

The challenges of servicing low-volume mom-and-pop shops

Tielman Nieuwoudt explains why supply chain experts and pan-African marketers can't afford to ignore traditional mom-and-pop retail outlets.



SERVICING MOM-AND-POP shops with low volume and limited space is difficult and often expensive.

But these traditional retail outlets also have a unique understanding of local consumer preferences and, for neighbourhood consumers, they can provide value not always matched by large retailers. Their demise will take some time, even with the growth of modern trade in emerging markets.

Mom-and-pops, or micro-retailers, are known by many names in different parts of the world: 'kirana' in India; 'baqala' in the Gulf; 'sari-sari' in the Philippines; 'duka' in East Africa; 'spaza' in South Africa; 'souk' in Ethiopia; and 'tiendita' in Mexico.

The World Bank estimates that there are close to 400-million micro, small and medium enterprises (MSME) in emerging economies, both in Africa and elsewhere. For example, there are 12-million in India alone and they account for almost half of all grocery sales.

What are micro-retailers? Definitions can vary, but they are often classified as enterprises employing fewer than four people, with a monthly turnover of



> *Shops are usually small, ranging from 25-50 sq m*

less than US\$2 000 a month. They are generally independent and stock a small selection of products or stock-keeping units. They may trade out of fixed locations such as shops, or from mobile locations such as roaming street hawkers. Shops are generally small, ranging from 25 to 50 square metres.

Working with small retailers in emerging markets presents certain difficulties. The following are some factors for marketers and supply chain teams to consider when dealing with micro-retailers.

LIMITED PURCHASING POWER

They have limited cash flow and purchasing power. For cash flow, they often tap into personal savings or reach out to family members. To manage their cash, they prefer to buy smaller quantities and often don't qualify for minimum drop sizes set by delivery companies.

POOR PRODUCT VISIBILITY AND LIMITED SPACE

Shops tend to be poorly lit and have limited shelf space to stock and display products. Placing equipment such as coolers or promotional and point-of-sale material can be challenging.

HARD TO INTRODUCE ADDITIONAL BRANDS

Micro-retailers stock limited brands per product category – often two to three. With constrained purchasing power, they are hesitant to tie up their

limited cash with slow-moving products. Convincing shopkeepers to purchase additional brands is therefore difficult – especially new and untested products in the market.

NEED FREQUENT DELIVERY

Many small groceries run out of stock regularly. They often need high-frequency delivery – in some cases daily. Low-volume drop sizes increase the cost per delivery, resulting in them being unprofitable outlets to service.



▲ The World Bank estimates that there are close to 400-million micro, small and medium enterprises (MSME) in emerging economies, both in Africa and elsewhere. They will typically employ fewer than four people and have a monthly turnover of less than US\$2 000

OUTLETS MAY BE HARD TO REACH

Many micro-retailers are in hard-to-reach areas and congested urban centres. In some cases, vehicles can't enter small narrow streets – delaying sales teams, which sometimes need to travel on foot to reach outlets.

UNREGISTERED AND UNDERSERVED

Many owners don't register their shops to avoid paying taxes. Furthermore, the lack of street signage in some emerging market locations makes it difficult for companies to assign them to formal delivery routes. As a result, micro-retailers often remain underserved, leaving this important retail base to informal distributors and wholesalers.

RELIANCE ON WHOLESALERS

Micro-retailers frequently make use of wholesalers or distributors to break bulk into smaller and more affordable quantities. These wholesalers and distributors will also provide credit when required. Smaller quantities are more economical in some respects, but the shopkeepers often end up paying higher prices because of their low

volumes. Consequently, mom-and-pop stores may become stuck in a credit-trap with one or two wholesalers, which makes shopping around for the best deals difficult.

LACK OF MARKET INSIGHTS

Not all mom-and-pop stores are created equal. New shop owners often don't have the market knowledge to purchase the right product categories and varieties. Poor purchase decisions frequently lead to a low return on investment – tying up limited cash in slow-moving items.

SURVIVALIST BUSINESS MODEL

Circumstances and economic conditions sometimes push people into entrepreneurship. They frequently operate in weak social networks and have limited collaboration with other retailers. Mom-and-pop shops therefore struggle to compete against more organised groups, which can purchase in large quantities and qualify for volume discounts. Many of these 'survivalist' businesses consequently fail, making companies reluctant to work with outlets of this kind.

RISK OF COUNTERFEIT PRODUCTS

Traditional traders are susceptible to purchasing counterfeit and substandard products, as they often don't deal with manufacturers directly. They sometimes lack the knowledge to identify counterfeit and expired products – creating a health risk for consumers at the bottom of the income ladder.

CRIMINAL GROUPS AND OFFICIAL HARASSMENT

Micro-retailers also face harassment by criminal groups such as the 'Area Boys' in Nigeria. These groups control certain areas and extort money from micro-retailers. Furthermore, hawkers often complain about police harassment and the confiscation of goods. In some cases, police officers might consume their products without payment.

THE MANY ADVANTAGES OF MICRO-RETAILERS

Even considering all the challenges and cost implications, companies are looking at the traditional trade with renewed interest.

Modern trade has been growing steadily, but mom-and-pop shops still have a lot to offer and they continue to have the largest share of grocery sales. This is because micro-retailers provide a unique value proposition for their customers. They mostly can't compete against modern retailers on price, but there are many areas in which they are very competitive. Among these are the following:

➤ *Micro-retailers offer clients a unique selling proposition*

CLOSE RELATIONSHIP WITH THEIR CLIENTS

Shoppers often complain about the 'cold' service they receive from supermarkets. In contrast, mom-and-pop shops have typically known their customers for years and have a good understanding of their needs and preferred products. Their customer knowledge also makes it easier to extend short-term credit without risking bad debt.

DELIVERY TO YOUR DOOR

In many countries, shoppers can order from mom-and-pop outlets by phone and there is no minimum value for phone-in orders. They will usually deliver the smallest item swiftly to the customers' door at no extra charge.

LOCATION, LOCATION, LOCATION

Micro-retailers are physically well positioned for shoppers to do small top-ups – in some cases daily. They are situated on commuter routes and close to shoppers' homes. Even with higher

prices than formal supermarkets, they provide value as customers can save on transport costs.

WELL STOCKED AND FLEXIBLE

The most successful stores are often well-stocked and have a high percentage of first-tier brands available. Shopkeepers are flexible when it comes to meeting customer needs and will happily stock products upon request. As they trade seven days a week, including evenings, they are ideal for customers topping up on essential goods.

IN TUNE WITH CUSTOMER NEEDS AND PREFERENCES

Modern retail practices, such as artificial colouring of vegetables or in-store ripening of fruits, are often at odds with the preferences of more traditional customers. Small grocery stores are sensitive to customers' needs and will avoid retail practices that clients are uneasy with.

AFFORDABLE SMALL-PACK SIZES FOR STRUGGLING CUSTOMERS

They frequently offer more affordable small-pack sizes to cash-strapped shoppers – such as small plastic bags of rice or sugar – rather than the standard manufacturer pack sizes.

In emerging markets, companies such as Coca-Cola and Unilever have built their distribution systems around micro-retailers, and an increasing number of other major companies are developing distribution models to service traditional traders.

Corporates have realised that it can be a competitive advantage to develop a successful business model to service mom-and-pop shops – and a major contributor to their organisational growth.

FURTHER INSIGHTS ON TRADITIONAL TRADE:

Retail trade is often divided into two categories: 'modern trade' such as convenience stores, supermarkets



PHOTOS: SHUTTERSTOCK VIA THE SUPPLY CHAIN LAB, WIKIMEDIA COMMONS, DISCOTT VIA WIKIMEDIA COMMONS

and hypermarkets; and 'traditional trade' such as micro-retailers or mom-and-pop stores. At the Supply Chain Lab we group emerging market countries into four categories:

'TRADITIONAL THEMBA'

Predominantly traditional-trade markets with less than 10% sales contribution from modern trade retailers. Countries in this category include lower-income nations in Asia – such as India and Cambodia – and a large percentage of African countries, among them Nigeria and the Democratic Republic of Congo.

'AWAKENING ALICE'

In this category modern trade is starting to increase its market share, with local and international chains gaining a foothold in the country. Modern trade's share of the market

may range from 10%-30%. Countries include Angola, Kenya and Indonesia.

'GROWING GILMA'

These are markets where retail is in transition, with modern trade's share of the market ranging between 30%-50%. Countries include Argentina, Brazil, Venezuela and Thailand.

'PREDOMINANT PING'

These are markets where modern trade is well established and has a larger than 50% share of retail sales. Countries include South Africa, Mexico and China. ■

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➤ Many micro-retailers are in hard-to-reach areas and congested urban centres. In some cases, vehicles can't enter small narrow streets, meaning deliveries must be done on foot or by bicycle