

The new contraction strategy!

By Harminder Sahni

THE EUPHORIA ABOUT EXPANDING QUICKLY – BOTH THE STORE SIZE AND THE PRESENCE ACROSS INDIA – IS GRADUALLY DYING DOWN AND RETAILERS ARE REALISING THAT BLINDLY FOLLOWING THE “EXPANSION FIRST, EFFICIENCY LATER” STRATEGY CAN DO MORE HARM THAN GOOD. AS A RESULT, THE FOCUS IS RIGHTLY SHIFTING TO ONE MARKET AND ONE STORE AT A TIME.

→ Not too long ago, the euphoria in India’s modern retail market was about how many million square feet someone has leased; how many cities one is present in; and how quickly one is going to be a ‘pan-India’ retailer. The idea was that if resources are available, one should grab as much market share as possible. It was also supported by the notion that retailing is a business of encouraging consumers to buy the same stuff from ‘our’ stores and not from ‘others’. Hence, some Indian

While Future Group, with its legendary leadership, and Reliance Retail, with its enviable free cash from parent company, could execute this strategy, not necessarily without facing serious challenges on the way, many others who tried to blindly follow them have been left severely hurt, only if they managed to survive. There are lessons for not only these survivors but also for Future, Reliance and the international retailers who are also making their presence felt in India.



groups went on a massive expansion of their fledgling retail businesses by launching multiple formats across a large number of urban centres. Future Group propounded the theory of “expansion first and efficiency later”, and this was taken to another level by Reliance Retail.

The “bigness” idea has many dimensions and the most obvious ones are:

Large size stores: Landmark is a case study in terms of how they moved from being only a books retailer to selling all kinds of consumer products when they leased a larger store at

Forum Mall in Bangalore for getting cheaper rentals.

Large numbers of formats across categories: Future Group and Reliance Retail have competed to open a new format every quarter so as to offer every conceivable consumer product to their target consumers. However, many of these formats have either been closed or some are still present at only few locations.

Various store formats within same category: As a complete contrast to one-size-fits-all, retailers have followed whatever size fits the available space.

Large number of cities and towns under coverage: India’s large untapped consumer market is so attractive and tempting that going “pan-India” became the key word without anyone asking what it means to be a pan-India player. Does it

mean being present in all regions or all major metros or every town in India? mean being present in all regions or all major metros or every town in India? by the fact that many promoters and professionals were looking at retail as any other consumer products business. Given the “relatively smaller size” of the Indian economy, most consumer products businesses have to be distributed all over India to have a decent size of business. And for most business houses, their growth ambitions could not be satisfied being in one industry, as the overall industry size generally was small and not growing fast enough. Hence, they had to look elsewhere and venture into new industries. The idea of being able to do any business in any area may have given the confidence to enter multiple formats of retailing and also going “pan India”. Anyhow, we all know there have been pitfalls in this whole exuberance and many companies have suffered badly, but overall the industry is much wiser

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A PAN-INDIA PRESENCE?

I wonder whether the idea of being pan India and trying to be everything to everyone was driven

and saner. It has led to emergence of another trend that is quite healthy for the future of the robust modern retail sector. Instead of saying “why not?” to expansion to another category and another format or another city, most retailers are saying “why should we?”

Retailers are realising that a large store is not necessarily a draw for large sales. Every square foot of extra retail space not only means extra rent, but also more CAPEX, CAM, deposits, manpower, inventory and utilities costs.

INSTEAD OF SAYING “WHY NOT?” TO EXPANSION, MOST RETAILERS ARE SAYING “WHY SHOULD WE?”

The strategy to be in numerous categories is just not viable for everyone. On the contrary, each consumer product category offers enough opportunities in the Indian market now.

ONE MARKET, ONE STORE

I would give a lot of credit to Bharti Wal-Mart for focusing on one market and one store at a time. I expect they will now move into the next gear and grow their business much faster. Their entry, launch and growth path will be like a hockey curve – starting at a very slow pace and then picking up quite rapidly after a few years. Even players such as Shopper’s Stop Ltd in India have followed a similar path and kudos to their management for not getting drawn into “land grab” during the euphoric years of 2005-2007. Now, Shoppers Stop is expected to double its number of stores in the next two years.

On the size of the stores, too, retailers are realising that a large store is not necessarily a draw for large sales. Every square foot of extra retail space not only means extra rent, but also more CAPEX, CAM, deposits, manpower, inventory and utilities costs. In a way, the spiraling costs of retail space have made retailers more conscious of the cost of space – direct

as well as indirect costs. The larger size stores start getting attractive on rental economics only when the format is seen like an anchor by mall developers and offered unfair benefits on all commercial terms. But the stores in the middle – 5,000 to 15,000 sq.ft in area – are always in a very difficult position where they don't have the advantages of a large store but have all the disadvantages of a small one.

plans with a clear objective of growing the business while actually reducing the geographical footprint. I wonder whether we should call it “expansion strategy” or “contraction strategy”. The basic premise is that when some businesses were launched a few years ago, maybe the NCR market did not have the potential to take more than a few stores or maybe didn't have quality space (read malls) to open more stores or just the excitement of

over the country than managing the business. We got down to the analysis that whether it will be possible for a business to still grow to its projected numbers while shrinking it back to one or two major regions or clusters. It did require a bit of reformatting of stores, rethinking of location strategy and, in some cases, even the overall positioning was tampered with, but in all three cases we could suggest a plan under which the companies will



Most successful retailers are successful because of various reasons and one of the most important reasons is the consumer's perception that they are dealing with the best in town – best in terms of range, price, service and overall experience. It is just not possible for many companies to position themselves as best on so many fronts even in isolation; and in presence of competition, it becomes almost an impossible task. Hence the strategy to be in numerous categories is just not viable for everyone. On the contrary, each consumer product category, be it food and grocery, consumer durables or fashion, offers enough opportunities in the Indian market now. With a growing economy, there will be more than enough room for growth for serious players.

management to go “pan India” took them to many other cities. The overall cost of management of these scattered stores was making it near impossible for a business to make money. Senior executives of the companies were spending more time travelling all



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achieve their overall expansion targets and will also make money while actually becoming a regional or even only NCR player.

I reckon that “slower and smaller” isn't the right answer for every business just as “expansion now, efficiency later” may work only for few. All retailers existing or aspiring must recognise the DNA of their companies and their capabilities and constraints before choosing either of these strategies.

I am certain whichever strategy you may choose, there will always be many winners and a few losers like in any other business! ❌

SLOWER AND SMALLER

Recently, we worked with three retail clients on redrawing their expansion

ABOUT THE AUTHOR



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