

Supermarkets/mom and pops battle in emerging markets

September 21 2015

A study of early-stage supermarket adoption in India finds that upper and lower middle class consumers are most likely to favor new, modern groceries while the "middle" middle class is more likely to patronize mom and pop "kirana" stores, a phenomenon illustrated by an unusual V-shaped curve for modern retail adoption, according to a new study published in *Marketing Science*, a journal of the Institute for Operations Research and the Management Sciences (INFORMS).

The large size of the lower [middle class](#) means they will drive growth more than the upper middle class, the authors find. The results point to a strategy for companies planning to open supermarkets in emerging markets, and for mom and pop stores playing defense against modern grocery retail. The results also suggest that online retail may gain share among the middle-middle classes.

Early Adoption of Modern Grocery Retail in an Emerging Market: Evidence from India is by Vishal Narayan of the National University of Singapore Business School, Vithala R. Rao of the Johnson School of Management at Cornell University, and K. Sudhir of the Yale School of Management.

Rapid globalization over the last two decades has led to fast growth and rising incomes in many major economies across Asia, Eastern Europe, Latin America, and Africa. The resultant growing middle class in these countries has served as an impetus for the entry and growth of modern retail in many markets.

The authors, who conducted research in Mumbai, find that upper middle class preference of modern retail is driven by greater variety, credit card acceptance, shorter distance to reach stores, and higher vehicle ownership.

Lower prices and low travel costs drive the preferences of the lower middle class.

Upper and lower middle class shoppers prefer branded categories more than perishables at modern retail, they find.

The middle-middle cares less about higher-end services, greater variety and lower prices offered by modern retail. This demographic is very sensitive to higher travel distance. Importantly these customers prefer the credit and home delivery offered by the kirana stores.

Although the upper middle class has more income, the authors write, supermarket retailers should aim at the bottom tier that, because of its size, accounts for 42.7% of modern retail revenues, the biggest slice of the pie.

"Interestingly," says co-author K. Sudhir, "the lower middle class share of modern grocery retail's revenues is largest, and this share is projected to grow as prices fall and store density increases."

If prices fall by 20%, the authors find, the proportion of income from this lowest tier would further grow to more than half the market, 51.6%.

For the more affluent, upper middle class, the market share would increase more modestly, from 29.2% to 30.6%, if travel distance, the most important factor for this demographic, is reduced by 20%.

The major strategic implication for retailers entering this market is to

focus on satisfying lower middle class shoppers because of their current proportion of retail spending and their potential increase if retailers lower prices.

"In terms of the four P's [of marketing], price is therefore more important than place in expanding revenues for modern retail with their largest share segment," the authors write. Up to a point, modern retailers can attract this segment better with lower prices rather than making large investments in opening more stores to improve access."

When opening stores, , the authors recommend that modern retailers prioritize opening stores in upper middle class neighborhoods to satisfy the upper middle class preference for nearby stores, with the understanding that lower middle class shoppers are willing to travel farther to buy groceries at bargain prices.

In drawing consumers from kirana stores in this early stage of modern retail, they also advise modern retailers to boost revenues from existing consumers by lowering prices and offering more variety rather than improving store ambience or offering potentially expensive services.

The good news for the kirana stores is that their value proposition of offering credit and home delivery remains attractive to the significant middle-middle class consumer segment and they can hold onto these customers until modern retail density increases to a level where purchase distances are small.

The paper's results also suggest that the home delivery services of online retail may help capture share among the middle-middle class, especially those who don't care about retail credit.

The authors examined primary household-level panel data on grocery purchases in India's largest city, Mumbai. They replicated the key results

by through additional surveys in Mumbai and a second large Indian city, Bangalore.

More information:

pubsonline.informs.org/doi/10.1287/mksc.2015.0940

Provided by Institute for Operations Research and the Management Sciences

Citation: Supermarkets/mom and pops battle in emerging markets (2015, September 21)
retrieved 26 April 2024 from <https://phys.org/news/2015-09-supermarketsmom-emerging.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.