

The makeover of Promart

The discount chain's new owners are going in for smaller stores, private labels and a cluster strategy

Raghavendra Kamath / Mumbai March 23, 2012, 0:02 IST

They may be the new kids on the block, but Punit Agarwal and Ashish Garg, the current owners of discount chain Promart, say they have learnt lessons from the failures of such deep discounters in the past.

They must have. Otherwise why would anybody buy a discount chain whose original promoters (apparel maker and retailer Provogue) sold it within four and half years after battling high inventories and overheads during the slowdown? Though it planned to open 20 stores, Promart had only two stores at the time of the sale.

The deep discount story in India is full of such examples. While Delhi-based discount retailer Koutons, which has a debt of Rs 600 crore, is undergoing a corporate debt restructuring process, another retailer Cantabil shut over 100 loss-making stores over the past year to stem losses.

The Loot is doing everything from closing stores, cutting orders by half and downsizing staff strength to prevent losses in the current financial year.

The experience notwithstanding, Agarwal says he knows the problem areas and how to fix them. "If you cannot manage inventory, real estate, employees and logistics, you cannot handle retail," says Agarwal who is also promoter of VEMB Lifestyle which is a franchisee of German womens'wear brand Marc Cain in India.

"When Provogue launched Promart, all the three key elements were at their peak and because of this, inventory was on higher side, and slowdown was posing challenges," says Agarwal.

So, as against Promart's earlier version of 40,000 to 50,000 sq ft, the newer stores of the chain are between 2,000 sq ft and 2,500 sq ft, helping the company save capex and inventories. The only exception is its store in Ahmedabad, which covers an area of 12,000 sq ft.

To manage logistics better, Promart is going for a cluster strategy. While the chain retains its stores in Ahmedabad and Vadodara, it is now going to Vapi, Valsad, Navsari, Surat, Bharuch and Anand in Gujarat.

After Gujarat, the chain is looking at tier two, three and four cities in other states to expand its base. The chain which has five operational stores, has signed 27 properties and plans to have a total store of 100 stores by March 2013.

"This way, we can use same truck to supply to all our stores and save on logistics," says Agarwal.

In contrast, Megamart, owned by textile major Arvind, is following the 'hub and spoke' model — two or three stores in a state to drive brand image, setting up neighbourhood stores in tier one cities to provide high accessibility, small stores in tier two and three towns and franchise stores in tier four towns.

Susil Dungarwal, founder of mall management firm Beyond Squarefeet and former chief executive of discount chain The Loot, believes that stock turns are critical element in discount retail. "You should have high stock turns, ideally six times a year, to make the model work," Dungarwal says.

Stock turns mean the number of times stock is replaced by retailer.

To address this, Agarwal says all Promart stores have to clear the entire inventory within three months and cannot send goods back to the distribution centre. The staff is given targets and gets incentives.

Agarwal says the chain's strategy of buying on cash and carry basis has helped it get higher discounts and fresh stock compared to competition. "We have the

right of first refusal. And thus our stores do not become dumping ground for brands," he adds.

Discount retailers normally buy their merchandise from brands after the completion of end of the season sales at 60 to 70 per cent discount and sell them to customers.

But the challenge in discount retail is consistent supply of merchandise throughout the year and higher dependence on brands. In this regard, analysts say players like Megamart are better off as it mostly sells the merchandise of its parent (Arvind) such as Arrow, Wrangler and Excalibur and does not have to depend on other suppliers. To overcome this challenge and drive better margins, Promart is developing private labels Tramorp in trousers and Protis in T-shirts.

Dungarwal, of Beyond Squarefeet has a piece of advice for the budding discount chains: " Don't play the "valuation game" . "Promoters of discount chains thought they will start the business, build it and then sell. The moment you change the game from being a retailer to value seeker, you lose it," says Dungarwal.

Though Agarwal says he and Garg have pumped in Rs 100 crore so far in the business and their existing businesses have been profitable enough to fund their existing business, some retailers say it is a challenging job to run retail profitably.

But Agarwal says Promart has enough corporate sales — Rs 40 crore in the last couple of months — to take care of the plans. The promoters are generating return on investment of six to seven per cent and once they go for a franchise model, they can get better value and scale up business.

He believes the company can break even in the current financial year.