

MICROFINANCE PUSH

Twist in retail tale: Kiranas partner giants

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IT'S a nagging, almost decade-old doubt that has kept foreign direct investment (FDI) in retail at bay: will the entry of Big Retail hurt the six million kirana stores? As the nation grapples with the question, a series of interesting pilot projects are demonstrating how the giants and the dwarfs can co-exist, and even fuel each other's growth, thanks to a little help from microfinance institutions (MFIs).

Biggies like Wal-Mart, Metro Cash & Carry and the Future Group have forged partnerships with microfinance and financial institutions to sell merchandise on credit to rural kiranas. The MFIs not only provide credit, but also double up as valuable intermediaries that collect orders from the kiranas, source the merchandise from big retailers and deliver it at the kirana's doorstep. What's more, the MFIs do not charge any interest on the credit extended to the kiranas. Instead, they receive a commission from the retailers, for whom this is a small price to pay in order to win new markets and grow faster.

While Metro has been running a pilot with SKS Microfinance in Hyderabad for a few months now, the Future Group has just inked a similar deal with SKS. Bharti Wal-Mart, an equal joint venture, has a partnership with Kotak Mahindra Bank for cards that offer ready credit to the kiranas. RPG-controlled Spencer's Retail too is keen to explore such opportunities.

If these experiments click, it could enable large retailers to pry open vast rural markets, help kiranas become more efficient in their sourcing, give consumers the benefit of lower prices, and build a thriving retail ecosystem where the lambs can indeed sleep with the lions.

It might also soften the resistance to FDI in retail. If kiranas are empowered to source more effectively, they may be able to co-exist meaningfully with organised retail if and when FDI is opened up. Though foreign retailers are allowed to set up cash-and-carry formats, FDI is not allowed in supermarkets, etc.

"This will open up a completely new rural distribution model and help us in understanding rural consumers," says Future Group CEO Kishore Biyani. "This is probably the first time the Indian retail sector is targeting the rural market in such a big and strategic way."

Future Group has started to sell staples, dry groceries and FMCG products through SKS's network to some kiranas in the North, including a few in the National Capital Region. It also plans to supply its bouquet of private label products through this network. **'Partnership a win-win one'**

IT'S a win-win partnership as we can use our sourcing strength and SKS's huge network of kirana clients to supply products to them at competitive rates. Eventually, we can include other products as well," says Biyani.

SKS provides interest-free working capital loan to its kirana clients. The kiranas use this to purchase their inventory from Metro and Future Group at wholesale prices. The loan amounts range from Rs 5,000 to Rs 25,000. SKS, in return, receives a fixed commission from Metro and Future Group for the total purchases a kirana makes.

"Kiranas access superior quality products at very reasonable prices, delivered right at their store, thereby increasing their productivity," says SKS Microfinance COO MR Rao. SKS has 2.72 lakh kirana store owners as its customers (4% of its total of 68 lakh members). Industry estimates suggest that only 35% of the 6 million-odd kiranas in India are properly serviced by consumer goods companies and distributors. The remaining 65% is serviced by a multi-layered distribution network that is often inefficient, but still adds a substantial amount to the product cost.

German wholesaler Metro Cash and Carry India plans to scale up its Hyderabad pilot nationally soon. The company is also helping rural kiranas with tips on effective use of working capital and strategies to serve their catchments better. "We could have launched this as part of our CSR programme, but we chose to make it a part of our core business plan as the potential is huge," says Metro Cash & Carry India director (customer management) Ajay Sheodan.

Kotak Mahindra and Bharti Wal-Mart have rolled out a “business card” which offers credit to kiranas starting from Rs 8,000. The credit is free of interest for 14 days after the purchase and an interest rate of 1.5% per month is charged after that. Kiranas are now making transactions ranging from Rs 15,000 to Rs 1 lakh on this card.

Kotak Mahindra Bank executive VP and head (credit cards) Subrat Pani says the customer acceptance for this lowticket working capital funding is growing on a daily basis. “We have around 700 members from Amritsar and Chandigarh. Within six to seven months, we have been able to drive almost 9-10% of the total sales at Bharti Wal-Mart. This could potentially go up to 12% in the next three months,” he says.

Enthused by these initiatives, RPG Group vice-chairman Sanjiv Goenka says Spencer’s Retail will also study such possibilities. “Any new model which expands penetration is good for the industry,” he says.

However, Retailers Association of India CEO Kumar Rajagopalan responds cautiously. “The real potential for modern retail lies in the top 100 cities. Some companies may be experimenting on newer models, but we need to see how much business it can generate,” he says.



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