

K.J. Somaiya Institute of Management Studies & Research
Course : PGDM Retail Management – VI Trim End Term Exam
Sub : RURAL RETAILING

Date of Exam:06/04/2018

Time : ...2.. Hours

Marks : 25

Note : I. Quality and not quantity will fetch more marks

I. Attempt the following case study.

V-Mart: A Value Retailer Pioneering Modern Trade in Small Towns And Cities

V-Mart – one of India’s largest value retailers – was incorporated as Varin Commercial Private Limited under the Companies Act in 2002 in West Bengal. A year later, it opened its first V – Mart store in Ahmedabad, Gujarat. Since then, V-Mart Retail stores have expanded and opened in prime states and cities such as Bihar, Chandigarh, Gujarat, Haryana, Jammu and Kashmir, Madhya Pradesh, New Delhi, Punjab, Rajasthan, Uttarakhand and Uttar Pradesh. V-Mart Retail has been a pioneer in setting up modern ambience stores equivalent to large retail malls across various small towns and cities like Sultanpur, Ujjain, Motihari and many more such places.

Based in Gurugram, the company’s operations are today spread across northern, western and eastern parts of India. As of March 2018, V-Mart operates 170 stores in 144 cities across 14 states and union territories with 14.20 lakh sq.ft. of retail area under operation. At V-Mart, we recognize that in a country marked by extensive under-consumption in organized retail, there would always be a premium to expand across Tier II, III and IV cities.

In terms of stores’ presence and location, 105 of V-Mart stores are located in Tier III and IV cities, 42 stores are located in Tier II cities and just 23 stores are located in the metros and Tier I cities. V-Mart has the strongest presence in Uttar Pradesh with more than 72 stores, where the election of a new pro-business and investor-friendly government will likely translate into increased disposable incomes and consumer spending, thus strengthening the retailer’s prospects further. V-Mart’s uniqueness lies in its regional cluster-based store expansion strategy, which acts as a bandwagon for driving top line growth.

As a strategy, the company opens stores only within 50-100 kilometres of its existing stores, which helps in supply chain management and achieving operational efficiency. The stores are the first of its kind retail experience in all the places it sets shop. Basically, these are places where people have newly increased purchasing power and aspire for a better shopping experience. The stores mimic retail outlets in urban places, are equipped with trained staff, air-conditioning, escalators, toilets, etc.

The company’s motto is to provide modern retail at affordable prices by focusing on value and playing on the shift from unorganized to organized retail. “The location strategy is to pursue a cluster approach under which the expansion footprint, until now largely focused on Tier II and III cities of India, will likely gain traction in Tier IV regions. This approach will help us bridge the gap for the aspirational consumers who do not have access to organized retail.

Store formats

V-Mart stores are categorized under different formats, which have been designed keeping in mind all its consumers. V-Mart Aspire houses products for the youth in line with the latest trends. V-Mart Plus addresses consumers across age groups; stocks clothes and discretionary products and the stores are located in densely populated areas. V-Mart Corporate targets office goers and its product line is known as Gold Line Fashion with stores located in areas inhabited by working professionals. V-Mart Values stores comprise cost-competitive products addressing all age groups.

V-Mart’s business can be classified under three business verticals: Apparel, General Merchandise and Kirana Bazaar (FMCG and pack staple food). V-Mart was among the first consumer retail companies to be positioned around the concept of family fashion offering value-for-money products for the fashion-conscious middle-class youth in Tier II, III and IV cities. Over the last decade, the company has evolved into a one-stop brand of choice, offering an extensive range of products around the concept of ‘Price Less Fashion’ in non-metro cities. Maintaining high standards in quality and design, V-Mart offers fashion garments at down-to-earth

prices and, over a period of time, has emerged as the destination of choice for bargain hunters and the fashionable alike.

Likewise its Kirana Bazaar has a reputation for serving customers with a well curated assortment of products that are high on quality and freshness and sold at a very competitive price in keeping with the company's tag line 'Price Less Fashion'. The Kirana Bazaar range include products such as biscuits, fruit juice, hair oil, soap, atta, masala, rice, tooth paste and tooth brush, energy drinks, liquid antiseptic, shampoo, etc.

Focus on Value, Quality & Price

The focus on quality and price integrity has brought rich dividends for the retailer. So even though the financial year 2016-17 was one of the most challenging for retail-driven Indian companies, owing to the market skittishness triggered due to currency demonetization, V-Mart sailed through the troubled times quiet comfortably. "The demonetization move created a temporary shortage of high denomination currency notes within the economy, which cascaded into a crisis in consumption confidence. Buyers backed off and retail sales declined. V-Mart tided over the crisis by taking some smart initiatives. We introduced the 'Smart ATM concept' to help customers get cash, which saw us acquiring new customer streams as well, and drawing operational efficiencies by automation in the supply chain.

During the Smart ATM drive at the stores, we started dispensing the collected cash to anyone who needed it by swiping cards on the stores' credit card swipe machines, irrespective of whether the person was buying or not buying from the stores. This drive saw long queues outside all the stores across the country. The store teams took the initiative to lead these people to explore the stores, often resulting in sales and new customer formation. This, along with better supply chain management, led to robust sales during a period that saw almost all industries, including retail, witness a massive downfall in demand.

The retailer led and showed the way on how to convert a threat into an opportunity, which Agarwal affirms is a core part of the way of doing business at V-Mart and the way it approaches its external macro environment. At a time when consumers cut down on consumption as they struggled with inadequate currency, when buyers deferred purchases and retail off take was affected, V-Mart reported one of its best years in business in 2016-17.

One part that played a key role in catalyzing the retailer's stellar performance is its deft inventory management. Those in the retail business recognize that inventory management is one of the key parameters that make or break a retail business. As changing fashion trend can lead to inventory erosion, the cluster-based approach helps VRL in inter-store stock movement and easy stock rotation from its stores. Being entirely focused on Tier-II and Tier-III cities, VRL easily rotates out-of-fashion stock within the vicinity of nearby stores as semi-urban areas tend to catch up with the changing fashion trend at a slower pace compared to Tier-I cities.

A strong believer in targeted merchandising, V – Mart believes that there are a number of different countries within the geographic boundaries of India. "There are diverse regional markets with distinct consumer preferences that are completely different from each other at even a distance of 100 kilometres. The success of any retail enterprise depends on how well we map consumption patterns and address emerging demand in these different markets. Through a combination of consumer insight and technology, we believe that we are getting better at providing just what the market needs at right prices at the right time, the result of which is visible in the improved inventory turns.

Optimistic Outlook

V-Mart has the early mover advantage in Tier – II and Tier-III cities with about 85 percent of its stores in these cities. Sales from these cities are growing at much faster rate for almost all consumer items due to faster growth in disposal income and wealth, coupled with increasing awareness and aspiration. Tier-II and Tier-III cities contribute to around 60 percent of the company's revenue, which is expected to increase to 70 percent by the end of this fiscal. The company enjoys higher margins as compared to its urban counterparts on account of lower rentals; due to its significant focus on Tier II and Tier III cities.

The retailer is looking at further improving its per square foot sales, open new stores, launch new festival collections, and target even better marketing for primary customer segments in rural as well as urban areas and enhance its fashion offerings at superior price points – all part of the company's key drivers for growth. The company also plans to launch private labels across all divisions along with aligning with and becoming stronger in the basic 'Never out-of- stock' merchandise.

V-Mart aims to increase the share of its margin-accretive in-house brands (Flick, Twist, Desi Mix, Charcoal, J White) to 80 percent by offering new variants. Increased emphasis on wedding apparel and winter wear for all age groups could augur well for the company's revenues, too. Its blueprint for the future includes leveraging its strengths, reducing internal weaknesses, mitigating the threats to business model to make the most of the opportunities in the markets that it operates in.

“We believe that farm loan waivers announced by the UP government should translate into increased income in the hands of farmers, strengthening rural off take and benefiting consumer-facing companies like thes. We feel that Goods & Services Tax is the most decisive initiatives for the benefit of the value retail industry, wherein apparel with a sticker price of less than Rs 1,000 has begun to attract the lowest tax slab of 5 percent. This augurs well for a company like thes where we derive around 85 percent of the revenues from products priced at Rs 1,000 or lower, making it possible for the market to widen on the one hand and for a company like V-Mart to widen its industry share. We believe that as incomes and media exposure increases, consumers will consume more and a larger breadth of products. At V-Mart, we are attractively placed to capitalize on this phenomenon; the technology investments will make it possible for the supply chain efficiencies to be leveraged better, making it possible to respond to the wider and larger needs of customers.

With an aim to increase its top-line, V-Mart plans to add 25-30 stores every year with a targeted area addition of 12 percent. The investment required to open a new store is also low, roughly Rs 1,400 per sq.ft. for capex and another Rs 1,700/ 1,800 per sq. ft. for inventory. This also results in higher RoE as compared to urban retailers. The company secures long term leases (9-10 yrs) with all the rental locations with escalation costs of 10-12 percent every three years, and the termination would be at the discretion of V-mart. As a result, rent per sq.ft over the past five years has hovered around Rs 28. That is, almost no inflation for five years in rent.

The retailer's focus is on volume-driven growth by adding to its customer base in price-sensitive Tier IV zones. V-Mart is unlikely to increase the average selling price of its products, which is typically in the range of Rs. 280-290 per unit, roughly 60-65 percent lower than most of its organized counterparts. “At V-Mart, we have resolved to maintain or reduce sticker prices instead of pursuing the objective to enhance profits. We recognized that the only way to achieve this challenging objective is to question every paradigm, every practice, every process with the singular objective to do things faster, better and at a lower cost.

With 72 per cent of India residing in its villages, rural markets can be a goldmine for marketers as there is limited competition. V – Mart having gained expertise in Tier – III & Tier – VI markets, entering into rural markets will be a cake walk for them. However, rural markets posts their own challenges with infrastructure not so developed, how can V – Mart win Rural Markets ? will be a question that we only give answers through experience.

Questions :

1. *Do you think V – Mart should enter Rural Market, if so what will be the key challenges that this brand would face in the initial years of their operations ?*
2. *Prepare a blue – print for NSO (New Store Opening), for V – Mart with their first launch being in Maharashtra primarily targeting Kolhapur & Nashik districts ?*
3. *What important measure V – Mart should take in planning their merchandise and category strategies for Rural Retailing ? Prepare a category bifurcation and category planning process ?*
4. *Do you think partnering unorganised retailers for supply chain be a viable option for V – Mart in the transit of stocks from West Bengal to the markets in Maharashtra ?*
5. *Do you think V – Mart should adopt Omni Channel strategy ? If so how should they go about it ?*
