100 Years of Price Leadership:
from Ford Corporation to "2 Nabiji"

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Doing a Business follows the laws, which are universal, like the laws of Nature. Like the Law of Gravity is universal, business models can also be universal despite the differences in time and sector. For example, what similarity may exist between the introduction by Henrey Ford of assembly line in automobile industry in early 1910s and the establishment of grocery retailing chain "2 Nabiji" ("2 steps") in Georgia exactly 100 years later? The answer is: the similarity in operational models, which in both cases are based on achieving cost leadership [1] in their respective industries.

To summarize the innovative approach to organizing the operations (or manufacturing management, [2]) of Ford Motor Company back 100 years ago by inventing an assembly line, the following factors have mainly contributed to drastic reduction in manufacturing costs:

- Empasis on a single product
- Savings on operating costs
- Reduction of inventories
- Own sources of raw materials

To compare the operational model of grocery retailing chain "2 Nabiji" (which operates more than 500 retail stores in Georgia) [3], we will see the noticeable similarity with the factors mentioned above:

Table 1

Ford Motor Company	2nabiji.ge
• Empasis on a single product • Savings on operating costs • Reduction of inventories • Own sources of raw materials	• A single (or a few) product(s) in a category • Savings on operating costs • Reduction of inventories • Own label products/own sources of imports

Below is the description of what impact this operational model has on cost savings and how these cost savings are achieved:

Table 2

	Factor	**Impact on cost savings**
2nabiji.ge	• A single (or a few) product(s) in a category	• Bigger discounts from suppliers
	• Savings on operating costs	• Small-size stores/limited number of personnel
	• Reduction of inventories	• Smaller working capital
	• Own label products/own sources of imports	• Sacrificing the intermediate profit margins

Such operational model results in the lowest gross profit margin, but the highest operational efficiency compared to the industry, as will be shown below.

Firstly, let's compare the gross profit margin of "2 Nabiji" to that of the leading industry players [4]-[10]:

Table 3

Ranking by Revenue	1	2	3	4	5	6	7	8
Brand Name	**Nikora**	**2 Nabiji**	**Carrefour**	**Magnit**	**Spar**	**Agrohub**	**Goodwill**	**Fresko**
Year	**2024**	**2024**	**2024**	**2024**	**2023**	**2024**	**2023**	**2024**
Revenue *(Amounts are in '000 GEL)*	**1,451,046**	**1,355,580**	**789,080**	**728,799**	**556,211**	**317,991**	**185,646**	**98,200**
Cost of Sales (COGS)	(1,031,193)	(1,112,099)	(620,498)	(588,974)	(419,901)	(237,763)	(145,622)	(74,423)
Gross Profit	**419,853**	**243,481**	**168,582**	**139,825**	**136,310**	**80,228**	**40,024**	**23,777**
Gross Profit Margin %	*29%*	*18%*	*21%*	*19%*	*25%*	*25%*	*22%*	*24%*

As can be seen from the table above, "2 Nabiji" has the lowest gross profit margin compared to the leading industry players, which indicate on the lowest price policy of "2 Nabiji" despite the bigger price discounts received from suppliers. The weighted average gross profit margin of the industry equals to 23%, which is much higher than that of "2 Nabiji" with its 18% gross profit margin.

It is interesting to note that only two grocery retailers, namely Nikora and "2 Nabiji", exceeded the threshold of GEL 1 billion in terms of annual revenue. To be more specific, both retailers' annual revenues are about GEL 1.4 billion, as shown in Table 4 below.

Table 4

Ranking by Revenue	1	2
Brand Name	**Nikora**	**2 Nabiji**
Year	**2024**	**2024**
Revenue *(Amounts are in '000 GEL)*	**1,451,046**	**1,355,580**
Cost of Sales (COGS)	(1,031,193)	(1,112,099)
Gross Profit	**419,853**	**243,481**
Gross Profit Margin %	*29%*	*18%*
Net Profit	**33,523**	**51,539**
Net Profit Margin, %	*2.3%*	*3.8%*

It is even more interesting to note from Table 4, that even though Nikora has much higher gross profit margin compared to that of "2 Nabiji" (29% vs. 18%), the net profit margin of "2 Nabiji" is much higher than that of Nikora (3.8% vs. 2.3%). Such a high profitability of "2 Nabiji" is explained by its high operational efficiency based on the factors described in Table 2 above. Namely, the operating expenses of "2 Nabiji" is only a half of that of Nikora (see Table 5), even though the number of stores operated by "2 Nabiji" is only 16% less than the number of stores operated by Nikora (529 vs. 634 by December 31, 2024). Such operational efficiency is explained by smaller sizes of stores (due to limited variety of products) and smaller number of personnel needed to operate these stores.

Table 5

Brand Name	**Nikora**	**2 Nabiji**
Year	**2024**	**2024**
Revenue *(Amounts are in '000 GEL)*	**1,451,046**	**1,355,580**
Operating Expenses	(348,361)	(169,317)
Operating Expenses, %	24.0%	12.5%

The higher net profit margin is also explained by the lower net finance costs, which is the result of smaller working capital as described in Table 2.

The financial results of 2 leading grocery retailers are summarized in Table 6, which shows the effect of completely different operational models employed by these retailers:

Table 6

Brand Name	**Nikora**	**2 Nabiji**
Year	**2024**	**2024**
Revenue *(Amounts are in '000 GEL)*	**1,451,046**	**1,355,580**
Cost of Sales (COGS)	(1,031,193)	(1,112,099)
Gross Profit	**419,853**	**243,481**
Gross Profit Margin %	*29%*	*18%*
Operating Expenses	(348,361)	(169,317)
Operating Expenses, %	24.0%	12.5%
Operating Profit (EBIT)	**71,492**	**74,164**
Operating Profit Margin, %	*4.9%*	*5.5%*
Net Finance Costs	(35,378)	(11,191)
Profit before Tax (EBT)	**36,114**	**62,973**
EBT Margin, %	*2.5%*	*4.6%*
Tax expense	(2,591)	(11,434)
Net Profit	**33,523**	**51,539**
Net Profit Margin, %	*2.3%*	*3.8%*

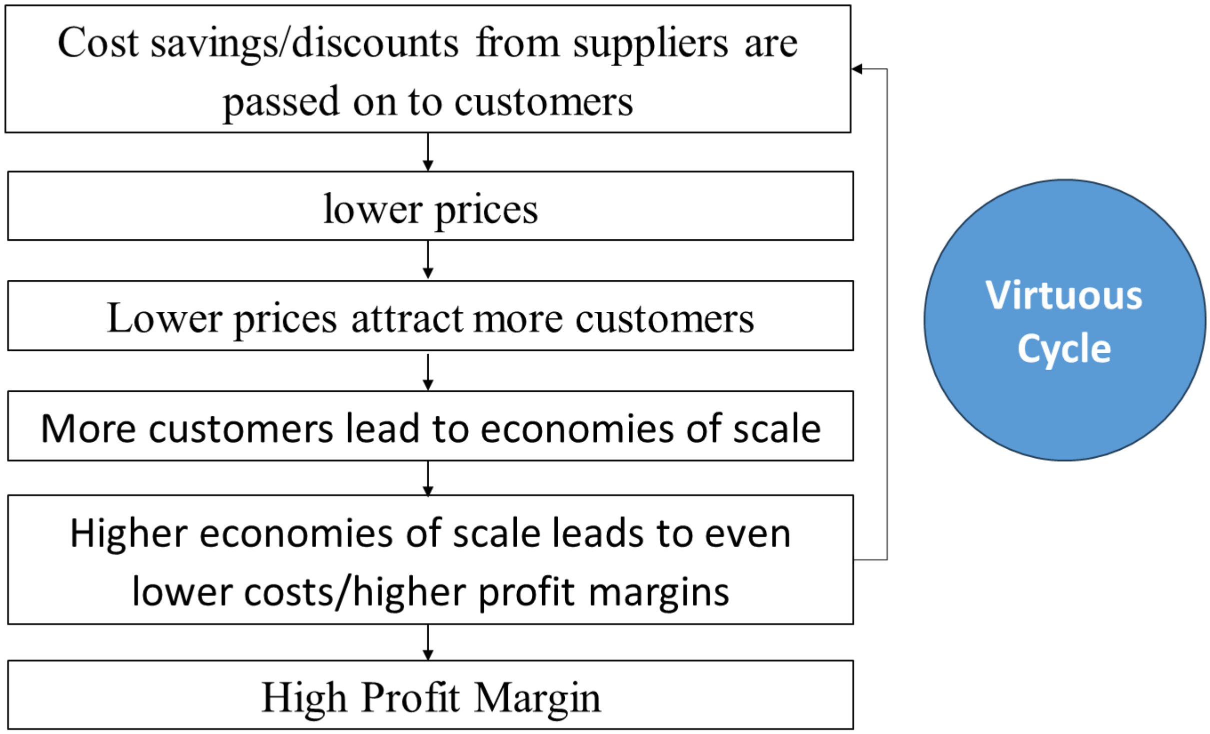
The impact on selling prices of the factors described in Table 2 is summarized below:

Table 7

Cost saving factors	**Impact on prices**
• Bigger discounts from suppliers	**-5% / -10%**
• Small-size stores/limited number of personnel	**-15%**
• Smaller working capital	**-3% / -5%**
• Sacrificing the intermediate profit margins	**-7% / -10%**
The total effect on selling prices: -30% / -40%	

It can be seen from Table 7 that the total effect of the operational model of "2 Nabiji" on selling prices is about -30% / -40%, which differentiates it from competitors by its low prices. That means that in the business model of "2 Nabiji" the operational savings/discounts from suppliers are passed on to customers. Lower prices attract more customers leading to economies of scale. Economies of scale means a lower cost per unit sold, thus increasing the profit margin. This explains the high profitability of "2 Nabiji" despite its low selling prices. Thus, the virtuous cycle is formed. This concept is summarized in Figure 1 below:

Figure 1



The virtuous cycle shown in Figure 1 explains the high profitability of "2 Nabiji" despite the low-price policy offered to consumers. This makes the operational model of "2 Nabiji" to stand uniquely on Georgia's grocery retailing sector.

The advancement of digital platforms (online ordering and delivery services) in grocery retailing allows for further reduction in operating costs and lowering selling prices even more (by about additional 10%), which opens an opportunity window for the existing retailers/new entrants to competitively position themselves in Georgia's grocery retailing sector. This concept will be explained in our next article.

References

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