Comfortable</td>
<td>• Family owned&lt;br&gt;• 2nd/3rd generation currently active&lt;br&gt;• Medium to large provision store format&lt;br&gt;• Happily serving customers in Kirana format, while applying modern retail techniques at slow adoption&lt;br&gt;• Positive attitude towards self-serve formats&lt;br&gt;• Interested in better store management and freeing-up time</td>
<td>Low to Medium</td>
<td>• Low middle/middle income neighborhood&lt;br&gt;• Highly value seeking behavior&lt;br&gt;• Shoppers buy and stock in smaller quantities</td>
<td>2x - 3x</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>2x - 3x</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sale in 3-6 months</td>
</tr>
<tr>
<td>Constrained, but Aspirant</td>
<td>• Self-owned business started few years back&lt;br&gt;• 1st/2nd generation currently active&lt;br&gt;• Medium provision store format&lt;br&gt;• Educated owner in mid-age group&lt;br&gt;• Open to learning modern ways of managing store</td>
<td>Medium</td>
<td>• Could vary depending on where the owner has space and/or his familiarity with the neighborhood</td>
<td>1.2x - 1.5x</td>
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<td></td>
<td></td>
<td>1.2x - 1.5x</td>
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<td></td>
<td></td>
<td></td>
<td>Sale in 3-6 months</td>
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<tr>
<td>MiBrEg (milk, bread, egg): Miniscule</td>
<td>• Daily needs store in limited residential area&lt;br&gt;• Small provision store format&lt;br&gt;• Not keen for growth and competition&lt;br&gt;• Very small in size - need for transformation still not very clear</td>
<td>Low</td>
<td>• Usually middle income neighborhood&lt;br&gt;• Highly value seeking behavior&lt;br&gt;• Would rather buy monthly groceries in a modern retail format or e-Commerce wherever prices are cheaper&lt;br&gt;• Neighborhood is highly residential, society with limited scope for growth</td>
<td>1.2x - 1.3x</td>
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<td></td>
<td>1.2x - 1.3x</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Sale in 3-6 months</td>
</tr>
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Transformation of Kirana Stores Benefits Customers

A self-serve format store provides an improved and more convenient way of shopping along with a better range of products.

The access to monthly groceries improves with availability within a two km radius which is usually the preferred radius for shopping groceries.

Consumer rights protected by maximum retail pricing of products and transparency in billing, easier returns, correct information about brand offers and improved quality assurance.

In addition, transformation could also result in the change in consumption habits. Due to transformation and subsequent improvement in supply chain, consumers in small towns could access product categories which were not available before. For example, sanitary napkins category at a small store in Lucknow witnessed nearly 80 percent growth within three months as more women consumers were able to easily add this to their basket in this ‘self-serve’ format.
Kirana Store Transformation Benefits Government

Improves rural consumption and GDP

As the sales growth experienced by the transformed stores shows, modernization of traditional trade will drive consumption, especially in under-served semi-urban and rural markets where current demands are unmet. We observed that many people living in such areas need to visit nearby town or district for their monthly grocery needs. For example, residents of Lasalgaon travel 60 km to Nashik for grocery shopping due to availability of the brands. We estimate retail modernization could boost consumption by five percent to 20 percent, creating a positive impact on GDP. It will also help in strengthening rural supply chains and accessibility.

Expands the formal economy

Out of 13 million traditional grocery stores in India, the transformation of an estimated 1.4 million stores (large and medium size stores) could expand the formal economy by approximately 250 percent with computerized billing and ledger systems. This would also enable government to have better visibility and traceability into what was previously the ‘informal’ economy, as transformation essentially always comes with adoption of IT systems. As nearly half the sales in modernized stores were made through digital payments, compelling store owners to invest in digital points of sale, transformation would also accelerate the government’s Digital India initiatives.
Increase in tax contribution

We also found that as Kirana stores transformed, the tax contribution of retailers grew by an average of 50 percent. Consider then that the transformation of 1.4 million stores would lead to a 240 percent growth in income tax contribution from retail businesses—resulting in an incremental income tax of approximately INR1,600 crores.

Driving local employment

One of the most important benefits is that Kirana transformation promotes both self-employment and employment of the local community. Our research found an average 50 percent growth in employment in the stores that modernized. Overall, the transformation of 1.4 million stores can generate 3.2 million new jobs in the market (that’s over 0.62 percent employment growth). The fact that this industry can support low-skilled jobs at mass scale implies that government could significantly reduce unemployment just by supporting the modernization of Kirana stores.

Boost for domestic industries

As local neighborhood shops modernize, there would be a positive impact on the demand of local artisanal food items across different cities and towns, which will in turn stimulate small-scale businesses such as food processing, and home-made artisanal products. For example, one of the large provision stores located in Gujarati community of Mumbai started selling many artisanal food items such as Khakra, Thepla and pickles, which now contribute significant portion of its sale.
PART 3

Blueprint for Transformation

Transforming Kirana Stores to Drive Economic Growth
Apart from identifying and estimating the positive impact of modernizing Kirana stores, we also studied the steps and investment needed to transform.

Based on Accenture and TRRAIN’s Analysis from the research findings, we estimate that the total infrastructure cost for a 3,000 sq. ft. store is approximately INR 1,500/sq. ft. Figure 5 shows the breakup of the infrastructure cost along with other fixed costs involved in the transformation.

Most of the stores—with average sales per sq. ft. of more than Rs 2000 per month—could repay the borrowed capital within three years even with revenue growth as low as 30 percent.

Figure 5
Broad investment required for store size of 3000 sq. ft.

<table>
<thead>
<tr>
<th>COST OF INFRASTRUCTURE ~ RS. 1500 /SQ.FT.</th>
<th>Cost (Rs/sq.ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial setup cost per sq. ft.</td>
<td></td>
</tr>
<tr>
<td>Fixtures</td>
<td>250</td>
</tr>
<tr>
<td>Fixtures - Backoffice</td>
<td>30</td>
</tr>
<tr>
<td>Airconditioning</td>
<td>150</td>
</tr>
<tr>
<td>Equipment</td>
<td>10</td>
</tr>
<tr>
<td>Electricals</td>
<td>125</td>
</tr>
<tr>
<td>Chiller / Freezers</td>
<td>100</td>
</tr>
<tr>
<td>Security &amp; Loss prevention</td>
<td>30</td>
</tr>
<tr>
<td>IT Equipment</td>
<td>250</td>
</tr>
<tr>
<td>Investment in stocks</td>
<td>500</td>
</tr>
</tbody>
</table>

Cost of POS system
- Available with banks and payment companies
- Typically cost ranges from 0.5% to 3% of transaction amount

Cost of technology (software)
- Many softwares available in market, e.g. RetailWhizz
- Typically ranges from Rs 25000 to Rs 2 lakh one time cost (and AMC contract)

Other fixed costs
- Signage ~ Rs. 100,000
- Mechanical Weighing Scale ~ Rs. 5,000
- Launch marketing costs
- One month store operations cost

Source: Accenture and TRRAIN’s Analysis
The Transformation Framework: Seven Stages

An effective modernization plan involves seven systematic steps that must be taken by any store.

**Figure 6**

Location assessment is essential to identify the customer profiles, demographic and social parameters, income class and external drivers such as competitors. The catchment area for this store will be within a radius of 1.5–2 km and should include at least 7,000–8,000 families to form the customer base for the store.

Funding assessment considers the in-store capex and the cost of the space. The store can either be owned or rented and if rented the rent should not be more than three percent of sales or one-fifth of the gross profit, whichever is higher. Roughly, for every 3,000 bills per month, a store requires one checkout counter, 10 shopping trolleys and 20 shopping baskets.
Store layout is important because it influences the customer’s perception of the store. The transformed store space should be arranged in an efficient grid layout comprising aisles, gondolas, wall-racks, bins, pallets etc. Ideally, 75 percent of the space should be devoted to sales, 10 percent to office space and 15 percent for storage.

Next is the technology component. A fully integrated system (retail ERP software) and a POS machine and digital wallets are essential for modernization. The ERP is needed for computerized billing, inventory management, MIS reports and all other features assisting store operations.

The store owner will also need to focus on product placement practices. For example, classify the products as Destination category, Convenience category and Impulse category. Then place similar products together following the “top to bottom, big to small” and “left to right” rules.

The Kirana owners must apply a mix of pricing techniques to create a pricing policy that works best for them.

6 Destination category: Customers visit the store mainly to buy items in this category e.g. food grains or vegetables

Convenience category: People shop for these items because they are already in the store e.g. detergents and shampoos

Impulse category: These are unplanned purchases, often not needed items e.g. chocolates
Challenges: Sustaining the Modern Format

While following this transformation framework will lead to significant gains in profitability, it won’t guarantee sustained benefits. That’s because the challenges Kirana shops face over competition from large modern formats, weak supply chain infrastructure and access to funds persist.

These stores still have to compete with large modern formats that have the ability to bargain with FMCG companies on the basis of their bulk purchases. This pushes the small retailer to explore sourcing options beyond FMCG companies’ traditional distributors in order to buy goods with lowest prices, which in turn creates channel conflict within companies.

We found that many independent supermarkets in metro cities are also struggling to survive in the near future due to the competition with large modern chains, the rising real estate costs and increased overhead costs of modern retail.

To overcome these challenges, Kirana stores must remain vigilant about prices of all products everywhere and especially in modern formats, cash and carry retailers, wholesalers and distributors of neighboring towns.

As most FMCG companies do not have distributors in small towns, the supply chain infrastructure in such places is limited. Our research revealed that only the educated retailers would have the wherewithal and information to identify right schemes and prices, and travel to nearby towns to source on a daily or a weekly basis.

Additionally, small shop owners usually do not have funds of their own to invest in modernizing. In the absence of a credit rating system for such businesses, they cannot get loans easily from banks either and have to rely on private lenders or friends and family.

Once they are modernized, Kirana stores struggle with few operational challenges such as claiming credit set-off while filing GST returns (which arise from non-payment of GST by distributors/value chain partners) and multiple licensing mechanisms.

Many retailers think growth in the business will improve their quality of life, however this growth also comes with increased costs and multiple difficulties in managing the business.
PART 4

Building an Enabling Ecosystem: The Role of Stakeholders
Given the benefits that the consumer, the government and the industry obtain from the modernization of small retailers, it is imperative that the ecosystem play a more supportive role in transforming Kirana stores. The stakeholders in the Kirana ecosystem need to enable the modernization process so that they can multiply the benefits they experience.

These stakeholders include FMCG companies, e-commerce, cash and carry retailers and payment companies, logistic providers and intermediary traders and the government, as well as retail associations and NGOs.

**FMCG companies**

By implementing innovative retailing techniques such as Kirana-specific merchandising, customized programs for product trials and assortment, FMCG companies could promote a more inclusive development of the industry and of the society.

Also, FMCG companies need to plug the rural distribution gap by re-imagining their distribution strategy so that retail modernization picks up momentum in small towns and rural areas, where there is consumer demand.
E-commerce, cash and carry retailers and payment companies

These players could leverage modernized Kirana stores for last mile delivery in places they cannot reach. Their key role in the process of retail modernization is providing know-how transfer and technology support (such as digital payment solutions at POS). Many companies have started moving in this direction. For example, Metro cash-&-carry retailer has installed POS machines at more than 2000 retailers. Similarly, Paytm, Google Pay and PhonePe have come up with UPI-based digital payment solutions which are widely accepted by thousands of retailers in India.

Intermediary players and logistics providers

While traditional middlemen tend to get marginalized in the process of modernization, a breed of specialized and dedicated new-generation wholesalers and third-party logistics providers are emerging. They are financially in a better position than traditional brokers to procure, select, sort, pack and deliver the goods to chain distribution centres before selling to supermarkets. They need to add value to the supply chain and finance deficits in traditional procurement services.
Retail associations and NGOs

Retail associations and NGOs in the field play an important role in education and capability building of Kirana store owners. They can also collaborate with ecosystem partners such as government bodies to facilitate the modernization process at scale. For example, creating and managing a retailer database for India will be extremely useful for targeted policy making.
Government

The government has the most important role in the retail ecosystem in terms of its ability to create large scale positive impact. Additional interventions to drive the transformation will stimulate growth in consumption, GDP, tax contribution and employment. It will also provide the impetus to the other stakeholders to play their part.
A strategic approach to speed up the assimilation of Kirana stores into the formal economy would need to combine the following elements:

1. Easier access to funds and soft loans for Kirana modernization
2. Run an awareness campaign to educate about benefits of modernization
3. Improve supply chain infrastructure
4. Create easier access to technology and fixtures needed for transformation
5. Promote capability building to adopt modern retailing techniques
6. Bring compliance reform especially in GST and licensing norms
7. Design strong incentives to move to the formal economy e.g. tax rebates
8. Incentivize the private sector to assist in store modernization e.g. redirecting part of CSR budgets for Kirana modernization
9. Undertake a pilot project in one state/area for Kirana transformation and then transfer learnings to scale at the national level
Conclusion

As the millions of Kirana stores in India constitute an important contributor to the country’s GDP and employment, initiatives must be drawn up to modernize this segment. Accenture’s analysis based on field study of stores that have transformed shows that modernized stores generate significant positive impact not only for themselves but also on the rest of the retail ecosystem—from FMCG companies, logistics providers, to consumers.

Our estimates show that the government and the economy could gain significantly. The contribution in terms of tax collection and employment and an expanded formal economy cannot be underestimated.

The role of Kirana stores during the national lockdown following the COVID-19 pandemic has underscored the indispensable part this retail segment plays in local neighborhoods as consumers depended on these shops for their daily needs.

A more inclusive and comprehensive policy in which the government, industry and NGOs work together to support Kirana stores transform and sustain their business is needed. The steps taken now and adoption of modern retailing over the next 2 to 5 years will define the future of the Indian retail landscape.
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About Trust for Retailers and Retail Associates of India

Trust for Retailers & Retail Associates of India (TRRAIN) is a public charitable trust formed in 2011 by B.S. Nagesh, with the vision of empowering people in retail and works to achieve immediate and lasting change in the lives of retail associates in India. TRRAIN is solely committed to upgrading the lives of people in retail, both at work and at home.

Pankh - Wings of Destiny and TRRAINHer Ascent are TRRAIN’s initiatives to make the retail workforce inclusive and diverse by creating a sustainable livelihood for Persons with Disabilities and women in retail. TRRAIN Retail Awards is an initiative to encourage customer service excellence in retail and awards stories of customer service excellence by the retail associates. Retail Employees’ Day, celebrated on 12th December every year is a simple gesture to say Thank you to the true hero of the industry — the retail associate. Be A Supermarketwala is an initiative to help traditional Indian Kirana retailers modernize by adopting the open and self-service format, technology and science of retailing to become more productive, profitable and sustainable.

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