Print This Article

Daily News & Analysis

Tuesday, June 09, 2009 3:37:00 AM

'Mature retailers are still scaling up'

Ashish K Tiwari and Shailaja Sharma / *DNA*

Retail business is a tough game. And retailers are fast realising it. While we saw an established retail chain go kaput, others are scaling up efficiencies and using the recession to their advantage. In conversation with DNA, Pradeep Hirani, chairman, Kimaya Studio, Jay Gupta, managing director, The Loot India Ltd, Rakesh Pandey, chief executive officer, Kaya Skin Clinic, Sandip Tarkas, president — customer strategy, Future Group Ltd and Susil Dungarwal, retail and realty analyst and chief executive officer, Square Feet Management Ltd, discussed the issues, challenges and opportunities before the retail sector. Excerpts:

Are we seeing a revival from April-May?
Susil Dungarwal: The only thing that had changed was the mindset. Our economy was always strong. As far as footfalls were concerned, they were small worry. People are spending, only the avenues must have changed. The corporate worlds saw this as a good time to do cost cutting under the pretext of this issue.

Jay Gupta: In April-May, we did the highest sales at The Loot. On weekends, we clocked numbers that we had never imagined. Recession means we have less money and want more goods, which is our business point. We saw increase in footfalls, and same-store sales (SSS) growth of 25%. In retail, the costs have come down drastically, be it manpower or property. Advertisements have become cheaper, hoardings have become much cheaper. Brand registrations are much higher.

How much have operations costs reduced?
Gupta: More than 25%. Our per square feet realisation for Mumbai is more than Rs 30, it is different for different cities. More than 50% of stores are in 'B' and 'C' cities. In the last six months, we added five departments that did not exist earlier. Some of these departments are training, audit, advertisement, and allocation. Earlier, we were not able to add these departments due to the high manpower costs.

Rakesh Pandey: Coming from the beauty and wellness services, quite honestly, we have not seen a major change. January-March was our biggest period. Some positive movement, as Susil was talking about on the mindset front, has happened. We have not been impacted.

Sandip Tarkas: From January, there were already signs of recovery. Indians are always a cautious lot. The entire value segment has not been hit. A format like Pantaloons is growing handsomely because people want to upgrade, but not necessarily to a very expensive brand. Some categories like mobile handsets, electronics and furniture can be postponed.

Are the new store openings more realistic?
Pandey: At a go we never opened stores together. It is now, because we are making the most of the situation.

Tarkas: The truth is some people have shut stores; there is no denying that, but the sector as a whole is doing tremendously well.

Gupta: Those who have shut down are the people who came into retail only with the business model around IPO (initial public offering), it was never around retail.

Pradeep Hirani: So why didn't they instead of shutting, think of controlling costs and negotiating rents? We negotiated rents across board and got 50% discount.

Gupta: These are the people who came in and changed the game of retail. They started paying Rs 300-400 per square feet. When we said Rs 80, they said Rs 400. Mature retailers are still scaling up. As on date, we have signed 50 new properties and in maximum three months these will be operational.

A lot of noise is being made about presence in tier 2 and 3 markets...
Gupta: We will give consumers apparels and accessories at a discounted price, and we need the mass consumer who is looking at aspirational brands at the right price. So, for us, the small town stores are doing very well, at the same time, The Loot format is managed very well in Bangalore, Pune and Mumbai. For us scaling up is important.

Pandey: In every city, people are aspiring to adopt better lifestyle. That kind of consumer segment is present in every town, and tier 2 is a good market for us. We are operational in Indore already and have just opened a store in Bhopal. We are opening stores in Vizag and Guwahati. We received a lot of SMSes from places we were not present in, many from North East and tier 2 towns.

Hirani: You cannot ignore tier 2 and 3. India is not just Mumbai, Delhi, Bangalore and Kolkata. India has more than 300-400 cities and they are growing like how! This is where the bubble is bulging up. But for luxury, we will wait and watch. Though we are opening in Chandigarh and Ludhiana, we will not go all out in tier 3. We will experiment with tier 2 with smaller formats.

Is value segment a safe zone in retail?
Hirani: Fortune has always favoured the brave. Safe zones are very good but if you believe in the India story then you should not look at safe zones. Else, you will be stuck in that bracket.

Tarkas: As the consumer evolves you need to evolve with the consumer needs.

What are retailers doing to increase operational efficiency and sustain same-store sales (SSS) growth?
Dungarwal: It is an option for retailers to re-look their model, cut rentals, people costs and ad spend. This is time for people to look at small and important things like supply chain management. Every time you are looking at others, trying to copy them and beat that guy. Thinking that the market is bad and that I am not going to succeed is not fair. Half of retail happens on gut. It's that gut feel of an entrepreneur. Every store manager has to be converted to an entrepreneur.

Pandey: I completely agree with Susil. We are in a corporatised business, but one thing we teach our clinic managers is that 'you are the owner'. We ask them to take their own decisions and there is no need to ask us. We empower them completely because we realise that retail business is very different and needs that quality of ownership.

Tarkas: When we appoint a new store manager, he is designated as 'karta', the head of the family. There is a proper ceremony, we put a crown on his head, give him the symbolic key to the store. All this is absolutely vital, because the store manager is the future. As you keep growing, there are so many employees and many departments to take care of them, and you get that much distanced from individual stores. This is where it all helps.

Gupta: In our company, a lot of work was outsourced earlier. Now, we are doing it completely in-house. Be it the architecture, training, marketing, HR—all was outsourced. We took on the franchisee model very fast; it is difficult to get the ownership. A lot of training goes into this. We have saved more than Rs 2 crore by these initiatives. There have been great learning experiences from the franchisee business. We blacklisted a lot of investors, who were not directly driving the stores.

Pandey: To drive efficiency, we launched a programme where SSS are important, capacity utilisation is very important and third focus is on wastage elimination. In the current scenario, employees are also cautious. So, these three have helped drive efficiency. Loyal customers play a big role. There is a lot of potential in that area and we have capacity and we started focusing on loyal customers. There are a lot of relationship management programmes; these have given SSS growth of more than 25%.

Tarkas: In January-October, we had a handsome SSS growth. November-December was not good, but January 2009 onwards we are back on the positive track with SSS growth of 10-11% for Big Bazaar and even higher for Pantaloons. We have grown the organisation in a particular manner, and there was a need to restructure. Growth is continuing and we will continue to expand with new stores opening since we believe in the India story.

Hirani: For us, right merchandising is very important as we live in a highly perishable environment. We have a huge merchandising team and half of them are fashion forecasters. We have tie-ups with 16 Italian companies for their joint ventures and exclusive franchisees.

Real estate prices have seen a correction and 70% of the mall projects seem to be shelved...
Dungarwal: Correction has happened, but quality space is still expensive. We have to quantify it clearly where the prices have come down.

Hirani: How much do you think I pay for my Chennai store?

Dungarwal: Rs 270?

Hirani: Rs 60 (per sq ft). This is how I used recession to my advantage. It was for Rs 300, I got it for Rs 60 on carpet. There is a shortage of quality space, there was a pause, but it is going to restart again.

Dungarwal: Quality space is always going to be expensive. There has been a correction in tier 2 and 3 locations. There has been an over supply of retail and commercial space but in spite of that people who are providing quality space have been able to get the rentals they wanted. High street rentals have not gone down. Mumbai can even now take more 5-6 good malls easily, and good means 1.5-2 billion square feet plus.

Hirani: When Bangkok can do with so many and Singapore can with 40 malls, India can as well.

Pandey: We are seeing some amount of reasonableness in the whole rental market. Earlier the partnership thought did not exist. We had to take a place on rent, earn and pay back. It was a mere transaction. Now, some maturation is happening.

Dungarwal: I think it is the retailer who spoiled the market, not the developer. It was a retailer who went to the mall guy and offered to pay more than his competitor.

Gupta: A lot of retailers got into development. They used to just build up 50,000 square feet and started sub-leasing the space. There are existing models where you don't own the merchandise. You are not buying it and keeping it on a minimum guarantee. You'll find that best of the retailers don't buy the merchandise. It is a property game. Those kinds of formats were getting encouraged and now they are getting discouraged.

Tarkas: We have shop in shops for Central and I don't think we are not retailers. There is revenue-share and pure marketing concepts. We are making sure that the customer walks into the store.

What are your predictions for the retail industry 2 years from now?
Gupta: The government needs to give it an industry status. Tell me one thing that the government has done for the benefit of this industry. They have done everything to destroy it.

Dungarwal: I would say it is better the way it is. The government did not give any support to the IT sector; it grew on its own.

Gupta: They have been saying ‘we’ll remove this tax, that tax.’ Tell me, which tax have they removed?

Tarkas: Maybe, the new finance minister will...

Dungarwal: I would say it’s nice they are not interfering when they start interfering, you’ll say, ‘We were better off before’. I don’t look at a growth of more than 35-40% for the industry that has penetration of 4%.

Tarkas: We might reach 8% in next 2-3 years. 15 years probably is a bit harsh, but maybe 8-9 years is what it will take for a 30% penetration.

What are your predictions for the retail industry 2 years from now?
Gupta: The government needs to give it an industry status. Tell me one thing that the government has done for the benefit of this industry. They have done everything to destroy it.

Dungarwal: I would say it is better the way it is. The government did not give any support to the IT sector; it grew on its own.

Gupta: They have been saying ‘we’ll remove this tax, that tax” tell me, which tax have they removed?

Tarkas: Maybe, the new finance minister will...

Dungarwal: I would say it’s nice they are not interfering when they start interfering, you’ll say, ‘We were better off before’. I don’t look at a growth of more than 35-40% for the industry that has penetration of 4%.

Tarkas: We might reach 8% in next 2-3 years. 15 years probably is a bit harsh, but maybe 8-9 years is what it will take for a 30% penetration.