

# The supermarket industry in sri lanka



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The supermarket industry in Sri Lanka is set out for an explosive growth in the recent years this is with the western lifestyle of modern Sri Lankans where convenience is a key benefit sought after.(Perera 2006) The traditional grocery store concept has been evolving in to a " Mega Stores" and the heavy discounter concept which carry all the goods shoppers want (Stanton 2007). If we look at the drivers for the evolution of modern supply chains, or " Modern Trade" they have been persistent in increase demand for value added consumer products, convenience food, beverage, and frozen confectioneries.

" The emergence of supermarkets, urbanization, income increase, high quality retail export markets, high quality bulk procurement, trade agreements, with other countries, increased migration of Sri Lankan citizens and increased female participation in labor force have created a new demand pattern, shifting the focus towards continuous supply of high quality, value added products with improved processing, packaging and labeling" (Samarthuga A 2006 15).

Sri Lanka is an agriculture base country primarily it has 2 million hectares or 30% agricultural land, and almost 75% of the agricultural land is under small holdings and the balance is under estates. Sri Lanka Imports 65000 MT of diary commodities mainly FCMP and diary therefore seen and instrument to replace, and about 70% of the contribution to the livestock subsector comes from chicken, meat and eggs (MOLARCD 2010). This agricultural and farming industries leading to backward integrations with grocery industry which has influence the above " Mega Stores" concept and consumer products FMCG, and convenience food and frozen confectioneries which have shown huge

potential in becoming one of the lucrative industries encouraging large corporate players JKH investing in this area.

Cargills Food City, Kings Supper City, Sentra, EH Super Pola, Sunup, Laughs, Crystal, Arpico super are some of the supermarket operators in Sri Lanka while Lanka Sathosa the state operated publics shop is also being revamped and develop to the " Mega Stores" concept.

### Company Background

JayKay Marketing Services (Pvt) Ltd. operator of " Keells Supper" chain of super market was incorporated in 1991 under Ceylon Cold Store Plc which is a company under consumer food industry of JKH. Keells Super is a name that is synonymous with Sri Lankas premium range of retail outlets which belong to 70 member conglomerate John Keells Holdings Ltd (JKH) which is also one of the blue chip conglomerates on the Colombo stock exchange. JKH is also the first Sri Lankan company to obtain a listing abroad and is quoted in the Luxembourg stock exchange. Group's diversified companies have offices spread around Sri Lanka as well as the Maldives, India, Mauritius, Singapore, UK, USA, and the UAE. (JKH Sustainability Report 2009, 2010)

## **Retail/**

## **Distribution**

**Jhon Kells Foods India (Pvt) Ltd**

**Kells Food Products Mauritius (Pvt) Ltd**

**Ceylon Cold Stores Plc**

**Kells Food Products Plc**

Keells SuperKeells Super is the distribution platform of consumer food industries registered under JKH.

Figure 01

JKH

## **Consumer**

## **Food**

## **Industries**

Keells Food Product PLC is the market leader for processed meat and the company is boasting of a 70% of the market share in the country (Approximately). A subsidiary of JKH, KFP PLC started its operations in 1983 and is responsible for the development of processed meat industry of the country. Always keeping abreast of the industry through strategic investments in state of the art food processing technology and constant R & D orientation, companywide quality control system such as ISO 22000 certification, which has transformed the KFP PLC to the market leader it is today.

KFP PLC engages in manufacturing a range of products these include processed meats and crumbed products as well as the sale of raw meats. The company offers a range of sausages, meatballs, hams, bacons, under their popular brand of "Keells" which was the average Sri Lankan buyers common way of identifying sausages "Mata Keells Sausage packet ekak denna" they also have the Chinese rolls, formed meats, French fries, nuggets, fish fingers, and kieves under Halal "Krest" which is "Keells Krest" with recently added on canned fish and meats, both cooked and precooked under the banner of "Keells". (JKH PLC N A)

Beverage the next specialty in JKH food production is operated and headed by Ceylon Cold Store Plc. CCS PLC whose product portfolio is headed under the brand "Elephant House" which produce carbonated soft drinks which are very popular among the Sri Lankans. EGB the natural ginger beer, Cream soda, Orange crush, Orange barley, Lemonade, Necto, Soda, Apple soda, Dry Ginger, Ale Tonic, Caffeine based wild elephant (energy drink) and blue fountain bottled drink water under the name of "Elephant house".

CCS PLS is also the house for production of one of the country's leading brand of ice cream under frozen confectioneries. "Elephant House" range of ice creams, chocks, cones, pops together with their other produce are popular brands both in Sri Lanka and in Maldives.(JKH PLC N A)

Keells Supper is retailer the supply chain which links their unique range of product with powerful brand equity to the consumer making the JKH consumer foods & retail industry a power house. Together they have received prestigious awards such as prestigious industrial Excellence award –

Gold award for manufacturing large category. National Productivity Merit award. SLIM-Nielson Peoples award 2009- Most popular FMCG Beverage brand of the year.

Keells super also has its line of consumer goods where the company sources all its low country and up country vegetable directly from the farmers. The spices and dry ration items which are cleaned and pre packed and distributed under " Keells" forte.

Kells Supper has 45 retail outlets strategically located in urbanized and semi urbanized around the companies metropolitan cities. The supermarket chain use advance state of the art systems like Motorola MC3000 mobile computers for maintaining inventory with time saving and efficient stock reconciliation. Bar-coding, loyalty cards to retain customer loyalty. Enterprise resource planning (SAP) Customer relationship management (CRM) SMS alerts for key performance indicators (KPI)s all with ambitious effort to be the premium supermarket in the grocery or " Mega Stores" industry.

Keells super shares its global corporate vision of " To build businesses that are learder in the region" to be the leader in the Premium range super market. (KS 2010)

Economic Value Statement for 2009 10

## **Rupees in Million**

**For the year ended 31st March**

## **Consumer Foods & Retail**

2010

2009

## **Direct Economic Value Generated.**

### **Revenue**

16, 318

14, 483

### **Interest Income**

14

11

### **Profits and sales and other Income**

298

322

16, 630

14, 816

(Figure 02) (JKH Sustainability Report 2009, 2010)

The External Environmental Variables that affects the Industry.

In business strategy the process of scanning the environment of a business with three main types of logical environments which includes Natural environment, Social environment, and Task environment with Macro- forces, and Micro-forces, is required for strategy formulation. Macro- environment which is the social environment in the environment scan is with four main

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general forces that do not directly touch on the short term activities of the organization. These are Political, Economical, Sociocultural, Political – Legal which is commonly known as PEST analysis.

#### Societal environment

Is mankind's social system that includes general forces that do not directly touch on the short-run activities of the organization that can, and often do, influence its long-run decisions. These factors affect multiple industries and are as follows.

Economic forces – that regulate the exchange of materials, money, energy and information

Technological forces – that generate problem solving inventions.

Political – legal forces – that allocate power and provide constraining and protecting laws and regulations.

Sociocultural forces – that regulate the values, mores and customs of society.

(Wheelen Hunger 2010)

In analyzing the macro-environment, it is important to identify the factors that might in turn affect a number of vital variables that are likely to influence the organization's supply and demand levels and its costs (Kotter and Schlesinger, 1991; Johnson and Scholes, 1993).

(Figure 03)



The one of the main factors that would affect the consumer food and the grocery industry would be the Economic forces.

Economy forces. As Sri Lanka has ended a thirty year old ethnic conflict with liberating the north and east of the country from the rebel activities, country is spear heading to a rapid development of infrastructure with, adding more kilometers to the road network and expanding them, with new second international harbor in Magampura Hambanthota District south of the country commencing its operation last august. The second international airport also will be set up in the south Hambanthota district which would facilitate international trade. A new location with a strategic importance for the company has been open with the north and east being liberated. The company's retail outlets have the opportunity for expansion. North and east are also famous for its down country vegetables such as onions, betel leaves, spices, and for fish, lamb meat, prawns and crabs, fruits like grapes which would help the consumer food supply chain. (www. priu. gov. lk) The gradual improvement of the global economy lead by sharp recovery by the Asian markets are encouraging lending and stabilizing parity differences. However recent indicators show a sharp decline in consumer spending power due to constant inflations prevailing company will have to watch out for these.(AR CCS 2009 10) Recent Tsunami which hit the north eastern coast of Japan, and political unrest in the middle eastern countries would also affect the economy of Sri Lanka which is a small open net oil importing economy as oil price have already being increased by the global market increasing the local fuel prices.

Political forces Political uncertainty has been ruled out with both the Presidential and parliamentary elections coming to an end bringing stability to the economy politics and political instability prevailed. (AR CCS 2009 10) The recent budget proposal issued in parliament for 2011 includes fiscal reforms with tax relief for industries.(www. news. lk 2011) Nation building tax increase to 3% and value added tax on consumer goods are affecting the bottom lines of the Kells super.

Technological forces. Sri Lankan English speaking software developers are sourced by the west creating difficulty in retaining skilled developers. Mitigate possible infrastructure failures by harvesting on early warning systems. Encourage the management of the company to source where possible for open source software as to counter the affect of the increasing cost of licensed software. (AR CCS 2009 10)

Porters approach to industry analysis

## **Potential Entrants**

## **Industry Competitors**

## **Rivalry Among existing firms**

## **Buyers**

## **Suppliers**

## **Substitutes**

Threat of new entrants

Bargaining power of Suppliers Bargaining power of Buyers

## Threat of Substitutes

(Figure 04)

Threat of New Entrants will add new capacity also the new entry would have a desire to gain market share and substantial resources. In this case the core retailing activities of Keells Super, centers around a large volume of consumer goods produced by the Consumer food industry of JKH (KFP PLC and CCS PLC) which has high brand equity. Convenient food industry in Sri Lanka are highly saturated specially the processed meat industry, Carbonated beverage, and cold confectionaries except for the recently liberated areas in the north and east. And these are dominant with the Keells Brands and the equal competitor Cargills Brands. The Keells super product range is backed by both KFP PLC and CCS PLC's immense production capacity which is catering for the international market as well hence their economies of scale could be considered very high. The Keells Super is also equipped with the range of products from the convenient food to cold food, canned food, carbonated beverages, and cold confectionaries items, and is backed by the high level of aggressive advertising providing high level of product differentiation. The capital requirement to put up state of the art retail shopping outlets will be relatively high the backward integration it has with its production and packaging line up makes it impossible for a new entrant to come up with equal capital investment. Switching cost of the products available in Keells Super may be considered as easy for they are consumable and convenient food items, but brand equity of Keells Super may challenge this position. Access to distribution channels could be considered low as the Keells Super has on 46 super markets compared to its competitor

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Cargill's. But Keells Super can increase its distribution since it's backed by JKH one of the biggest companies in Sri Lanka. Cost disadvantage for new entrants against Keells Super will be high independent of its size since many of the product portfolio Keells Super distributes are in the Super brand category in the island and in Maldives hence if not for a multinational company with high brand equity globally a local new entrant will be less effective to impact on Keells Super.

Rivalry among existing firms for Keells Super could be considered high especially with its number one competitor Cargill's Food City who has outnumbered Keells Super with its island wide distribution network 200 supermarkets. And also others medium scale competitors like Laughs and Arpico who are rapidly adding capacity and expanding number of competitors for this industry could be high. Rate of industry growth is matured and saturated (apart from the new market in the north and east) for Keells Super with increase price wars between the main competitor Cargill's which is more evident with the new Keells Super tag line "lower than the lowest price" in order to break the perception of high prices. Most of Keells Super product characteristics would put one or the other as a commodity since they have been in the market for the last 20 years and they are popular brands among the consumers. Keells Super is active in high information analyzing with constantly monitoring its key performance indicators, also its production line up consider optimization and cost reduction by increase productivity and minimizing waste reducing and adjusting and setting off the fixed cost as possible. Capacity increase is possible for Keells Super if required for the north and east new markets but

existing capacities of keells could service through these markets. Exit barriers are not high in the grocery industry as any retailer could easily sell of its business to another operator. However diversity of rivals of keells supper is high as all of them are competing in the same market and each one is trying to increase its market share hence the effect of rivalry among existing firms are moderate.

Threats of substitute products. This is possible since Keells Super sell FMCG's and competitors could substitute these products, however the competitor might have to out run the keells supper brand equity and the production capacities which renders benefits of economies of scale. Also with the value engineered state of the art production facilities which is backward integrated to the keells super, supermarket range. Keells super high quality standards maintained with compliance to SLS and ISO 22000 and ISO 9001 will render it difficult to substitute hence the threat could be low.

" When we ask consumers what they would do if the brand they are looking for is not available 65 percent said they will go to another shop" ' says Dwight Watson, Ac Nielsen. (LBO 2005)

Bargaining power of buyer's keells super is the distribution net work to the end user, since industrial sales are handled under a different section, and from keells supers point of view a buyer like medium scale caterer or an hotelier would be bulk purchaser for quantity price discount. Buyers will not be encourage to produce FMCG as they are freely available and lot of substitutes would also will be there. For the convenience food in local contexts we will have more than one to two supplier hence if not keells super

buyers would have alternative suppliers. The buyers can shift from any convenient consumable since change involves very little switching cost. With this the buyers bargaining power to push prices down for Keells super would be low they sell FMCG products and these have very low margins and high brand equity which makes buyers willing to pay.

Bargaining power of the supplier appears to be high for keells supper since they are core industries and premium brands are specific about their supplier and quality of the item. It could be observed that there had been times in the process meat and dairy products industry the local supplies have not been adequate and the companies had to import the material to supply the current demand and high cost was absorbed by the company. This is common to agricultural products since they could go out of produce.

Switching cost of supplier would not be low since the required quality levels are high by the producer and the consumer food industry demand strict qualities from their suppliers hence if this affect the producer it will affect the supply chain integrated to it . Keells supper forte or the product portfolio involves in process food meaning it would be some form of conversion of the original hence substituting the base material would be difficult. Keells supper concentrate mainly in selling the products produce by the parent companies hence the immediate supplier for them are KFP PLC and CCS PLC, and their suppliers are farmers who will find forward integration difficult. And in terms of volumes purchase by the super market they are large hence Keells supper and KFP PLC and CCS PLC has the ability to bargain as a buyer with their supplier this will indicate that amazingly for keells supper product line up

supplier bargaining power is relatively high since it affect the bottom lines of their integrated producer.

### SWOT Analysis

Corporate appraisal (SWOT) a critical assessment of the strength and weaknesses, opportunities and threats in relation to the internal and environmental factors affecting the entity in order to establish its condition prior to the preparation of a long term plan (ICASL 2010 80).

Opportunity Looking at economic value indicator for the 2009-10 though retailer has not performed to the expectation the modern supply chain and consumer food industry together have archived their expectations compare to last year. This has been because of the gradual improvement of the global economy in the year concerned with sharp recovery of the Asian markets improving the free movement of commodities. Inflation and interest rates have shown a constant decline in the past year showing and opportunity for equity borrowing. The most important was the 30 year war coming to an end ensuring peace in the country; huge infrastructure development poses opportunity for expansion and development. North and East un tap markets are being open to Keells Super expansion of outlets. On the other hand new sources of fresh supply and live stocks to the supply chain of Keells Super. Both presidential and parliamentary elections are behind us ensuring greater political stability encouraging investments. New budget proposal indicates tax relief for year at hand. And tax exception for industrial plants, expand into Maldives, Seashells, as a Retail outfit.

Threats the global catastrophe affecting the north eastern coast of Japan and the political unrest effecting the Middle Eastern countries will affect the global economy at large. Rising fuel cost will increase production cost of Keells Super and their supply chain. Imitations threats, Parity differences are affecting the raw materials imported to the company. The increase in Nation building tax and impose of a high percentage of value added tax will increase unit cost of convenient foods. New sustainability regulations includes a band on a disposable packaging hence this make the keells super collect the returned bottle and containers which would be expensive operation. Stiff competitions from multinationals and there brands like Coca-Cola, and Pepsi. Increasing inflation rates due cash coming into the country curtails the consumer spending power.

Strengths Companies quality policies GRI global reposting initiative will help improve capacity of the company and encourage investors. SLS complaisance and ISO 22000 and ISO 9001 will increase sales in the new regions in the North and East. Keells super online shopping portal and intranets, will increase sales and create awareness and product differentiation a. Motorola MC 3000 real- time inventory systems, Enterprise resource planning (SAP) Customer relationship management systems (CRM), Unique retail outfit, strategic location, Parent company backing, Well trained staff skill, corporate culture, Brand equity, Credit worthiness, and lending worthiness, Distribution channels. Profit share schemes for collective bargaining with non executive staff for high performers, Ability to introduce sub-brands, Ability to tie up with multinationals. Efforts to reduce energy consumptions and carbon foot print.



Weakness Customer perceived image of premium pricing, high quality requirements, complex vertical decision-making, high plant depreciation, maintenance cost, Limited supplier base, limited distribution in other parts of the country apart from western province, concentration on domestic market segment alone. Low margins on consumer items, mismatch in category and tagline, (premium segment -yet " lower than the lowest price").

### Porter's Generic Competitive Strategies

Michael Porter proposes two " generic" competitive strategies for outperforming other corporations in a particular industry: lower cost and differentiation. These strategies are called generic because they can be pursued by any type or size of business firm, even by not for- profit organization.

Should we compete on the basis of lower cost (and thus price), or should we differentiate our products or services on some basis other than cost, such as quality or service?

Should we compete head to head with our major competitors for the biggest but most sought-after share of market, or should we focus on niche in which we can satisfy a less sought-after but also profitable segment of market?

(Wheelen Hunger 2010)

## **Generic Strategy**

### **Keells Super**

#### **Cost leadership**

#### **Differentiations**

#### **Focus**

#### **Entry barrier**

#### **Review reveals high**

**O**

**indicates broad mass market.**

**T**

**indicates cost leadership would not be ideal**

**O**

**Indicates broad mass marketing strategies.**

**T**

**Indicates lot of challenges for cost leadership**

**S**

**Suggest Keells may be better adapting differentiation as the best strategy since they have the ability build unique brands and high brand value.**

**Revelry among existing firms**

**Review reveals Moderate**

**OS Strengths and Opportunities of Keells super indicates supermarkets high quality standards and advance technology could continue to build strong brands like ” Keells sausages ”, ” Elephant House cream soda” which would counter competitor cost leadership.**

**Threat of substitute**

**Review reveals Low**

**OS Strengths could build unique products and also and range and variety which would build strong brands and stronger brand loyalty countering the threat of subtitles and with increase capacity and availability to reduce the substitutes.**

**Buyer power**

**Review reveals Low**

**S Strengths indicate product differentiation and strong brands would increase buyer loyalty**

**Supplier power**

**Review reveals high**

**WS Weakness and strength indicates by adopting differentiation strategies high supplier power effects could be control by transferring the additional cost on the product and charge a premium price on a power brand resulting brand loyalty lowers buyer’s price sensitivity.**

**Review in green indicates the Keells high competitiveness in porter’s five forces**

**Review in orange indicates the Keells Moderate competitiveness in porter’s five forces**

## **Review in red indicates the Keells low competitiveness in porter's five forces**

(Figure 05)

### Conclusions and recommendations

Looking at the Porters approach to industry analysis it is clear that " Keells Super" competitiveness in the industry is considerably high since three out of five f forces for being competitive are in favor of the company, being a Entry barrier, ability to face the substitute challenges, and having supplier bargaining power on a manageable levels increase the competitiveness of the supermarket chain, further the rivalry among competitors being moderate, with suppliers bargaining power needs to be address as issues for competitiveness of the firm.

Being competitive and looking at the best competitive strategy by looking at the SWOT analysis it is evident that opportunity are opening up for Keells Super for expansion and increase of market share indicating best approach would be aim at a broader target a mass market strategy best suits as opposed to a focus.

Hence Cost leader ship, and differentiation competitive strategy appears to be suited better, looking further at the SWOT Keells Super has a considerable threat for having and maintain a cost leader ship with supplier high bargaining power, commodity and raw material price increase, sustainability investment cost, and imitations coming into the market, having economies of scale is not so promising with rising energy prices, indicates best competitive strategy for keells Super would be Differentiation.

Looking further into the analysis proves that this competitive strategy could be best approach to retain competitiveness of other forces, since keells super can and has build unique brands which have high brand loyalty giving them big margins on brand equity. This would enable them to be on control of substitutes challenging its position, and increasing brand loyalty among customers who will not be price sensitive, giving keells super the ability cover supplier cost increase on increased margins.

#### Risk of differentiation

Keells Supper should watch out for cheap imitations which would damage its brand image, and keells should always maintain the extra value buyers paying for. The differentiation strategy must ensure that hire price charged on the buyer for its high quality is not too far above than the average premium price of the competition. If not buyers will not see the extra quality as worth the extra cost.