
Developing food retail for low income people in Egypt

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Key Words

Food Retail, Low- Income, Egypt, food retail, inclusive market initiative

Abstract

This is a case study of an Egyptian company in the food retail business which originally started selling to high income people which helped build up its resources and management system .Later on, as a result of the owner's orientation shift the company started going into the area of serving the food retail needs of low income people .The case is part of a series of cases that was developed under the auspices of the UNDP Growing Inclusive Markets' Initiative. This paper presents the shifts in the company business model and its implications.

1. Introduction

As part of the United Nations Millennium Development Goal UNDP, a UN affiliated agency, has introduced the Growing Inclusive Market Initiative to carry out that goal .The philosophy of this initiative was that poor segments of the population of any country represent a great potential market that is still untapped. All is needed is to develop the appropriate strategies and to overcome the obstacles that prevent the poor from entering the formal market channels of the country either as producers or as consumers. Figure 1 presents the strategy model used by UNDP in this regard. The details of this approach were published in a UNDP publication (UNDP, 2008). The obstacles mentioned in the model are typical of developing country situation and to overcome them the business firm needs to adopt a different business model that often involves cooperation with other players in the market such as the government and NGOs. The model involves active participation from the poor community and it has a significant sustainability dimension. This paper is based on a case study that fits this model (Youssef, 2010)l.

2. The Egyptian Setting

Egypt has a population of over 85 million people, forty percent of which are classified as poor or near poor living on 2 dollars a day or less. Since the mid fifties the government has gone through several types of economic systems trying to achieve development and to fulfill the aspirations of its people .Initially and until the mid seventies the country followed a socialist model. More than 80 percent of business activities, including foreign and local trade were in the hands of the government. Food prices were subsidized and government-owned cooperative stores were the dominant player in the food retail business. As events unfolded and due to unbearable strains on the government budget and bureaucratic inefficiency the socialist model proved unsustainable.

This is why the government in the mid seventies adopted the free market economy as a new system. The purpose was to encourage foreign investment and to invite the private sector to share in the burden of economic development. Private capital started exploring opportunities of investment and the government was keen in supporting this effort through different kinds of incentives.

2.1 Food Retail in Egypt

Until the late 1990's Egypt did not know the modern super market concept. There were a number of large department stores existing at the time which belonged to the public sector but did not carry food items. Market channels at the time consisted of a number of private wholesalers as well government agencies which imported food items in bulk. Main staples such as grain were the domain of the latter group or its agents. The food retail sector consisted primarily of small grocery stores spread throughout the country in addition to government cooperatives which continued to exist to cater to low income people but its influence started to diminish as the economy moved into the free market model.

2.2. The Bureaucracy

The Egyptian bureaucracy is one of the oldest in history .Its size is huge employing over 6 million people but is also highly inefficient and can represent an obstacle towards any new initiative. The new free market orientation adopted in the late seventies involved removing many of these obstacles. Traditionally Egypt ranked low on the well- known Business Environment Index but has improved its ranking lately. A number of efforts undertaken by the government which helped along these lines were adopting e-government, simplifying tax structure and government procedures in general.

2.3. Corporate Social Responsibility

In general business people are attracted to market opportunities which provide them with high profit margin and low risk .In food retail this entails selling products with well known brands. In other areas such as housing it will involve selling expensive housing units where the buyers can afford to finance their purchases. This orientation to serve the rich is a worldwide phenomenon which has left billions of poor people unattended to. This problem has baffled administrators, officials, authors, business people as well as international agencies. On the part of business people they have in many cases tried to deal with the business side and the social responsibility (SR) side as two separate issues in order not to confuse their focus. For example, SR can be handled through philanthropy. According to this view, most Egyptian business people prefer to contribute to charitable activities and do not worry about incorporating SR in their business model. One deficiency of this approach is that there are many instances whereby business firms actually abuse the environment as well as consumers so long as their conscious is clear through contributing to charity. However, the end result is leaving the poor outside the market system and his conditions continued to deteriorate. This is why the UNDP has introduced the concept of the "Bottom of the Pyramid" or the "All inclusive markets" approaches, which center around the idea that the poor represents a huge untapped market that is waiting to be exploited provided the proper business model is adopted.

3. The Case Study

The first successful supermarket chain in Egypt called "Metro" started in 1998 by the Mansour Group, a wealthy family which prospered under the newly adopted free market system and was able to obtain several licenses and international agency relationships. However, the new chain catered to the rich and its items were mostly imported and had well known brand names. While Metro catered to the rich the majority of the population resorted to the small grocery stores with the poor relying on informal peddlers selling their items in the streets with minimal hygiene which posed health hazards. Specifically in 2005 Mr. Youssef Mansour the CEO of Mansour Group was attending an international conference on sustainability and was deeply affected by the concept of corporate social responsibility. This is when he decided to

open a parallel food retail chain that serves low income people and he called it “KheirZaman: (KZ). The philosophy of Youssef Mansour was expressed as follows: *“We believe in giving back to the community as part of being responsible and as being an asset to the development of our country .We also believe that the private sector and the civil society have to cooperate with the government in order to solve all the country’s social issues and economic problems .It is not only the government’s responsibility: rather is a shared one between all of us in the community.”* (Mansour, 2005)

3.1 Social Responsibility

What helped the Mansour Group in its new orientation is that the owners are environmentally and socially conscious right from the start .So ,when KZ was established company environmental issues were well taken care of under the management of the high-income -oriented Metro chain .In this regard The company had received several certificates and international awards in this area .For example ,the company used gas-operated trucks ,stores’ design and structures provided protection against insects and food contamination. There were also high standards of hygiene applied throughout the company premises

3.2 The Business Model

The business model adopted by KZ was more or less based on UNDP “All-inclusive markets “business model presented in figure 1.In carrying out that model the newly established food retail chain capitalized on the resources and capabilities of the already existing food retail “Metro” which catered to the well to do(Figures 2&3). In that sense market entry was not as prohibitive as if it was just starting from scratch once the company decided to venture into the low-income people it had to adapt its already existing strategies in order to deal with the government and market constraints in addition to developing a product and service strategy suitable to this new market segment.

Even with improvements undertaken in the government system dealing with the bureaucracy in getting necessary permits required skills and connections which were acquired during the formative years of establishing the METRO Chain. So, once KZ was established these learned skills were applied to the new line of business.Both .KZ and Metro stores rely on a common administrative infrastructure which helped to reduce per unit cost.

3.3. Suppliers

One of the major market constraints was finding suppliers that suit the new market segment of low income people. The new company established product and packaging standards that were presented to potential suppliers who did not have well known brands but were eager to deal with a well established company. These suppliers were also asked to abide by a strict delivery schedule to assure product freshness and availability.In dealing with the new chain suppliers was assured of steady large scale deals, prompt payment and improvement of service, quality and management system as a result of dealing with a large corporate entity.

3.4. Resources

The company capitalized on its already existing resources in terms of modern storage facilities and trucking fleet to help save on shipping and storage cost. Seeking products with no well known brands but with acceptable quality combined with its existing storage and trucking facilities enabled the company to achieve economies of scale at low margin but with reasonable total profit.The company’s supply chain management relied on an up-to-date IT systems where the stores, the warehouse, the procurement department and the suppliers are all linked together. On a daily basis the stores submit their needs for the following day to the procurement

departments which classify them, add them all up, send orders to suppliers and inform the warehouse of expected deliveries. Once they arrive warehouse personnel check the items for specifications, packages, freshness, expiry date and general appearance.

3.5. Marketing

In food retail the values expected by customers include accessibility, price, product quality, variety, package, freshness, and hygiene and staff availability. These factors were applied equally to both the high income retail store "Metro" as well as to the low income retail store "KheirZaman". However there were differences in the approaches used. So while in the former case promotion was subtle and relied mostly on the store image in the latter case promotion campaigns were used frequently and with visible striking impact such as having big signs throughout the store. Product quality is good within its price range and most of the products are local with less known brands. At the end the customer feels he is getting value for his money. Since products are mostly local their packages, while pleasant, are modest in comparison with the more expensive items. Staff wear a uniform made of modest but good looking fabric and they are well trained on the issue of freshness. Shops are located in low income neighbourhoods where rental cost and land prices are low.

4. Discussion and Conclusion

This case is illustrious of a large corporation which can deliver value to limited income people once it realizes their economic potential. This requires that the company should have the proper value system in addition to the proper internal capabilities that help achieve efficiency. These capabilities were developed earlier in serving high income bracket consumers. Due to its success the company plans to expand KZ into the rest of Egypt. They are projecting a total of 200 stores. Also, the company is considering the introduction of a new chain that caters to even lower income groups located in remote areas.

One of the criticisms addressed to using supermarket chains in poor areas is that they may destroy the traditional corner grocery stores. However, studies show that the retail market in Egypt is so huge in that it can accommodate everybody. Furthermore the company avoids conducting its business in an intimidating way but rather keeps in mind the welfare of others as well. It avoided acquiring existing stores but preferred establishing new ones. One of the most significant impacts of the new chain is its developmental effect on suppliers. Company data shows that small suppliers constitute about twenty per cent of its total suppliers. Their informal practices were inconsistent with the requirements of a large corporate entity like KZ. They suffered from inconsistent quality, poor packaging, unreliable delivery and operating outside the tax system. KZ has helped to change all that through establishing high standards for business deals. Relationships with all suppliers are contractual with clearly spelled out responsibilities. Due to important ramifications on company commitment to customer service any violations of contracts are detected, warning is issued and corrections are monitored. To help suppliers improve their performance advice is given on a case by case basis.

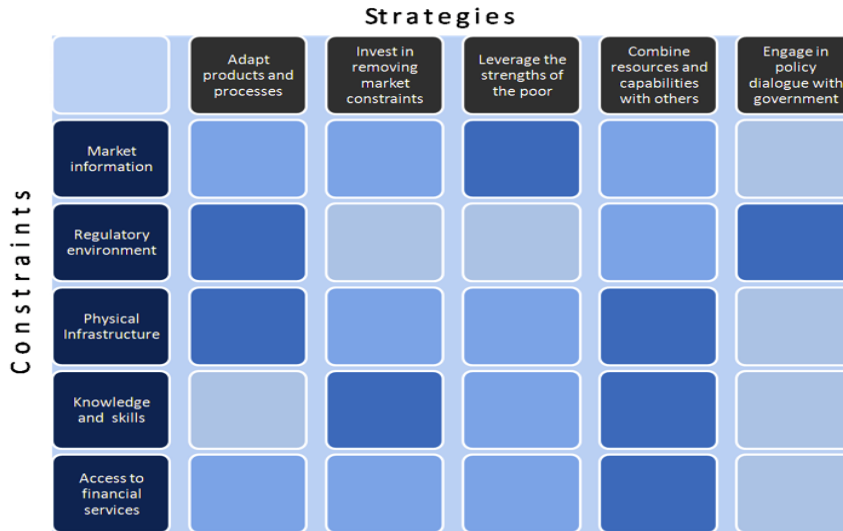
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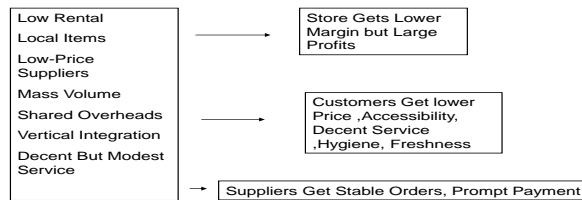
UNDP (2008),"Creating Value for all: Strategies for Doing Business with the Poor, Growing Inclusive Markets."UNDP Publications, New York, N.Y.

FIGURE 1



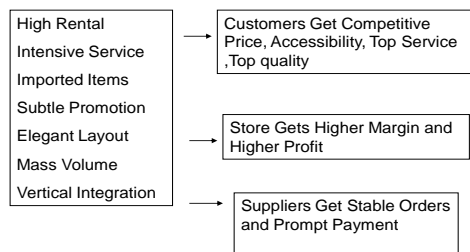
Growing inclusive markets model - the strategy matrix

Figure 2



Finance Model And Value Package Kheir Zaman

Figure3



Metro Finance Model and Value Package