

Planning the retail strategy

Existing lines of business can be extended into the retail sector by conducting a thorough value chain analysis of the business, say **Pankaj Gupta**, practice head – consumer and retail, and **Roopa Tarkhad** of the Tata Strategic Management Group

The fact that large Indian business houses like Reliance, Tata Group, AV Birla, Bharti, Pantaloons, K Raheja and RPG, to name but a few, have all announced mega retail plans is now well known. The theme of this article is to show that it's not necessary that only big businesses, with its access to funding and large risk appetite, will find the retail sector attractive. There are plenty of opportunities for small and medium enterprises (SMEs) to integrate their business operations forward and capitalise on the retail industry's exponential growth story.

Such companies can take advantage of retail business (r biz) in two ways, 1) by identifying niche opportunities that can be grabbed through physical presence or 2) through an online, virtual model that is less asset-intensive and will yield higher returns on capital invested.

The tangibles of touch points

Setting up retail outlets is one form of forward integration that gives a company access to additional customer touch points by way of product sales and after-sales service. Successful retail operations strengthen the company brand and enhance customer loyalty. In the Indian context, there have been several examples of SMEs who sensed a retail opportunity and came up with innovative business models that were eminently successful.

The Amalgamated Bean Coffee Trading Company (ABCTCL) today is more recognised by its chain of branded coffee outlets known as Café Coffee Day. ABCTCL is an integrated coffee company in India with a presence across the entire value chain from plantations

to retailing. The company has about 5,000 acres of plantations spread over Chickmagalur, one of Karnataka's coffee-growing districts. The company started off as a grower and exporter of coffee beans and later forayed into retail operations. Today the highly popular Café Coffee Day chain has about 552 stores spread across 90 cities, that source coffee from its own plantations and as well as local suppliers.

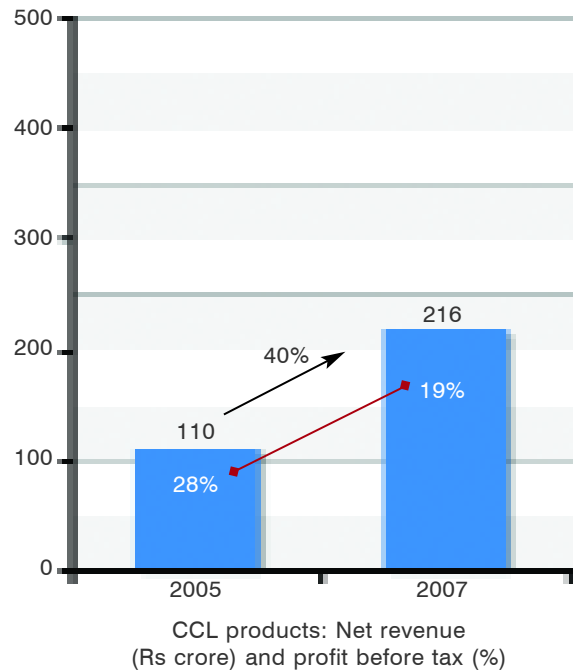
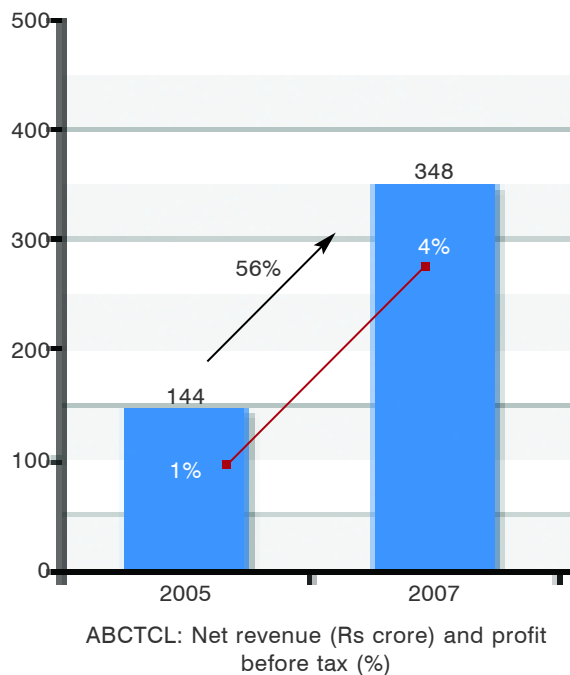
A lower pricing strategy compared to competitors and the offer of an equivalent quality product combined with excellent service has made it the most successful coffee chain in India. This thriving forward integration has enabled Café Coffee Day to charge around Rs40 per cup of cappuccino against Rs4 worth of coffee bean ingredients.

Entry into retail has resulted in a faster growth for ABCTCL vis-à-vis CCL Products, an exporter of coffee. (See Fig 1)

Kitchen appliances maker TTK Prestige operates Smart Kitchen showrooms across India. The company has expanded from 50 outlets in 27 cities in 2004-05 to about 200 outlets in 100 cities in 2006-07. The Smart Kitchen is a one-stop shop that showcases the entire range of Prestige kitchenware.

Besides presenting the best and latest products from the Prestige staple to consumers, these showrooms use the ambience of a live kitchen with plush interiors to enhance the brand image. The company uses the retail chain to channelise TTK's new customer care tools such as Prestige Privilege Club (a loyalty programme) and Prestige Kitchen Care (a service programme).

Fig 1: ABCTCL and CCL



Namdhari Fresh is a retail venture from the Namdhari Group, the largest Indian manufacturer of hybrid seeds. The unique value proposition of Namdhari Fresh is the supply of quality produce, the majority of which they grow organically. The freshness of the produce is achieved through use of superior cold storage systems that maintain temperatures of about 10 degrees in the room and the vegetable sales rack. This value proposition (freshness and superior quality) has helped Namdhari Fresh in commanding a price premium for its fruits and vegetables over regular markets.

Koutons is a leading apparel manufacturing company that has forward integrated into retail under the Koutons and Charlie Outlaw brands through a network of 1,147 exclusive brand outlets. The company started as an apparel manufacturing unit in 1993 and started retailing operations only in 2002.

What is unique to Koutons is that, while most Indian apparel manufacturers cum retailers sell through a mix of exclusive outlets, national chain stores and multi brand outlets, Koutons sells only through its exclusive outlets. This strategy has enabled them to focus on quality maintenance and customer satisfaction without any channel conflict. Not surprisingly, Koutons has grown faster than the Zodiac Clothing Company which retails mainly through multi-branded outlets. (See Fig 2) Internationally, one of the best examples of forward integration into retail is the Apple store. Apple has built stores that offer a unique customer experience through

innovative use of store design. The layout simulates the usage environment at a customer's home or office, and has less than 20 products on sale. Apple has done away with checkout counters and replaced them with wireless credit card readers carried by the salespeople who also handle payments. There is a strong service element within the store as well.

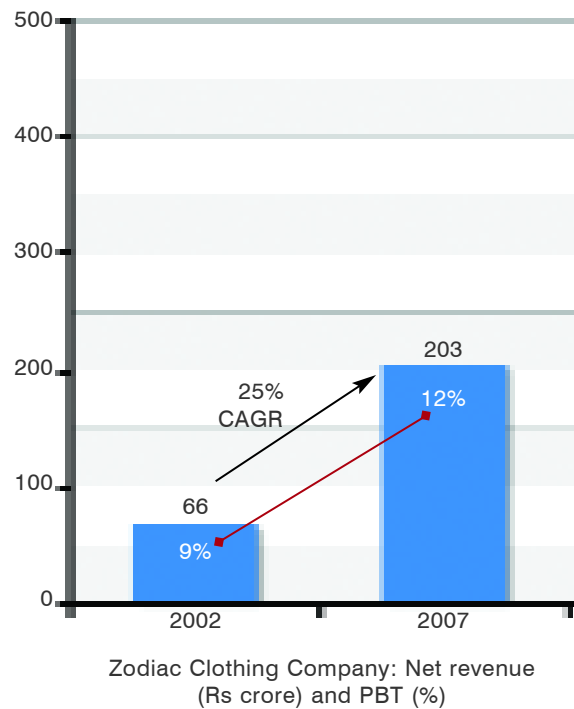
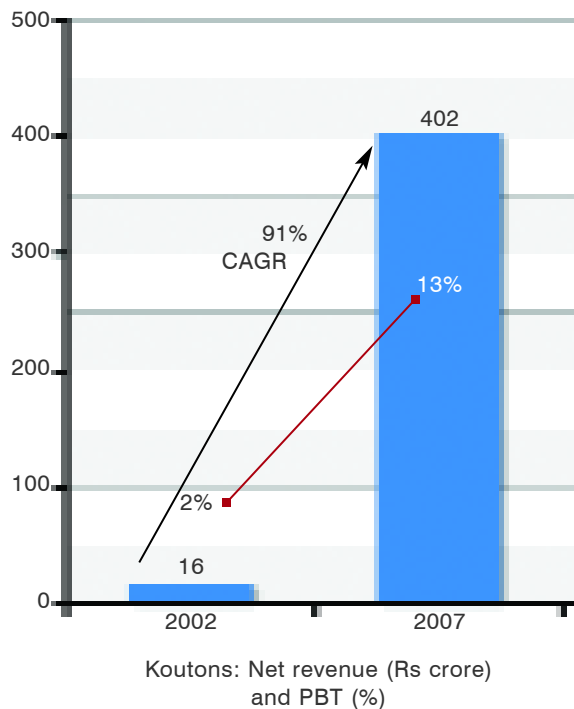
Every store has a Genius Bar, where trained and highly qualified personnel share insights, technical advice and technical support on different products. All these activities have resulted in the Apple stores grossing maximum annual sales per square feet in comparison to other retail stores like Best Buy, Circuit City, etc.

Innovations in online retail models

In the US, online retailing has been adopted by an entire spectrum of categories ranging from low to medium customer involvement — such as, travel, books, event tickets — to the high involvement categories of jewellery and accessories. Through this format, companies can lower costs on real estate rentals, inventory and overheads to offer a price-sensitive value proposition to customers seeking alternate points of purchases.

Achieving this requires a thorough understanding of customer needs, their relative importance and an in-depth knowledge of the value chain to bring in supply chain efficiencies. This format also brings in the added advantage of convenience at points of purchase and delivery.

Fig 1: Koutons and Zodiac



Expedia is the leading online travel agent in the US having an approximate 5 per cent share of the overall \$247 bn US travel market in 2007. Expedia has developed a niche for itself in the leisure segment of the market by offering customised vacations to price sensitive customers at cheaper rates than traditional travel agents. This has been done by strategic tie-ups with suppliers and leveraging economies of scale.

Little or no ownership of inventory (thanks to the reliance on strategic alliances / networks) and minimal physical presence have resulted in the achievement of EBIDTA margins of about 25 per cent which are way above the industry average of 10 –15 per cent.

Online models have also been successful in categories such as jewellery, that require high customer involvement and where a physical store model would have earlier seemed indispensable.

Blue Nile (revenue of \$319mn in 2007) is a leading online seller of jewellery in the US. The company has adopted a virtual model in which it does not put any of its capital at risk and carries little inventory. It provides a shop window for suppliers and simply takes a cut when a transaction occurs. This model enables it to sell at 30-40 per cent below the price of a traditional jewellery store and 50 per cent below the high-end shops.

The key feature of Blue Nile is its focus on on-site consumer education via online tools like guides to diamond grading. Most of the diamonds sold on the site come with Gemological Institute of America or the American Gem Society Laboratories certifications and a 30-day return policy. This innovative business model has enabled Blue Nile to become one of the top ten specialty jewellery retailers in the US, confounding predictions that luxury and e-commerce would never mix.

Technology can be a key driver in online retailing. For example, Amazon, a leading online retailer of books, has launched a new service that allows customers to buy products and compare prices through their mobile phones, in addition to the internet.

Opportunities for Indian companies

In India, an appropriate mix of physical stores and online formats, aided by technology drivers like mobile phones, could be used by companies to create unique retail models that reach out to a wider customer base in shorter times and at lower costs.

Companies in India should seriously consider leveraging existing lines of business into retail formats, whether through a chain of stores or online sales models. There are ample niche opportunities for companies who wish to enter the retail business and develop unique value propositions for their customers. ●