

SUPPLY CHAIN AS ELEMENT IN BUSINESS MODELS
ACROSS MULTIPLE CHANNELS IN INDIAN GROCERY
RETAIL VIS-A-VIS TRADITIONAL KIRANA OUTLETS
AND ISSUES OF TRUST

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Abstract:

Ever since the corporatization of grocery retail, the sector is indeed complex and difficult to interpret. In Indian context the grocery retailing is more contentious than anywhere in global markets. The variations between organized and unorganized sector grocery retailing are driven to the extent of business model differences that a sustainable strategy is hard to adopt. This paper explores the issue of trust building across supply chain driven business model that is inherent in traditional Indian mindset and seeks to explore the questions that revolve around the emerging role of supply chains as instruments of cost rationalization. Indian markets are different from global peers. The modeling of trust across both the physical and online retail channels would be explored yet they face stiff competition from the business modeling of local kirana outlets. This paper harps on a study of existing literature and adopts a qualitative approach to deduce the challenges towards viable business modeling in Indian grocery retail sector

Key Words: *Business Models, Grocery Retailing, Supply Chain, Trust*

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Introduction:

Supply chains are often the ignored aspect of overall business modeling. The recent interest in strategic significance of supply chain and sourcing stems from the Porter's research on operational effectiveness of strategy and business model. The "supply chains" and their efficiency is fast emerging as new area of strategic focus as the consumers have taken the central stage in restructured business models of organized retailers. Consumer driven retailing needs to leverage maximum possible value from the higher volume and low margin based business modeling (Wilson, 2013) to promise lower prices to end consumer. The lower prices across consumer end, literally calls for cost rationalization across movement and stocking of the goods.

Yet the challenges vary across diverse sectors such as fashion retailing, food retailing and the retailing of electronics. Even across the geographies the organized retailing in Indian context is most contentious and fragmented in nature. The local "kirana" shops and the subsequent politicization of issue of foreign investment in organized retail in India is a problem worth the need for solution. The problem becomes more viscous when the sectional focus is on grocery retailing. Grocery retailing in India is more a local affair and the staple grocery purchase in India is getting health conscious as well.

Traditionally the grocery shopping (Bhatiani, Gupta, 2010) in India is more recognized as associated with kirana for kitchen. The men are the majority buyers in average Indian families. A study observed that the multiple stakeholders (Sengupta, 2008) at macro and micro level are prominent. The manufacturers and unorganized retailers - macro, entrepreneurial desire to capitalize on emerging business opportunities play a role at micro level. The kiranas as self-owned proprietorship ventures which are resisting attempts to bypass them.

The trust as espoused in kirana would be difficult to harness across organized retail formats across physical supermarkets and online virtual markets. The related aspects of trust building could have implications for business modeling as well as reconfiguring the traditional mindsets. The opening of multiple channel options for Indian households would be a socio economic change. The paper also explores the issue of business models as playing a role in ensuring competitive options before Indian households in terms of traditional kirana, organized supermarkets as well as the online grocer to choose from. The role of private labels would also be explored as organized retailers seek to establish their hold.

Organized physical retail interfaces depend on systematic movement of product to be merchandised (Srivastava, 2008), from the manufacturer's location to the physical outlet, whereas in the case of online retailing interfaces the regional warehouse based coordination up to the doorstep of the consumer across air connected destination is essential to live up to promise of two days delivery. Food based grocery retailing is highly unproductive and uncompetitive and nation loses some volume of food output and citizens usually pay a higher price for buying the food commodities of daily use. The national food

inflation is becoming difficult to manage and is already a political issue. Hence it makes sense to explore the attempts at institutionalizing food retail in India.

Objectives:

- To interpret the competitive advantage associated with supply chain.
- To study the emerging role of supply chain management across physical and online grocery retail formats and their ability to create value.
- To understand the issues of trust building across multiple channels in Indian grocery retail vis-a-vis traditional kirana outlet.

Grocery Retailing and Business Models: A Literature Review

Retail business model (Hedman, Kalling, 2003) is the architecture that provides the platform for concurrent creation of value along with buyers and sellers (manufacturers). As such business models in organized retail industry requires end to end service proposition. Resource efficient business models (Gillespie, 2014) in retail industry have to focus on the amalgamation of interdependent activities, processes and structures (Sorescu, Frambach, Singh, Rangaswamy, Bridges, 2011).

Such interdependencies (Magretta, 2002) are patterned in a specific manner so that it leads to generation of economic rents (Ennen, Richter, 2010) and competitive advantages. Grocery retailing has traditionally followed discount retailing model and places more emphasis on delivering at lowest possible costs. As such logistics and distribution always remain a major concern across the overall strategy of the concerned enterprise (Sandberg, Kihlen, Abrahamsson, 2011).

Changing Role of SCM in Discount Retailing in Groceries:

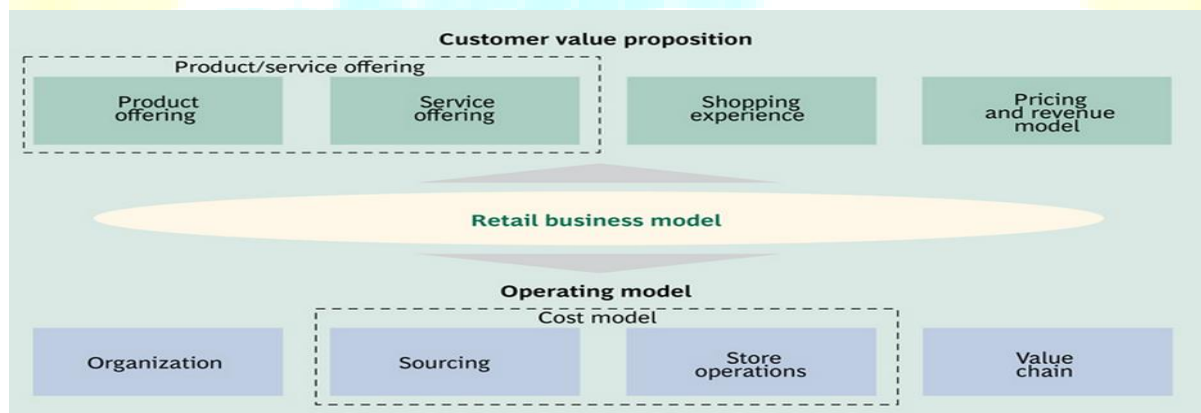
Supply chain driven business models insist on moving the right goods (Clara, Lu, 2014) to the right customer at right time by the most efficient means. Grocery items generally comprise items comprising shorter self-life and needs processing and special storage precautions. Grocery items involves both the perishable as well as non-perishable food items which require consistent consumption across the value chain, otherwise freshness as differentiating element could be at suffering end. In Indian context staple food grocery items could comprise grains, pulses, spices, flours, sugar, tea, oil, clarified butter (ghee), milk and related products. The creation of value proposition (Esquivias, Ramos, Souza, 2010) in discount retailing in food based grocery is

- ***SCM as cost rationalization instrument***

SCM enhances competitiveness across discount retailing formats-driving costs out of sourcing, working in collaboration with producers, vendor partnerships, cross docking, using technology to track, unit empowerment

- **Central to building trust** through innovative Service design in such “experience centric” services (Zomerdijk, Christopher, 2010) has implications for both – position of supply chains across retailer’s business models as well as trust building.
- **Nutrition preservation and delivering on the promise of freshness and quality**

The issue of responsive supply chain (Gunasekaran, Lai, Cheng, 2008) has been regarded as vital in factoring of trust (Wilson, 2013) into the relationships across the supply chain. This has remained an under researched aspect of supply chain derived business models in retail. Trust building through user’s trust (Roy, Sivakumar, Wilkinson, 2004) often requires exploration of diverse aspects of supply chain as it drives the incumbent business model. The relationship management is a key element in pushing the grocery items across the supply chain.

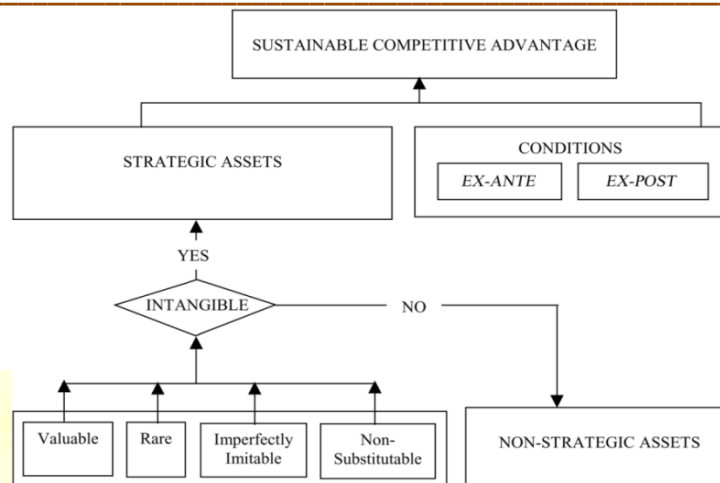


Source: https://www.bcgperspectives.com/content/articles/retail_strategy_elements_of_a_retail_business_model

Competitive Advantage through Supply Chain based Business Models:

A lot of research has been conducted into employee trust building yet the significance of customer’s trust has always been sidelined. Trust as an intangible asset influences the working of supply chains, business model viability, competitiveness and survival of firm alike. Supply chains are nothing but the carriers of customer’s trust and needs to respond to variations in pattern and context of customer’s trust.

Supply chaining of diverse activities is akin to modeling trust as an asset across business models. Trust has long been viewed as a consequence of well-oiled retailing strategy yet the “Strategic Factor” School regards the intangible resources that are rare and non-substitutable as vital for sustenance of competitive advantage in current uncertain business environment (Park, Gunn, Han, 2012). The trust driven business model could ensure the delivery of optimum value proposition across the desired market segment (Mohr, Batsakis, 2014).



SCM based business model across Physical and Online Grocery Stores:

The creation of value proposition in physical retail interface is reliant on the inter linking of actions related with physical movement of grocery food items (Esquivias, Ramos,Souza, 2010). The national and international sourcing of food based grocery items is equivalent to strategic sourcing of desired goods. The logistics and distribution is the other related cost element. The operational effectiveness is hence achieved through the logistics based management from manufacturer to the nearest possible outlet across segmented population.

The trust building (Clara, Lu, 2014) is being espoused through the merchandise planning and launch of tactical offers aimed at securing consistent consumer participation and engagement. Anyhow pricing always plays a key role in strategizing for market share. Globally such a discount retailing model has been successful at ensuring repetitive shopping as well as bonding of consumer's trust.

Trust building in Indian context is purely interplay of price factor. The business model compulsorily needs to pass on the cost savings to the consumer. The supply chain as evident is organized in such a manner that sourcing from vendors across the distribution centers is consistent and long terms.

Such distribution centers need to work in conjugation with the retail outlets to contain costs, maintain lean inventories, save time and resources across stocking as well as reducing manual efforts with incorporation of ICT tools and tracking technology. Such a supply chain driven business model could insure customer retention as well as optimum asset utilization. Such an extra ordinary emphasis on supply chain requires capital investments across logistics, transportation amidst fuel price fluctuations and rain dependent crop production in Indian context.

Trust sustenance (Gunasekaran, Lai,Cheng, 2008) in such physical retail formats is further dependent on the extent to which the collaboration with sourcing vendors, ensuring continuous asset optimization,

seeking leverage across IT capabilities and distribution of synergies could be explored and reinvented as per responses from market.

Yet all the differentiation depends on attracting the prospective consumer to the fixed place of the store. Such a store could be company owned or a franchise of the regional chain of stores or stand-alone entity. People with time, motivation and of course a vehicle drive into the supermarkets located in other part of urban area (city) or even outside the city (Esquivias, Ramos, Souza, 2010). Brand investments by supermarkets and on shelf products and yearning for exotic fruits, vegetables and food ingredients could also divert the traffic away from the traditional kirana.

In contrast, the creation of value proposition in online or digital retail interface is driven by information technology applications in personalizing the service as well as better addressing of segmental concerns (Palmer, 2000).

Online retailing focuses on front end and back end customer services. Frontline customer interfaces could involve the online merchandise, website connectivity and inter relations, bundling the services and options as well as the factors related to website browsing, access across various communication devices and extent of customization possible (Kim, Tadisina, 2005). The Java Apps are the new modes of customizing the access of prospective customers to the web store.

In contrast, the back end support comprises the organization's supporting infrastructure across the numerous inbound and outbound supply chains, logistics, payment gateways as well as encryption tools for securing availability and delivery of the products merchandised. Batch processing of smaller orders from across numerous retail consumers becomes essential to rationalize cost factor.

The trust building in such virtual environments is influenced more by ...than by... The trust building is focused more on the manner in which the internet grocery store presents itself to the selective consumer groups (Kim, Tadisina, 2005). As per 7C's framework, connection, content, context, commerce, communication, customization and the community could impact trust building in eyes of end user (Rayport, Jaworski, 2002).

In contrast with physical store, the returns concerns (Shankar, Urban, 2002) are a grey area. Anyhow the four crucial areas of decision making (Rayport, Jaworski, 2002) comprises the definition of value proposition for segmented consumer, a viable and profitable marketplace proposition, unique and differentiated resource delivery system as well as a revenue generation model across various channels in currency in a given geography.

Likewise in Indian context, Flipkart stresses the ever widening product offering though it a late entrant in grocery retailing. The local online grocery retailers like the local banya have established tremendous lead in terms of volume and trust. However the sustainability of business model depends on presence of net savvy population (Sinha, Gokhale, Rawal, 2014). Segmented clientele in terms of Indian players are the

smartphone owners with app users. The flipkart and other e commerce players are also intentionally promoting the sales smartphones to expand the mobile phone owners and drive the basis for the APPS based e commerce platforms.

The operational effectiveness is achieved with a mixture of attractive pricing; flash sales, ensuring faster distribution as well as promise of return. It appears as if these digital retailers are turning into logistics company (Srivastava, 2008). The operational efficiency in grocery retailing is feasible within a fixed geographical region yet in pan India basis it requires extensive logistics and warehousing support (Economist, 2014). Till now the national grocery markets are under-served as only the local areas are being served. Flipkart is still experimenting with idea as pilot study in Bangalore.

Business Modeling at Unorganized Kirana Shop:

The unorganized sector retailing instead relies on the locational advantage and entrepreneurial roots of the firm. The employment generation and livelihood concerns in under-industrialized nation have made the unorganized retailing a bigger socio economic issue (Srivastava, 2008). The government initiative to tap local kirana for ensuring grains and subsidy distribution through public distribution system also makes them trustworthy.

Other vital elements in their trust based business models are their inherent ability to respond to consumer needs. Their ability to offer half bread, a handful of refined oil or mustard oil, 100 grams of wheat flour makes them more customer friendly. In addition to this their inclination to address concerns with product returns, exchange of damaged food items, ability to extend small credit lines to shoppers and offer ancillary add on products like mobile and DTH recharge; makes them more friendly and trustworthy.

Their characteristic knowledge of individual buyer's likes and dislikes (Economist, 2014), ability to adjust prices as per buyer and emotional family ties bring them more closer to shoppers while buying the daily or weekly quota of home food groceries like the pulses, flour, spices, refined oil, ghee, puja samagiri or even the milk products. Secondly Indians rarely ever go in for bulk or wholesome purchases of food groceries rather they are more interested in frequent purchase of smaller quantities of same staple commodities (Srivastava, 2008).

Thus the traditional kirana plays a central role in retail sales in food based groceries across the rural and semi urban hinterlands in India. Its business model is widely believed to be based on retaining the trust even by selling the staple groceries on price to price basis or even bundling it with freebies like the home delivery or other similar offerings. Organizational innovation (Christopher, Towill, 2001) across kirana outlets does depend on the operational differentiation and such a differentiation is the key before success of a business model in marketplace. The local kirana is bound to sustain with adaption even alongside hyper markets as the people with lack of time and with no access to vehicle, are largely expected to step into the neighborhood store even if it offers no discount on MRP (market retail price).

In general the improvement in efficiency as well as sizable reduction in costs is the often sought objectives behind supply chain management practices. Yet one critical aspect in considering supply chain as offshoots of business models revolves around the nature of product under consideration.

Understanding Trust building across Grocery Retail:

Trust is vital to sustain a business model and supply chains essentially are at the heart of such an exercise. Trust is the single factor (Handfield, Bechtel, 2002) that induces responsiveness and reliability across the supply chain which in turn is the basis of business modeling in retailing. Whether it is the organized sector or the unorganized sector, trust basis of movement of goods not only leads to business model realization (Mulani, 2002) but also enhances the supplier's ability to respond to buyer's requirements in minimum possible time.

The supply chain efficiency (Handfield, Bechtel, 2002) and the resultant success of business model in retailing is in turn dependent on quantum of trust that each individual stakeholder espouses in each other. New product introduction (Sweeney, 2007) in grocery retailing depends on extent to which material, information and money flows are interrelated across the chain. In fact marketing processes are literally the inputs to SCM practices which in turn generate the inputs for new product introduction and sustenance of consumer's trust.

For instance, in a multicultural Indian cuisine no standard merchandise could fit the consumer aspirations. Consumers in Punjab seek corn flour and ghee whereas those from Southern India seek coconut powder as essential to cooking. In rural India milk retailing makes no sense as milk is sourced from milch animals.

Innovations in retail business models (Sorescu, Frambach, Singh, Rangaswamy, Bridges, 2011) thus relies on managerial perceptions (Copacino, Byrnes, 2001) of trust, threats to current levels of trust from competitors as well as the changes in inter sectorial formats of retailing across grocery segment. Yet negligible research has been conducted in variations in trust building across the divergent retail formats.

Trust dynamics across physical retail formats (supermarkets, hyper marts and value stores) are driven by site specific investments in human asset (Handfield, Bechtel, 2002). Grocery retail across online formats is yet to be a viable business in Indian context (Chowdhury, 2015).

Conclusions and Suggestions:

Irrespective of the platform, trust building is essential to enable the supply chain to drive value from the business model. Whether it is a business model in physical retail based store or the e commerce based business model, the ability to build and sustain the "trust" of customers; is certainly the driving force and a key differentiator. The competitiveness across retail sector is immensely beneficial for the end user yet the scenario is beneficial till the cartels are regulated well. Innovations in retail business models could be

the result of engrossed entrepreneurial action or the adaptation of local retailers or kiranas to the stand as local differentiator or a part of big player's ingredient supply chains.

Trust as an intangible asset influences the working of supply chains, business model viability and survival of firm alike. The trust as the binding factor owes a lot towards making a competitively sustainable strategy. But trust building requires personal touch across the supply chain because trust building is not mechanical yet human oriented in nature. It requires ample time as well as psychological directions to weave the fabric of trust and make the supply chain respond to trustworthy relations across the chain.

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