

Mixing the right retail cocktail

RETAIL! Retail! Retail! Why is there so much talk about this industry, which is probably the oldest business known to mankind? I presume it's because the man behind the counter is no more a traditional *baniya*, but a tie-clad business graduate. The *baniya* is no more borrowing from the *sahukar*, but from the venture capitalist and the foreign institutional investor (FII). Calculations no longer depend on the mind, but on the microchip. The retail ethos has moved from 'the customer is God' to CRM (Customer Relationship Management).

Against this backdrop, I would like to look into the 'Indian retailing evolution' in the last decade and try to see if I can trace its path and examine what it will translate into in the future. And in order to do this, I will look at the four elements of successful retailing. In fact, these ingredients have been the same for centuries and are:

- Location and the space in the shop.
- Merchandise and merchandise management.
- People and service.
- Customer and customer relationship.

Location matters, but...

Location is always important, but if the other three elements of the retail mix are taken care of, location becomes incidental. I remember the time we wanted to start the first Shoppers' Stop at Andheri in Mumbai. Everybody told me that in the last few decades any shop that had opened on 'the other side of the flyover,' had failed. Today, ten years down the line all the shops that have opened on S.V. Road in Andheri are on the so-called 'wrong side of the



Pic: Shashi Ashwal

flyover'. When we opened our second outlet, in Bangalore next to the football stadium on Magrath Road, the road did not have street lights and we were destined to be doomed, or so everyone said! The Bangalore Shoppers' Stop has turned out to be the most successful retail store in the

country. With LifeStyle opening next to our store and two more malls/shopping complexes under construction in the same area, the pundits are talking about 'catchment' and 'location'. I remember being taken to a lane in Meerut, to visit the best jeweller in town, where even a

car could not enter. Expecting an old shop, I was surprised to see the most modern, Westernised jewellery collection in white gold. Even today the best silk sarees are bought at Rukmini Hall in the Chickpet locality of Bangalore.

World over, malls are being con-

structed at out-of-town locations and the area is then transformed into a destination. How else will one ever create shopping destinations when no city in the world has the space to build anything in the heart of the town? A classic example is the shopping destination at Lille on the bor-

der of France and Belgium. It has probably one of the largest multiplexes (23 screens) in the world and every store from Toys 'R Us to Carrefour has a presence there. On a Sunday one can spend 20 minutes finding parking in a parking lot with space for 4,000 to 5,000 cars!

The Government and real-estate developers need to have the vision and the guts to create shopping destinations. Only then will the retailers – small and big – get together under one roof and create retail locations. **Location is not just what you get, but a combination of what you get and create.**

With high-street residences getting converted into commercial premises, I won't be surprised if India has an Orchard Street soon. Linking Road in Mumbai will, in the next two years, turn into a 5 km high-street from Tressorie at one end to Turner Road at the other end where Watches of Switzerland and a new Shoppers' Stop store have opened. In fact, in the last two years, close to ten residential premises have given way to retail properties.

With more and more malls under construction, quality retail space is coming up in locations ranging from Indore to Jaipur and Mumbai to Kochi. These malls, which cover anything from 1,50,000 sq ft to 5,00,000 sq ft, are going to provide Indians with multiple choices of multiplexes, food courts, small shops, anchor stores, department stores specialty stores such as candle shops, *yoga* shops and so on.

The Indian consumer will get a cinema ticket on call, a restaurant table without waiting, choice of garments and lifestyle stores in abundance; all at price points from the lowest to the

top-end of the scale. With all these brands and malls luring customers we will see a major change in the spending patterns. An increased need for spending will be facilitated by plastic cards. The urge and need to earn more will create further pressure on the earning middle class.

Merchandise management

Merchandise management has evolved in the last few decades the world over. Sophisticated techniques and advanced technology are being put to use to ensure that the merchant understands what the customer wants, the supplier produces that and the customer gets the merchandise of choice. Competition amongst producers, smart marketers and cut-throat competition for market share have ensured abundant variety and depth of merchandise, enough in fact to confuse consumers and make errant retailers go bankrupt. My grandmother will turn in her grave if she comes to know that we spend Rs 40-50 on a packet of biscuits to accompany the morning cuppa or pay Rs 30-40 for a cup of coffee at a Barista cafe. Masala tea was the only variant known; Lux or Hamam was the only soap used; white, cream or blue were the only colour of shirts; khaki and black were the colours for shorts/trousers the British left us with as a fashion legacy. We used coloured cloth to make sarees or a *lehenga*, but never for garments to wear inside and outside; lenses were for the wealthy to correct their eyesight and never a fashion accessory.

With millions of options and billions of SKUs (stock keeping units) for customer choice, the retailer has no option but to increase the size of his shop or change trades or adopt the modern technology-led Merchandise Management System (MMS). This MMS technology comes at prices starting from \$10,000. If we need to use them we need to buy, if we need

A challenge for modern retailers, across the world, is to manage the large assortment of merchandise they stock.



to buy we need to borrow or invest. So, do we have any choice but to have a large turnover that definitely requires large space, because we have a billion SKUs to manage? Don't ask me whether the culprit is the customer and his desire or the manufacturer and his need to produce more and occupy more shelf space.

Today's reality of a large assortment of merchandise is the biggest challenge for retailers world wide. It requires technology and people to manage, with lots of real-life experience of understanding the consumer and his/her shopping behaviour. This is where Indian retailing is going to suffer the most. We do not have the experience of managing large retail formats or complicated supply

chains. Therefore, we will be forced to go through the learning curve again and again. However, the consolation is that every retailer from Wal-Mart to M&S had to go through this learning curve in every country they entered.

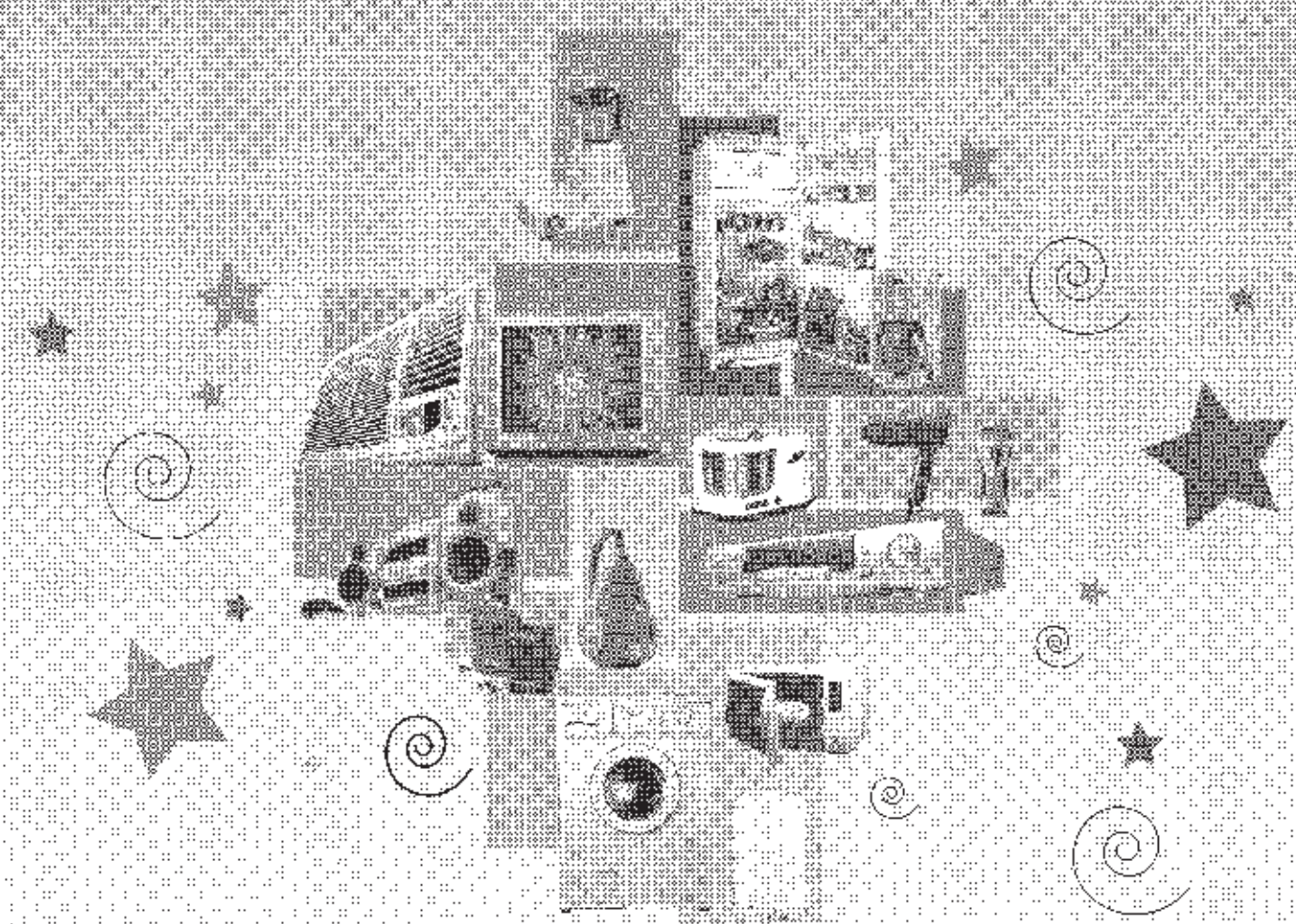
Large retailers such as Shoppers' Stop and Globus have adopted modern technology such as JDA, while Pantaloon uses BAAN and FoodWorld has its own sophisticated systems – all geared up to take on the challenge of managing large SKUs. We all have Ferraris ready, but where are the drivers?

The pains of ERP implementation can never be underestimated. That is the reason you have only two kinds of retailers in the world - ones with the old legacy system and the modern ERP retailers. By the time you make enough money you have such a large number of SKUs and the legacy system that you cannot change. If you are a start-up retailer ready to implement the system, not enough resources are there to invest. And even if you are ready, it will take a long time to get the returns and therefore the investors don't approve of the investment.

Today, the Indian retailer has a limited choice of brands and therefore cannot offer or select a mix that is good for the customer and profitable for him. Inefficiencies in the supply chain, bad roads that lead to delayed supplies or longer lead times are some of the issues when it comes to proper merchandise management. Regulated MRP, high taxation and multiple levels and points of taxation lead to complications or tax evasion at the retailer's end. The value consciousness of the Indian consumer coupled with the low margin of the Indian retailer are in no way helping the Indian manufacturer to upgrade quality and achieve world standards (Caution - China is around the corner).

I remember when we started the

The undisputed leader in consumer durables.



Viveks, the No.1 retailer of consumer durables, had a humble beginning in 1965, selling ceiling fans and radios. Today, if Viveks has 39 showrooms across Tamil Nadu and Karnataka, it is because of the widest range of products at the best prices. And easiest hire-purchase options. And more importantly, the trust and loyalty of its 25 lakh customers. Viveks is where you will find everything from an iron box to a computer. And where value for money and efficient service bring the customers back, time and again.

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INDIA'S NO.1 RETAILER OF CONSUMER DURABLES

Once the mall phenomenon becomes common, brands will compete with retailers in the malls.

source-tagging exercise in 1998 and sent source tags to the supplier. Instead of tagging the garment he put all the tags in the carton marking the carton source-tagged. Imagine our plight when we opened the carton a day before the store opening! Today, 80 per cent of our merchandise is source tagged. Most suppliers would produce through the month, but supply at the end of the month to achieve their monthly targets. As a result our warehouse would be choked for weeks starting with the last week of every month, resulting not only in lower efficiency, but also delayed document processing and delayed payments to suppliers and messed-up cash flows. To regulate that we have invented the 'delivery authorisation' procedures.

Poor information on sales or the absence of organised secondary data leaves the retailer with no choice but to second-guess sales projections or take a gut-feel decision. Accuracy in projections, buying to the projections and managing sales and intake on the basis of the same is the biggest challenge and the key to the success of any retailer. This is a prerequisite to having sophisticated technology for MMS. In the US, Europe and other developed countries, retail sales figures are published every week or every month and therefore the trends are analysed.

It is important to realise that retail sales are used as a major indicator of the health of the economy because



Pic: Shaju John

growth comes out of consumption and consumption is the end result of the retail business. We have enough examples of retail promotions sponsored and supported by the government, whether it is Dubai, Singapore or Malaysia. Let us not forget the words of President Bush or former New York Mayor Rudolf Guliani asking Americans to shop more after the 9/11 disaster.

The Indian Government needs to realise this and lay the right stress on this industry which can help boost

the country's economy. The proof of this statement is the increase in sales tax collections in cities where retail has become organised; while the increased consumption of produce through organised retailers has not had a substantial negative impact on traditional retailers.

Buying to suit the consumers' taste is an art. Managing the supply chain and merchandise inside the store is a science. Both require experience, expertise and technology. India is far behind

and needs to catch up on these.

Retail cost structures in India are similar to those of the Western world, but the retail price and the margin structure are lower by about 10 per cent. For the retail chains to become successful, retailers have to exhibit very high cost efficiency and get higher margins through private labels or greater cash margins by faster rotation and higher throughput. All of which are easier said than done.

The biggest obstacle to retailers'

profitability is the lease or occupation cost that varies between 7 and 10 per cent as against 3-5 per cent in the department store category in international retailing. Retailers are launching private labels and increasingly competing with brands within the store, therefore becoming a threat to the manufacturer brands. Once the mall phenomenon becomes common, brands will compete with retailers in the malls. We are likely to see a situation in the next few years where there will be a major conflict

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between the brands and retailers. I therefore see a great need for a partnership programme between the retailer and the manufacturer wherein both learn to co-exist by offering a different proposition to the consumer.

The manufacturer and the retailer need to sit on the same side of the table serving the consumer on the opposite side. Today, the manufacturer, retailer and consumer are on three corners of a triangle pulling at each other.

Investing in people

We all know that there are close to five million retailers and approximately 15 million people working in this industry. People are the backbone of this industry. Unfortunately the retail industry has been in the hands of small entrepreneurs, where the son joining the family business is almost taken for granted. In the process the largest industry in the country remained unorganised and unrecognised, and hence did not get the status required for young men and women to take up a retail career and feel proud of their profession. The hotel industry went through the same phase some 15-20 years ago. Expansion of organised retail will open up employment opportunities for a large number of undergraduates/graduates from middle class families. For instance, in Shoppers' Stop we have approximately 1,400 employees directly employed and



Pic: Bijoy Ghosh

perhaps another 500 indirectly employed. If we take the employment generated by us at the manufacturers' level it will add up to another 1,000-plus employees. Similarly, the FoodWorld chain has generated more than 5,000 jobs directly and indirectly. Such is the power of retailing and the opportunities it can create in the country.

People are the backbone and the service delivery in the business starts from the attitude, skill and ability to deliver the service. The biggest challenge the organised retailer in India faces is getting trained manpower. If retail is recognised as an industry and private organisations and the Government start more retail courses, we will see a large number of students at the undergraduate level taking up retailing as a career. Retailing not only provides employment, but also brings in the service culture in society, which in turn has an impor-

tant bearing on the development of the country. For example, Singapore retailers insist on a certification for prospective employees, who have to pass a weekly/monthly exam administered by the Singapore Retail Association before they join the retailer. It brings in standardisation, builds confidence in the employee of his/her abilities and helps the retailer get people who have chosen retail as a career.

I know of cases where retail employees left us because the prospective in-laws did not approve of a salesperson as a groom. A very bright salesperson left us and joined a door-to-door selling organisation where he was designated Sales Executive. Labour laws that do not permit flexible employment options or broad-banding of employment also bind retailers. Retailers cannot employ housewives for a few hours without getting into the various pro-

visions of the Provident Fund, Employees State Insurance and so on.

Growth opportunities for employees are important to build social status and acceptability. Today, Shoppers' Stop alone has provided many senior management employees to the industry. Imagine what will happen when the big daddies of retailing enter India. Retailers need to expand and grow, and the industry has to grow to provide opportunities.

It is important to be profitable or have enough resources so one can expand. This is a chicken and egg situation and the only solution is for serious long-term players with deep pockets to enter the industry. This is another area where the Government needs to provide impetus by encouraging investment in this industry. Retail can be a bigger and more profitable business than the much touted Information Technology (IT) industry.

We have the largest consumer base and the manpower to be employed. Increased investment in retail will happen through property development, which will help infrastructure and further employment at a mass level in the construction industry.

Wooring customers

If any country has the required consumers in quality and quantity it is India with its consuming class. The Indian consumer has gone through major changes in mindset and the process and speed of this change is unbelievable. In 1994 we were finding it difficult to sell Lakme and Tips & Toes nail enamel and lipsticks for Rs 25-50. Today, the lady is willing to spend even Rs 200-500 for the same thing. Women are spending Rs 500 to Rs 5,000 for a single sitting at a beautician's. Even today the Indian shopper is the highest spender in Singapore and the UK, with a recent study showing that he/she tops the list even in Australia and New Zealand. Recently, we at Shoppers' Stop had a couple from Ratnagiri who came and bought jewellery worth Rs 2.25 lakh in 30 minutes! As a retailer this was a revelation to me. The Indian consumer is a new breed with great affinity to Western fashion, is influenced by the international media and at the same time expects the value for money and level of service offered by traditional Indian retailers. With this kind of a background it is not surprising to see major changes in the retail industry.

For instance, Bata and Carona were the leading retailers of footwear, but today's footwear retailing expansion and presence is led by brands such as Lotus Bawa, Woodland, Liberty, Florshiem and private chains such as Metro and Regal. Yet no one has been able to replicate the Bata chain. But Bata itself struggles to deliver consistent performance and also faces labour issues, manufacturing problems,

supply chain problems and positioning issues. Similarly, Titan led the watch retailing business, but had to consistently change strategy from high-end to low-end, fashion to mass to sustain growth. The retail arms of Bombay Dyeing and Calico Mills led the early fabric and apparel retailing forays, but today apparel retailing is dominated by branded players such as Raymond and other multi-brand outlets such as Benzer and Jainsons and large departmental stores such



The new Indian consumer has an affinity to Western fashions, but expects the value for money and the level of service that traditional retailers offer.

as Shoppers' Stop, LifeStyle, Westside, Pantaloons and so on. All the large retailers are going through the learning curve while the Indian consumer is chasing convenience, comfort and brands and at the same time not willing to pay too high a price for seeking this value.

Similarly, the Indian consumer durables market is dominated by international retail brands such as Sony, LG and Samsung, which are fighting the battle with BPL, Videocon and Onida. Yet, these durable companies use retail chains such as Vijay Sales and Vivek Ltd and independent retailers such as Sony Mony in Mumbai. This indicates that the customer is looking for choice and wants to see the range before he purchases. The dominance of retail brands also indicates that the retailer is building trust. With the customer becoming more and more important, CRM (customer relationship management) programmes are being organised everywhere. Every consultant and every IT company is hawking CRM software as if it is the recipe for success. I remember talking about CRM on a channel and at the same moment there was a failure in customer service at one of our stores. The customer referred to my TV interview while taking me to task! We retailers are still getting used to a demanding consumer who is realising what his/her rights are.

In the next few years, we will see 'consumerism' set in, with consumers demanding their rights. With such a scenario almost certain, the retailer will have to be prepared and will also demand his mite, while the manufacturer too will have to get prepared for the new breed of retailers and consumers. ■

(The author is CEO and Customer Care Associate, Shoppers' Stop.)