

Megamart's major shift

The chain wants to shed the perception that it sells only old stock at discounts

Raghavendra Kamath / Mumbai September 26, 2012, 0:42 IST

There will be lesser number of banners screaming "Buy three and get one free" at Megamart, the discount chain of textile major Arvind. Reason: Arvind is shedding the discount tag across its 225 stores. Rather, it wants to be a value player in apparel retail like Landmark group's Max stores or Reliance Trends, the apparel chain of Reliance Retail.

There are three reasons for this change.

First, the excise duty of 10 per cent imposed in the FY 2011 budget which has hit operating profits. While discount retailers sell apparel at up to 70 per cent discount, they have to pay duty on the entire MRP (maximum retail price) which has pushed up their costs and hit profits. For instance, if Megamart sells a shirt for Rs 500 which has a MRP of 750, it has to bear the excise duty on the entire Rs 750.

"It is the only logical model to follow once the excise regime has come in," says Sanjay Lalbhai, chairman and managing director, Arvind.

Consultants agree. Says Prashant Agarwal, deputy managing director, Wazir Advisors: "Retailers like Megamart are on discount throughout the year. When you pay excise duty on MRP and sell merchandise on discounts, your profits will decline drastically."

Second, the economic slowdown has also hit discount chains like Megamart, consultants say. "Regular brands and retailers are also extending their discounted sales and offers and giving high discounts which have hit them," says Agarwal.

According to stock brokerage Nirmal Bang Equities, Arvind carried high-cost inventory in the brands and retail division. In addition Megamart, a unit of Arvind Retail, posted a one per cent fall in revenue following which operating margins of the B&R division was subdued at 1.1 per cent in the first quarter of FY 2013, from 6.6 per cent in the corresponding quarter of FY 2012.

Though Arvind Retail's like to like sales growth declined by 6 per cent during the first quarter of FY 2013, J Suresh, chief executive and managing director of Arvind's fashion brands and retail, says the company is seeing much better LTL growth in the second quarter due to its shift and other measures.

Megamart has not been alone is facing the slowdown heat and excise duty impact. While Mumbai-based discount chain The Loot has significantly downsized its operations, other such as Delhi-based Koutons and Cantabil have closed a number of stores due to rising costs and lower offtake, rendering them unaffordable.

The third and "more important reason," as Suresh puts it, is that the chain wants to shed the perception that it sells only old stock at discounts and wants to be seen as a retailer which sells "current fashion and brands at value prices."

So, in order to bring this change, Megamart has stopped giving discounts on brands which it exclusively sells at its stores, but all the merchandise will be in value segment and have fresh stock. The starting price range of shirts is Rs 499 to Rs 799 and Suresh claims the chain sells a shirt at Rs 1199 which a customer can get at Rs 2000 to Rs 2200 apiece in other retail chains.

However, it has continued to offer discounts for brands such as Arrow, Wrangler, Lee which it has been selling for some time.

Already, as part of this experiment, the chain has increased its share of value merchandise at Bangalore stores to 80 per cent from 78 per cent earlier and the share of discount merchandise has come down from 22 to 18 per cent.

Overall, once the transition is complete, the share of value merchandise across stores will go up to 80 per cent, Suresh adds.

Megamart wants to change the merchandise mix at all its stores starting from Karnataka, and then take it Tamil Nadu, Andhra Pradesh and other parts of the country post Diwali.

As part of this change, it is stocking apparel in colour-blocks rather than size wise earlier and the logo was changed recently to communicate the change, he adds.

Many back Megamart's new shift. "It is a good move as value retail is taking off and it is a new concept. We had only department stores or discount chains and nothing in between. It is better to sell at value prices rather than giving discounts seasonally," says Susil Dungarwal, founder and chief mall mechanic of Beyond Squarefeet, and former CEO of The Loot, a discount chain.

"Sale peaks when you give discounts and declines during normal period," Dungarwal adds.

However, Punit Agarwal, CEO of Promart Retail, a Mumbai-based discount chain, says their chain need not go for such shift as they are seeing 10 to 12 per cent growth in sales month on month and plans to open over 40 stores by December.

Agarwal says cash buying from brands which helps better margins and cautious expansion has kept the retailer in good stead.