RELIANCE TRENDS: HOLDING THE MIDDLE GROUND

After a subdued start, the retailer is stepping on the gas and targeting the segment between the premium and the mass end of the market

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PICTURE: SURYAKANT NIWATE

The tag line for the new festive season campaign launched by Reliance Trends says '*sirf dikhne me mehenga*', (it's expensive only by its looks). That just about sums up the brand strategy of the three-year old department chain of Reliance Retail.

The company is also focusing less on TV and more on print ads this time round. The reason, says CEO Arun Sirdeshmukh, is that TV ads are more expensive and the company wanted to avoid that route. He adds, almost as an afterthought, that Reliance Retail believes in the perception of 'drool value' which a newspaper advertisement or a billboard will be able to offer.

Sirdeshmukh says his game plan is clear: "Most brands and department stores are focusing only on the top 10 cities and the top 10-15 per cent of the market. We want to cater to the mid-end which is not tapped properly".

Reliance Trends is focusing on SEC B and C customers who comprise a third of the market. So, half of the 20 new stores the chain is setting up by March 2010 will come up in tier two and three cities. The chain's metro versus smaller cities ratio is 60:40 now; by March next year, it will change to 50:50. The chain, which runs 30 stores at present, wants to grow it four-fold to 120 by March.

"The idea is to have stores in areas which do not have much retail presence," Sirdeshmukh says. The chain already has stores in cities such as Ranchi, Guntur, Belgaum, Patiala among others.

But in non-metros, the share of private brands will be higher than external brands. While in metros, the ratio of external brands to private brands is 50:50, in non-metros it is 75:25.

But competition is tough in the space Reliance Trends wants to operate in. The mid-market has a number of retailers such as Landmark group's Max and hypermarkets such as Big Bazaar and More who sell value products. The newly listed Cantabil Retail is also following a similar strategy of penetrating tier II towns and targeting middle class shoppers. It plans to set up 180 stores in the current fiscal.

So how is Reliance Trends different from other mid market retailers and hypermarkets which also sell basic T shirts at ₹99 and denims at ₹250?

Quality is the biggest differentiator, says Sirdeshmukh. Unlike others, the chain has a team on design, sourcing, quality and product development for its private brands. The quality team checks every product which goes out of the vendors' factories. The team is lead by a former head of Bureau Veritas Quality International (BVQI), an international quality certification firm.

"We are not compromising on quality just because we sell affordable products," the CEO says, adding that the CPH (complaints per hundred) Index in its own private brands is lower than some of the national brands.

He also highlights the inventory management of the chain which is keeping it in good shape. Reliance Trends has inventory turns of four times a year and keeps inventory for 12-14 weeks.

Analysts say lower sales and inventory pile up led to the financial troubles of retailers such as Vishal Retail and Koutons. "In fashion business, you learn what sells and what does not. You have to liquidate and clear the stock. If you do not do it, you are carrying high inventory risks", Sirdeshmukh says.

One way of ensuring low inventory is to have eye-popping freebies. When a person shops for over ₹2000, the customer is entitled to a gift coupon worth ₹1000. If the amount is ₹3,000, the voucher amount goes up to ₹2,000.

So far, so good. But what about profitability? Sirdeshmukh says Reliance Trends is proving to be a profitable business for the group as the stores are already EBITDA-positive and he is confident of achieving break-even at the chain level in the current financial year. "Most of our stores are not even a year old but they are making money. In terms of cash flow, topline and profitability, it is a good story".

Average same store sales, a common matrix in the retail industry, in the first half of the year was at 25 per cent, while same stores are clocking 60 per cent growth, he says. The chain has posted revenues of ₹200 crore in FY 2010 and is expecting to double that in FY 2011 and FY 2012.

But some consultants see problems in Reliance Trends's model and positioning. "They have to sharpen their focus on merchandising, positioning and branding. There is some disconnect between these three factors," says Susil Dungarwal, founder and chief mall mechanic, Beyond Squarefeet, a mall management firm.

While Sirdeshmukh concedes that the company has to improve its product lines to be in tune with fashion trends, he says it is too early to pass judgement on a retail chain which has just completed 30 months.

(with inputs from Sharmistha Neogy and Sohini Sen)