

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A. Sem - IV Examination May 2011

Subject code: 849901

Date: 26/05/2011

Subject Name: Retailing- II

Time: 02.30 pm – 05.30 pm

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 Analyze the case and answer the questions.

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BIG BAZAR – THE ROUTE TO THE INDIAN MASS MARKET

Big Bazaar: The hypermarket chain was introduced in India by Pantaloon Retail (India) Limited. The year was 2001. The first store opened in Kolkata and was followed by stores in Hyderabad and Bangalore, in a short span of 22 days. These stores contributed over Rs. 43 crores to the company's turnover and over Rs. 2.89 crores to the PBDIT in the first year itself. In 2006-2007, more Indians discovered the value of shopping in Big Bazaar. Big Bazaar launched 27 new stores in 22 cities; it also tapped consumption potential in smaller cities like Agra, Allahabad, Coimbatore, Surat, Panipat, Palakkad, Kanpur and Kolhapur. By May 2008, there were 89 Big Bazaars spread across various cities and towns across the country.

'*Jo bazaar mein milta hai, who sab yahan milta hai*', is how Rakesh Biyani, Director, Pantaloon Retail (India) Limited, describes Big Bazaar. The *bazaar* is a term commonly used for the market or marketplace. Whenever any of us need anything, the simplest way to get it is to go to the bazaar. Big Bazaar represents a location where a customer can shop for anything that he needs, for which he would normally visit a bazaar or the market.

COMPANY BACKGROUND

Pantaloon Retail (India) Limited was incorporated as Manz Wear Private Limited in the year 1987. It became a public limited company in 1991 and was renamed Pantaloon fashions (India) Limited and then Pantaloon Retail (India) Limited in 1999. Over the years, the company has accelerated growth through its ability to manage change. It integrated backwards into garment manufacturing and expanded its retail network at the same time. It launched three successful brands – Pantaloon trouser, Bare Denims and John Miller shirts – between 1987 and 1993.

The company introduced the concept of The Pantaloon Shoppe, an exclusive men's wear retail store, which expanded across India from 1994-1998. In the year 1997, Pantaloon moved to large format lifestyle retailing with the launch of Pantaloons, India's Family Store. Pantaloons had grown to a 29-store network and occupy 263,000 sqft of retail space. They contributed Rs. 174 crores to the total turnover of the company.

The management was aware that in retail, size mattered. The business revolved around volumes. Lifestyle retailing did not really provide these volumes; the volumes came from the large Indian middle class market that was waiting to be tapped. Big Bazaar – the discount store – was launched in the year 2001, to meet the aspirations of the middle

class. In a short span of two years, it had added a Food Bazaar and Gold Bazaar to its range of offerings.

MARKET ENVIRONMENT

At the time of the launch of Big Bazaar, there was no real precedent in the Indian Market. Giants, the RPG hypermarket, had opened in Hyderabad only two months prior to the launch of Big Bazaar. A western model had to be adapted to suit the needs of the Indian environment. Various local markets and local market leaders were studied. This was done to understand the product mix and the prices offered. One of the key discount retailers studied was Sarvanna Stores in Chennai.

THE STRATEGY

Saving is the key to the Indian middle class consumer. The store, which would be created, had to offer value to the consumer. Keeping this in mind, the concept of Big Bazaar was created.

In India, when a customer needs something for the home, a typical thought is to seek it from the bazaar. A bazaar is a place where a complete range of products is always available to the consumer. This is true across India. As the store would offer a large mix of products at a discounted price, the name Big Bazaar was finalized. The idea was to recreate a complete bazaar, with a large product offering (at times modified to suit local needs) and to offer a good depth and width in terms of range. The mind to market for the first store was just six months.

Price was the basic value proposition at Big Bazaar. The Big Bazaar outlets sold a variety of products at prices which were 5 to 60 percent lower than the market price. The line '*isse sasta aur achha kahin nahin*' emphasized this! (You will not find anything cheaper or better anywhere else).

Selecting the Right Location

The key question faced by the management was whether the low margins on the products would allow the company to sustain growth. With the aim of answering this question and in order to help the company decide on the right location, it rolled out three stores in three different locations. In Calcutta, the store was opened in a suburban market, in Hyderabad, it was in the heart of the market viz. Abid's and in Bangalore, the store was opened in an up-market residential area.

The key learning which came out of this exercise was that for a store like Big Bazaar, a large catchments area was needed. The management decided to stick to the existing market places within the city. It realized that the western model of hypermarkets, where the store was located in large spaces on the outskirts of the city would not really work in India. The cost of time spent on travel and the cost of petrol in India would eat into the savings made. Property deals were negotiated keeping this factor in mind. The lease deeds negotiated were for a period of 12-20 years and the rentals varied from Rs. 30 per square foot to Rs. 50 per square foot, depending on the city and location.

The Merchandise Mix

The key driver of the footfalls at Big Bazaar was the large product mix offered to the customer. Big Bazaar stocked about 1,30,000 items in over 20 product categories. For the initial stores, the classification was simply done in terms of apparel and non-apparel

and shop in shops. In the first year, apparel accounted for 70% of the off-take and the price was largely responsible for the success. The prices ranged from Rs. 99 to Rs. 799.

Non apparel, which included plastic items, footwear, toys, luggage, appliances, white goods and stationary accounted for 30% of the off-take in the first year. The shop in shops, which were a part of the store, added to the product mix being offered to the customer, without requiring the company to invest in the inventory.

The buying process for most of the categories at Big Bazaar was largely price driven. The objective was to deliver good products at the best possible prices. A key element of the pricing strategy was to achieve 'Market-Breaking Price'. To achieve this, the price that will offer value to the customer was first determined. An appropriate sourcing strategy was then worked upon to achieve this objective. Value pricing and maintenance of quality were the key factors influencing the pricing decisions.

The management was aware that the food retail sector was one of the fastest growing sectors in the Indian retail market. The fact that food would never go out of fashion and the spending on food stood at 53 per cent of personal income, was a very strong reason for the company to consider entering food retailing. Keeping this in mind and to enhance the footfalls at its existing Big Bazaar outlets, the company launched Food Bazaar in the first year of operations.

Food Bazaar

Food Bazaar stocked on an average, 10,000 stock keeping units (SKUs) and occupied an average, 5,000 square feet of retail space. It was modeled on the Indian *Mandi*, where customers could touch, feel and choose products, supplemented by packaged foods for western shoppers. The products sold were categorized as:

- Processed Food & Non Food (Hungry Kya)
- Dry Staples (Golden Harvest)
- Wet Staples (Chill Station)

The Processed Food and Non Food category contributes 60% of Food Bazaar sales. This category includes a mix of products from a large number of FMCG companies and a wide range of imported products, health foods and specialty foods. Dry Staples includes dry groceries like rice, wheat, dal, spices, etc. The category contributes 30% of the sales. Wet Staples includes fruits and vegetables. This contributes 10% of the sales.

Local flavors and varieties are made available through the shop in shop model, by arrangements with leading vendors in each city. The company has launched Food Bazaar Masalas, Food Bazaar Tea and Premium Harvest Pulses.

While Big Bazaar today, includes Food Bazaar, the management has also rolled out Food Bazaar independently in 3 locations and is considering rolling out Food Bazaar as a part of Pantaloons and as a part of Central – the integrated seamless mall being developed by Pantaloon.

While apparel still continues to be largest selling category at Big Bazaar, contributing to Over 40% of the sales, in a short span, the share of food sales have increased rapidly to 25.74%.

Managing the Supply Chain

The management opted for the consolidator model for the new merchandise categories that it sought to introduce. This was largely done for those products that were manufactured or produced across the country like steel utensils and food grains, but were sold in the unorganized sector. Consolidators were traders/proprietors in specific products. For most of the players in the unorganized market it is difficult to deal with an organized retailer. The consolidator was already a player in that sector and provided them with the ease and comfort of a face-to-face relationship. At the same time, because of his knowledge and access to the market, he was able to put together the product line with ease and at the best possible prices. This reduced the lead-time and also enabled the company to go ahead with its expansion plans.

This model provided the consolidators an opportunity to expand their business without becoming employees of the company. Due to the large scale of volume, the consolidator could operate at low margins, ranging from 1 to 3%.

Distribution is decentralized. There is a warehouse attached to each store, so that the ownership of the merchandise is held by a particular centre. Initially, the stock turnover was three months, which is now down to two months in the new stores where you do not really have a precedent or background.

Organisation Structure

The organization structure for Big Bazaar is flat in nature. For Big Bazaar, the divisions are Apparel, Non Apparel and the New Business Division, which includes Gold, Footwear and shop in shops. For Food Bazaar, a separate team has been created, which again works independently.

About 1,800 people work for Big Bazaar directly. Support and Ancillary services comprise of another 400 people. A new trainee is put through a basic three-day training programme before going on the shop floor. Evaluation is done every six months.

Encouraging Loyalty

In the year 2003, the management launched the Big Bazaar ICICI Bank co-branded credit card, aimed at promoting customer loyalty. On the purchase of Rs. 1,500 or more, the customer has the option of making a payment by three EMIs, without any charges. For every Rs. 100 spent on shopping, four reward points are awarded. The company is looking at the possibility of providing free home delivery to the cardholders.

Information Technology

Pantaloons looks at information technology as the key enabler of decision making. Day end operations are done at all the retail stores, and the internet transfers the data to the head office. The data is processed overnight and an Auto Replenishment System is in operation. Forecasting is done at the store level and week level.

Going forward, the management has decided to revisit the cities in which they actually have a presence and saturate those markets before looking at virgin markets.

In the year 2002-2003, the company aggressively launched private labels in five categories in menswear, women's wear, and kidswear. The brands launched were:

- Knighthood - an exclusive line of executive wear in trousers and shirts

- DJ&C – a line of denim wear and cool casual wear
- Shatranj – ethnic wear for men
- Pink & Blue – casual wear for kids
- Studio NYX – party and lounge wear
- CTee – cotton t-shirts with funky prints

In 2003-2004, Food Bazaar reinvented itself, embarking upon providing customers an experience. The strategy was to offer fresh value added products and services across stores. As a result, some of the initiatives taken by the company were introducing a live chakki, dairy, masala grinding facilities, a bakery, and a fresh juice corner among other things. Private labels were also introduced in various product categories like tea, dals, pulses, shampoos etc.

In 2004, 'Food Bazaar on Call' was offered, initially at one store in New Mumbai. This service allowed customers to place an order on the phone and avail the home delivery facility.

Over the years, Big Bazaar has introduced a whole new range of fashion products inspired by the season's colours and textures. In the year 2008, it signed M S Dhoni, the Youth Icon of India, as its brand ambassador.

Says Rajan Malhotra, CEO, Big Bazaar, 'Fashion has always been seen to be something for the elite. We disagree. Big Bazaar has managed to create the breakthrough by bringing the latest fashion to the masses at affordable price points. The new collection at Big Bazaar will appeal to customers from all walks of life, with its trendy designs'.

'Dhoni and Big Bazaar have a lot of synergies as the Indian captain stands for the aspirations of youth in India, while Big Bazaar is looked upon to, by millions of Indians to fulfill their aspirations'. Big Bazaar, the largest retail chain of Future Group, is eyeing a turnover of Rs. 8,000 crore by the year 2009.

The company hopes to achieve this mark by multiplying the number of stores and implementing cost-cutting measures. Other developments include a decision by Pantaloon Retail, the group's listed entity, to hive off four business divisions, including Big Bazaar and Food Bazaar, into separate companies. The company is now looking at opening a total of 300 Big Bazaar stores and has introduced the neighborhood concept of retail, opening stores in residential areas. It will also introduce new business segments such as health and wellness in its stores.

Big Bazaar would focus on the '*khanjussi* culture', a term used to explain the company's focus on identifying areas to cut costs. The concept focuses on cutting intermediate layers and passing the benefit to customers. Big Bazaar is estimated to end the year 2008 with a turnover of Rs. 4,000 crore and expects to double it over the next year.

- C-1 Analyze the Marketing Strategies of the company with respect to
- | | | |
|------|----------------------|------|
| I. | Product | (02) |
| II. | Price | (02) |
| III. | Place & supply chain | (04) |
| IV. | Promotion | (02) |
- C-2 Will the present strategy provide the growth that company is expecting considering that competition is likely to intensify in days to come? Justify. (04)

- Q.2 (a)** According to Images Retail Report 2009, as quoted in "Indian Retail: Time to Change Lanes" by KPMG; private label brands constitute 10-12% of organized retail in India and it is likely to increase up to 25 % in next 3 years. International retailers such as Wal-Mart and Tesco have 40% and 50% of in-house brands in their stores. **07**
- 1) What is private label? Why its share is increasing?
 - 2) What will be its impact on national brands?

- (b)** Explain with suitable example what is category management and its importance to retailer and manufacturer in present market conditions. **07**

OR

- (b)** Analyze the co relationship between merchandising planning and other departments of organization. **07**

- Q.3** To cope up with increasing competition, Ms Anita Arora, Head CRM of Mega Mart, a hyper store, is planning to enhance loyalty among the customers. You have been asked to prepare theoretical frame work for major factors that can influence the customer loyalty toward store. **14**

OR

- Q.3 (a)** Explain in brief:
Relevance of Point of purchase communication in retail store **07**
- (b)** Role of packaging in retail communication **07**

- Q.4** Mr. Anand Rao, VP Operation of Yum Pizza Mart is contemplating average business growth rate of 25% for next 3 years. Yum Pizza Mart has presence in 8 major cities of India. The product line includes regular pizza as well as a unique variety of pizza for health conscious people. Analyze the strategic growth options available to him using Ansoff's grid model **14**

OR

- Q.4** Write short notes:
- (a)** Pros and cons of franchising system **07**
- (b)** Franchisability **07**

- Q.5** Dr. Sudershan Reddy of Reddy Diagnostic clinic is planning for pan India presence in next 5 years and have planned to adopt franchising as growth strategy. Elaborate on major criteria that he should consider while evaluating potential franchisee. **14**

OR

- Explain:
- Q.5 (a)** The stages of relationship building process in franchising **07**
- (b)** Estimating cost of operation in franchising **07**
