

Case Study on Subhiksha

Understanding the failed retail model & suggesting a restructure plan

Team : SOCH

Team Members:

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Background:

It was an era of software industry booming with a software startups cropping up every day in the Silicon Valley and everyone was eagerly learning the language of computers. There was one industry trying to make its presence felt: Retail Industry. It was striving hard to achieve the industry status. The early retailers who made their presence were Raymonds, Indian Coffee House, Akbarallys, Premsons and Bata that were limited to a few locations and took long to practically arrive at a retail format. But, today it is a different story altogether with players talking of ROI, employee management and IPOs.

The fact that retail sector was the second largest employer after agriculture with a value of 11 lakh crores or \$ 240 billion ,something unfathomable to all. The small independent owner managed shops and kirana stores who had made their presence from ages was denied the 'retail' status because of the high fragmentation. The retail market potential was good with an estimated growth rate of 35% in the organized retail which accounted for Rs 14,000 crores. Of all retail activity, food and grocery retailing accounted for 55%.

There was a new phase in the retail scenario with more and more players joining the sector in different formats like malls, supermarkets, department stores, discount stores and new invented looks of bookshops, furnishing stores and chemist shops.

With Shopper's Stop opening its first outlet in Mumbai, 1998 is marked as a turning point in the history of organized retail. It was in 2004 when retail began to scale up and more growth was expected in the future.

So the environment was just right with a fast growing middle class with more than ever disposable income, a positive economic outlook and all time high foreign exchange reserves.

Vision:

To deliver consistently better value and savings to all consumers on each and every item that they need in their daily lives, 365 days a year, without any compromise on quality of goods purchased.

The Rise of Subhiksha:

Started in 1997, Subhiksha Trading Services (meaning Prosperous in Sanskrit) was a supermarket and pharmacy chain, the brainchild of R.Subramanian , IIT and IIM-A graduate. Subhiksha began its journey at Thiruvanmyur and made its presence with 49 branches across different parts of Chennai. It was supported by an asset management company called Venture Capital Partnership which belonged to the Vishwapriya Group, specialists in financial services.

Subramanian said:

Everyone is looking to get a better quality of life, so the consumer is spending less on daily necessities and more on products and services. And the money for durables and mobile phones will have to come from somewhere – and it is coming from the budgets for everyday products. So it would all come down to how the consumer chooses to prioritize her/his spend. Today, the consumer doesn't think twice about spending Rs 200 on a movie ticket in a multiplex but will search for rice that is cheaper by Rs 10/Kg. To the consumer, soap or toothpaste is not seen as providing much value or better quality of life, while a movie or mobile phone is seen as doing that.

Subhiksha by the end of 2008 had made a pan India presence with stores across Indian states such as Delhi, UP, Punjab, Haryana, Gujarat, Karnataka, AP, Maharashtra and Tamil Nadu. As on March, 2008 it was a multi-locational and professionally managed organization that was ready to change the aspirations of middle-class Indians. It even opened specialized mobile shops called Subhiksha Mobile wherein mobiles were sold at a discounted rate.

Market in which retail chain was operating:

New stores were added on a regular basis. There was presence of over 13 million retail outlets in the country. Indian Retailing Industry was estimated to be \$286 billion in 2004, and only about 1.6% share of this market was organized sector (ICICI property services retail report, 2004). The organized sector was expected to grow to almost Rs. 30,000 crores by 2005 representing 6% of total retail market, and top six cities will account for 66% of the total organized retailing (KSA Technopak, 2000). Based on GDP growth rate of 6-7% per annum, the retail industry expected to be \$300 billion by the year 2010 (CII-McKinsey Report). Compared to other Asian Economies, India was way behind in the organized retailing sector. Exhibit 1 and 2 shows the retail phenomenon in Asian countries.

“Our expansion is timed at a stage when the Indian retail industry is seeing a huge upswing with an exponential rise in retail investment. With our backward linkages and supply chain arrangements carefully crafted to the highly competitive Indian market, we feel consumers will benefit hugely from the constant everyday low prices we will offer, along with the convenience of neighborhood shopping that they are used to and that is core to our business model”, says Subramanian

About 90% FMCG sales occur through the kirana stores while the retail chains account for about \$1.5 billion or Rs. 7500 crores. Subhiksha saw a great opportunity in this area and entered into groceries.

With the opening of new format stores and the rapid growth of existing players organized retailing got a boost during 2004. There was a gradual increase in the disposable income of the middle class households. The positive consumer sentiment led to substantial spending across a number of categories such as consumer durables , clothing and lifestyle , automobiles and telecom products.

According to Subramanian, 2004 had been a good year not so much in what happened for retail but much for the visibility and profile that it achieved and also in setting the expectations of fast growth. With the automobile industry showing significant growth reflected the willingness of people to travel which contributed to the retail boom in the country.

Competition Audit

The year 2008 saw the up rise of retail chains across India with Bata India Limited being considered as one of the largest retailers with 1600 footwear stores across the country and a retail turnover of Rs. 6 billion in 2001. It had a monopolistic presence in the organized footwear market until the 1980s with Bata building its generic brand such that Bata was synonymous with footwear in middle class India.

K Raheja's Shoppers Stop turned out to be a successful retail chain model gaining the second position in the retail sector in the country. The Crossword chain of bookstores also joined hands with Shoppers Stop for its setup and operations.

Food world was operated under Food World Supermarkets Limited and Health & Glow chains under RPG group. Spencers was another large retail group in the country with supermarkets, music stores.

New Generation mega shopping malls such as Inorbit Mall in Mumbai and Forum in Bangalore opened their doors. The year also opened its gate to many retail players such as Westside, Lifestyle, and Pantaloons.

It has been debated that Subhiksha has aped Wal-Mart's EDLP strategy to attract the price conscious consumers. But unlike Subhiksha Walmart does not offer the same pricing for products across stores. Wal-Mart has a Retail link system that details customer demand on a store-by-store basis. If one store because of demographics , competition, local economics or some other reason consistently sells more of a product ,then that price will be priced a little higher in that store. While Walmart tries to be the low price offer in the market they do not have the lowest price on every item in the store. Instead Wal-Mart does have the lowest price offer on a 'market basket' of goods that they feel is reflective of what their core customers expect of the store. (Ravi L, 2008)

Tactics:

Operational :

- 1) Subhiksha had a central purchasing system to eliminate multiplicity of billings, which would occur if the stores were to make independent purchases.
- 2) It bought directly from distributors who sold at only a small margin above the mill prices and from around 150 manufacturing companies
- 3) It had three separate godowns for stocking pharmacy products, unbranded groceries and branded FMCGs.
- 4) It had ten tempo vehicles to supply its stores once a day.
- 5) All the stores were connected via Intranet to facilitate inventory planning.
- 6) It needed to integrate backwards into the supply chain, cut out middleman and offer better prices to consumers.

Finance

- Huge quantity of purchase helped Subiksha to cut costs by bargaining discounts.
- Initially , it resorted to cash purchase to avail maximum discounts.
- FMCG companies on realizing the customer potential increased credit lines to it
- In order to cut cost, along with bagging discounts on national brands it went a step further and aggressively promoted its private label.
- By the end of 2004,around 25% of the company sales came from private labels.

Marketing:

Brand Image: Subhiksha was portrayed as a trustworthy and reliable store that cared for the customer and offered the best price for products and thus valuing customer's money. It aimed at being perceived as trusted source of household needs, providing high convenience and accessibility.

Brand Positioning: The unique proposition was that of value delivery unlike the neighborhood stores offering personalized service and small scale operations. The competitors lacked the technology robustness and failed to work on economies of scale. Subhiksha worked towards the image of a relationship builder than profiteers.

Brand Strategy:

a)Market research Study:

Subhiksha designed its retail format by conducting an extensive survey with the following results.

- Customers generally looked for accessibility of the store, availability and quality of groceries and price of branded groceries
- Customers did not like to travel beyond 5 km for purchasing groceries.

b) Location: Tamil Nadu constituted the south-eastern extremity of the Indian peninsula. Chennai, the capital of the state, had a population of 4,212,618. The district city was one of the metropolises of India and served as the gateway of the culture of South India.

The Chennai buyer had been exposed to the most varied and modern retail experiences. With the presence of discount stores, lifestyle stores, Food World Type stores raised the buyer's expectations and they looked for a value proposition and were willing to try new things.

c) No Subhiksha store should be further than 2km away from a Subhiksha outlet. It adopted a stand-alone-store format and always placed themselves in the nearby streets of a residential area thus saved money on real estate costs. Also, in an attempt to cut cost it opted for the first floor.

d) TG: Masses

e) Untapped Opportunity: Organized discount retailing was relatively unexploited in India and Subhiksha was cashing in on this opportunity.

f) Customer Relationship: Subhiksha worked on the premises that it would carry out business with the customer for the next 30-40 years. The focus was on building a lifetime relationship with the customer than merely a transactional one. In this regard, the company attempted to know the customers – where they live and their needs.

g) Advertising:

- Initially only print advertisements and mailers were used to promote its services
- It began advertising on television before the Diwali firecracker scale.
- The communication through the advertisement was to position it as a retail store brand which gave a value offering to customers that contributed to better savings and improved lifestyle.
- Color coding was used in the TVC. The brand logo was shown prominently for brand visibility
- Initially the communication played on the tagline' Subhikhshama vazhvukku' which meant a prosperous life. But the perception of discount store did not go down well with the consumers hence the communication strategy needed a change.
- The new communication was based on the premises that small amounts saved today could mean a better life tomorrow. All the Rs 10 savings taken together would enable the housewife to indulge her husband with a new watch , her father-in-law with his *supari*, her son with a computer! This value addition made the discount concept more palatable, transforming it into a quest for a better life.

- Subhiksha became a household name among the middle class Indians with its emphatic punch lines like *Morcha Against Kharcha* (Fight against Expenses), *Bachat Mera Adhikar* , *Subhiksha Mera Abhiman* (Saving is my right , Subhiksha is my pride)

Refer Exhibit 3 for the Advertisement & Communication

h) Product Mix

Subhiksha had a wide range of products in its store – rice, dal, sugar, oil, butter, toiletries (like Lifebuoy, Colgate etc), jam , tea, coffee and cosmetics (Ponds, Lakme etc)

(Exhibit 4). It initially started as a grocery retailer of the simple reason that groceries accounted for highest share in the expenditure of an average Indian consumer.

f) Buying Procedure

- Customers chose products from the display on the PC and paid at the cash counter against a composite bill with only the item codes and absence of item details
- The stocking department processed the order, keyed in the details and a shop assistant collected the items and delivered it at the delivery counter.
- The detailed bill was printed after a check that the data entered by the stocking department matched the composite bill
- Additionally, the bills also showed the market rates and the savings made on each item.
- The no-frills and no-touch formats which did not allow the customers to do shopping on their own was changed to DIY (Do It Yourself) format.

g) Pricing Strategy

Subhiksha considers pricing of its products as a USP. It offers all goods at discounted prices similar to the Every Day low pricing (EDLP) founded by Walmart. Unlike other stores, the low prices at Subhiksha are not limited to a few goods or for a few specific days. Customers can get the same discounted prices on all items, on all days irrespective of whether they make a small or big purchase. Most importantly, the discount and customer savings at Subhiksha is comparatively higher than to those offered by other small and big retailers.

Fall of Subhiksha

The end of 2008 marked the closure of the most talk about retail stores Subhiksha. It was on the verge of bankruptcy. Subhiksha failed to pay its employees , supplies and landlords for quite many months in 2008. To add to its woes, its biggest investors I-venture (Venture Capital Arm of ICICI, India's largest private bank) and Zash Investment (Azim Premji's investment company) who had invested INR 230 crore did not extend any help.

What went wrong?

Product Mix: Subhiksha foray into drug retailing was challenging with its benefits in the future. The general medical stores opposed this initiative since they were insecure about their own sales. Drugs usually have margin of 17-20% but Subhiksha sold drugs for a mere 7% margin.

Human Resource Issues:

- A single head appointed to manage both IT and Marketing departments
- Most of the experts hired lacked retail experience. It pulled people from banking, financial services, pharmaceutical, FMCG industries.

Operational Issues:

- In order to maintain lower prices , Subhiksha concentrated on direct procurement to avoid intermediaries.
- During the initial phase, the chain managed procurement per-store basis wherein the manager would replenish stocks at the end of each working day through cash
- As the chain went on an expansion spree, it had established 14 central purchase centers across the country and goods were sent to all the stores.

Information Technology:

- No centralized system in place for procurement and inventory management.
- In the year 2007, Subhiksha took a corrective step of implementing SAP-Enterprise resource Planning (ERP) software but the project got stalled because the company ran into deep trouble.
- The plans to integrate all its stores via wireless communication to achieve operational efficiency was also shelved due to lack of funds.

Marketing

- With the growth in the number of SKUs, the chain moved to DIY format from no-touch format
- With the new format it was competing with the emerging supermarkets More, Reliance Fresh
- But the interior neighborhood has hampered its positioning as the limited parking space did not consider it fit to be called a discount supermarket nor a proper supermarket.

Finance

- It was in financial trouble right from the beginning.
- In 2000 during its first phase of expansion the first round of funding of INR 15 crore from I-ventures was received
- In 2004, it received the second round of funding
- By the year 2006, the no of stores had reached to a 1000 mark
- Expansion continued without sufficient capital backup with debt to equity ratio being high .
- By 2008, while major players were struggling to start new stores , Subhiksha became the largest retail chain with 1480 stores stretched in 110 cities across the country.
- The expansion helped in the company's turnover with a continuous rise from INR 330 crore in 2005-2006 to INR 2,305 crore in 2007-2008 to a projected INR 4000 crore in 2008-09.
- The financial woes worsened when it was unable to pay around 15,000 employees for over 6 months.
- No banks came to the rescue because of the economic downturn
- The top executives had left the company and the security agency personnel responsible left with no protection left for the various stores and warehouses leaving around 600 of Subiksha stores ransacked.
- The overambitious plans landed the company in a debt of INR 7 billion.

Our Primary Research to understand Retail Consumer behaviour

Study of Retail Store D-mart- Mumbai

Unique Shopping Perceptions- USP

Consumers Buying Behavior-

Research Methodology & Design:

Scope of the Study: The geographical scope is confined to D-Mart located in Mumbai. The scope of study in terms of customers, retailers and competitors will follow the boundaries as set by the objectives of the study.

Primary Research: The primary research was conducted by non-obtrusive observation of the customers.

Scope of Research:

Detailed noted regarding the observed behavior.

Technique of Sampling:

Simple Random method of selection of the customers of Reliance Fresh

Sample Size:

12 observations including both individuals and group. The behavior of sales-persons was also noted.

Research Tool:

Simple paper and pen/pencil and alert observing were all that was required for collection of data.

Time Frame: The study was conducted on 25/08/2011

Study of D-Mart- Mumbai

Unique Shopping Perceptions- USP

Consumers Buying Behavior-

1) Man in his 40s was looking out for edible oil. So walk straight through the aisles, quickly browsing at the other sections. He inquired about the 5 liter jar at the cash counter, which store was not having & went out within 1 minute. Because it was end of the month i.e. 25th August, so people look for monthly bulk purchases. Store manager said at the beginning of the month sales remains high, mid of the month it gets deep down & then increases at the end of the month. So from 21st of current month till 10th of next month overall footfall & business increases.

2) Three ladies enter into the store in their late 30s. Without looking at the promotional counter they proceed at the biscuit section. Pick a packet of biscuit & then without browsing through other sections came at cash counter made a bill & went out without looking what is there at fruits & vegetables (F&V) section. They spend around two minutes inside the store.

3) There was an old man. He was 60 +. He entered inside the store without looking at the promotional aisles, as there were no promotional items were lying on the shelf. As the promotional rack were having five shelves with few products displaying on the shelf. Then he straight away came to snacks & biscuit counter. He kept looking through the varieties available. He spends some time in tea & cosmetic section looking through the assortment & checking the price on shelves if possible. He stopped at the house hold needs section where he picked up pair of batteries. The positioning of the batteries was above the eye level on the 5th shelf. So it was not easy to locate the product unless & until you know the place during your previous visits. As the shelf tag was not placed he tried to figure out what can be the price of the product.

So he took the batteries in hand & turn around but couldn't make out because he was very old person & was not wearing his specs & as he was trying to look at the prices with lots of efforts. Again it was difficult for him to pick another product in hand as he was not carrying any bags though he had purchased few products from Biscuit & Namkeen section. Even the size of the bag is too large to pick few products, so he placed the products on shelf, hold the product in his hand & turn around, took the shelf label which mention price in his hand to have closer look. He took help of sales assistant for billing the products at the cash counter. Before cash counter there is a hanging display of Gillette ready shave pack. So he stopped there & purchased a ready shaver. After the cash counter there is a kiosk for cell phones, so after billing he stopped at the counter inquiring about the cell phones. Brows through all the brochures, assisted by counter person, inquired about latest ring tones & songs that can be added. So he spends around 20 minutes inside the store. He walks out of the store without looking at the F&V section which was next to grocery cash counter.

4) At 6:23 two women with a kid entered the shop. They directly stopped at Health drink counter without looking at biscuit section & the counter placed for promotion. They saw the packing of Cadbury Bournvita 1kg & pick the product without looking at the price. Then they proceed at the noodle section & spend some time browsing through. Then they stopped at cosmetic counter where they spend maximum time in the section. They were browsing through hair care section. They took few brands of hair oil in hand & started smelling aroma by actually opening the cap of the product. They spend ample amount of time in non-food category. Then they came to soap category & check out few beauty soaps. Without looking at the staple counter they stopped before cash counter for a while where confectionary & shaving aid section was placed. They came to cash counter point for billing. They purchased Maggi no onion no garlic tomato ketchup 1kg bottle, Hair & Care hair oil 200ml bottle. They didn't check the price of product but confirm the bill amount from cashier. Then they took the bill & didn't stop at F&V section.

5) Man around 25 years went to ready to eat & then dental care section & came to the cash counter. He had purchased Bhujia, toothpaste & Gits ready to eat. Though he was using loyalty card for quit a long period of time he was not aware of the benefits he was getting, so he started enquiring about the benefits he was getting.

6) At 6:39 pm a mother around 38 years came along with her daughter age 20. They stopped at the entrance for a while to checkout the promotion offered at the section. Then they moved at the health food section. They picked the Khari biscuit in hand & did not check its expiry date but check the freshness by smelling the product. They proceed further & slowed down at biscuit & noodles section. Then moved to hair care section, tried to read selling price of the shelf tag. Again at soap section they spend some time. At soap section started browsing, 1st they took Liril soap in hand & check the price, then took Dove soap & check the price. They move to detergent & home cleaning section. Daughter skipped the staple section & came straight to cash counter & mother started browsing the section. They purchased Liril soap, Maggi soup, pasta, two packets of Lux international soap 3+1, wheel bar 500gn, Super Max blade, Monaco, Khari, Parle-G family pkt. Marie Light biscuit, sugar 5kg. In mean time mother went to F&V section & purchased potato & cauliflower. They spend a lot of time at cash counter & unable to get Wilkinson blade because of the wrong pricing in the system. The MRP. On product mentioned was Rs.5/- but in the system it was entered Rs.10/-. So the cashier called up at the central office from where prices are controlled & tried to solve the issue on his cell while others customers were waiting for billing. The daughter was taking lager initiative in understanding what the matter is as her mother was just standing behind her. She paid by credit card & went out by 7:04 pm. Total time spend in store was 25 minutes out of which it took more then 10 minutes to get the bill from the counter.

7) At 7:10 a lady age around 35 along with two kids- age 12 years entered the store. She didn't stop at the store entrance. Kids moved to noodles counter started looking out for Maggi products. They were not carrying any hand bags. A boy started checking the Kellogg's product. He took the product in hand to see the price. Lady stopped at beauty talc section & by taking products in hand one by one she started smelling the aroma of Dermi cool & other brands. Then she started moving cross dental care section horizontally looking at the products. She straight away came to the counter for billing. Before that she stopped at the refrigerator & picked up flavored milk products. She purchased Maggi double noodles, Kellogg choco chip, Amul café & small talc. She moved out of the store at 7:20. Spend 10 minutes inside the store.

8) At 7:22 a middle age lady visited the store. She picked up the Hide & Seek biscuit & moved to the health food counter. The lady was looking modern as she was wearing rich looking Salwar Kamiz with modern hair style. At biscuit counter she took sales persons assistance to know whether particular variety is available in the store or not. She picked up the bottle of Nescafe & skipped the cosmetic section & then stopped at talc section. She waited for sales girl to answer to her queries as she was busy with some other customer. Then she moved to soap section & took Liril soap in hand & shook the packet to just get a feel of the content inside packet. Then took face wash from cosmetic section. She was browsing the detergent section horizontally. 1st she picked up the Tide packet then Rin Mogra & turned around the packet to see the things. She moved to cleaning section, opened the cap of Lizzol floor cleaner & smelled the fragrance. She flipped the shelf tag to see the price. Finally she picked up Harpic blue cleaner, she shook the bottle to check the quantity, after that she was not sure what to pick up or buy. Then she was accompanied by her kid who was around 8 years. Next thing she purchased branded staple. Before moving to cash counter she had a look at the men's shaving aids.

She bought Harpic blue, lime, Domex, Maggi mix soup, Fruictice shampoo, coffee, before buying H&C hair oil she opened the cap & smelled. Then she purchased Tide Mogra, Tide small bar. She did not read the scheme at the back of the counter & left the store at 7:46.

9) Then a man in his 30s picked up the Maggi double packet, moved through the store without looking at the things & made a bill & went out.

10) One middle aged person purchased Cadbury dairy milk small & big saving packet. As their regular customers details are mentioned in the computer, he came at the cash counter, asked cashier to check his name to get the discount. As cashier asked for his card he got irritated as he explained that if “my name is mentioned in your system why you need my card”. The person was Doctor by profession. After getting the bill, he inquired how much discount he has got though everything was mentioned on the bill & he left the store within 5 minutes.

11) Mother & daughter around 20 years walk through out the store & slow down at the staples counter. By taking the packet of dry fruit in hand they checked the priced. They were trying to make some purchase decisions but seems couldn't come to any conclusion. Then they purchased two packets of Saboo Dana & went out of the store.

12) Then two persons in their 20s entered. They took few Haldiram namkins, local wafers & came to cash counter. They were curious to know what are the discount rates & Subhiksha schemes, discount they can get on monthly basis. Behind cash counter the way goes to godown. They saw the sunglasses placed on the rack & moved in that direction to have closer look, intend to purchase it & then they started moving towards the godown assuming that there is additional section to see the merchandise.

Cashier stopped him & told him that sunglasses belong to him & at the back is godown which is restricted area. Then he exchanged the note, the cashier has given him which was cello tapped from the back.

Analysis & Inferences

- ✓ Maximum number of customers does not stop at the entrance where promotional counter is displayed. They have shown lots of offers mentioned on the shelf label but there are hardly any merchandise displayed on the shelf. Because it is located at the strategic point where looking at that counter is a must see thing, so sufficient amount of stock & its continuous replenishment is required. Another reason is there is no transition zone as such which will allow the customer to adjust to the internal environment, so keeping the section just near to entrance, won't allow the customers subconsciously to have neat look at the offers & the very purpose may get lost.
- ✓ It was end of the month where people do their monthly purchase. There was stock out of the edible oil 5ltr jar. Knowing the monthly purchase cycle store unable to keep even minimum stock level & on that account suffered losses.
- ✓ Condition of the F&V section is pathetic, as it doesn't attract at all the passerby. The merchandise is displayed in very dusty crates. These are perishable products requires lots of care in handling & should be hygienic. With dusty crates & poor quality of vegetables it is impossible to increase the turnover, as customers will prefer to buy from local vendors with good quality & cleanliness.
- ✓ Hand bags carry the merchandise were kept at the entrance. They are too big in size meant for bulk purchase. So if a person has planned to pick few items do not prefer to carry these bags & latter unknowing they pick lots of items they find it difficult to hold in hands. So medium size carry bags should be made available.

- ✓ Price of shelf tag is not visible from normal distance. As they are hand written & don't show product name & its gram, so the customer handles the products more to see the price clearly or they take the label in hand to have close look. At a times the shelf tags just price mentioned on it can get exchanged and this may mislead the consumers on pricing part. So along with MRP. & selling price tags should indicate product name & weight.
- ✓ Products like cell should be placed near cash counter where they are easier to find. Hanging display would be the better option. As it also reduces shoplifting inside the store. By making display on shelf leads to minimum exposure & this space gets eaten away which by displaying other brand could do well.
- ✓ Customers should not be allowed to open the cap of the shampoo or hair oil bottle to check the aroma. This may spoil or lead to misuse of the merchandise. Rather sampling or trial packet should be provided.
- ✓ Cosmetic section in non food category where maximum women like to spend time is a very strategic location. So the pricing & display should be very neat & organized.
- ✓ People using Subhiksha Bachat card for a long time were not aware of its benefits. This scheme is displayed on A4 size paper put on partially glass portioned wall & at the back of the cash counter where visibility is very poor. The message should be in a bold & attractive form. They can use backlit format to communicate this scheme or flex banner of a large size.
- ✓ Many customers prefer to pick few things like snacks, bakery products & like to come out of the store as quickly as possible. But the cash counter management is very lethargic & inefficient. It takes more than 5 minutes just to bill few SKU's. As cashier remains busy with many things like solving some problem on cell phone or placing a purchase order requisition. Customers may get much better service at Kirana store.
- ✓ Bakery products are also displayed in very unhygienic conditions, people have casting doubts while making a purchase.

- ✓ No definite order is given whether the merchandise should be displayed vertically or horizontally. It becomes difficult for the customer to browse through.
- ✓ Here is a print on the packaging for staples. This block the visibility of merchandise as the customer does not approach to this type of merchandise by reading a name but by looking at the content inside. Though they want to promote in-house staples but the packaging should be clear & transparent.
- ✓ The persons who comes to buy one or two goods should be convert them by putting more strategic points which will entice the customer to make impulse purchase. As the store layout is designed in such a way that it make the customer go through all the section but positioning of magnetic goods is missing.
- ✓ When the customer is confused & unable to make any decision it is responsibility of the sales person to ask if they need any assistance. Because this is good opportunity to convert customers half decision process into purchase of goods. Or try to sell some complementary goods to them.
- ✓ All categories related, directional & pictorial signage's which indicate restricted areas are missing inside the store. In fact in such store they should have courtesy signage. This gives a customer a very good feeling about the store & they may start patronizing it.

Porter's Five Force Analysis

Barriers to Entry

- Lost Brand Credibility
- Expected Retaliation & Alienation
- Presence of huge supermarkets in the neighborhood.

Rivalry Determinants

- High level of competition with a no of players
- Kirana stores built on trust and relationships hard to replace.
- Customer Loyalty towards hypermarkets with the extraordinary facilities.

Competitive Rivalry

Supplier Power

- Direct relationship without middleman builds strong supplier relationship
- Can drive huge discounts with the direct supplier deals.

Consumer Power

- Value for money
- Convenience of buying from nearby store
- Easier access & availability
- High buyer power
- Large volumes with additional benefits

Threat of Substitution

- Buyer propensity to substitute
- Buyer on the lookout for places which offers better discount.
- Switching cost

The Way Forward:

Rebranding & Restructuring Plan for Subhiksha

Shortcomings of Subhiksha:

- **Marketing**
 - a. Lack of focus in the product category
 - b. Poor Brand Building
 - c. Faced intense competition from the kirana stores
 - d. Giving discount on all the items not necessary
- **Operational**
 - a. Expansion Plans- hit by increasing reality costs
 - b. Quantity and not quality was not giving important
 - c. Sales and Distribution
 - d. IT systems
 - e. Inefficient inventory management
- **Financial**
 - a. Financial Adventurism
 - i. Too much reliance on debt
 - ii. Equity raised
 - b. Cash outflow much more than cash inflow
 - c. Leading to fund crunch
- **HR**
 - a. No resources with experience in retail
 - b. Unethical practices by the employees
 - c. Selling of goods to retailers for fudging the sales figures

- **Customer Service**

- a. Poor web interface
- b. Poor interiors
- c. Product unavailability
- d. No air-conditioning with no frills

Objective:

To capture 3-5% of the market share of FMCG business in India currently worth 75,000 crore.

Vision:

To provide quality products with increased affordability and convenience to the value conscious Indian middle class.

Suggestions for Restructuring:

Market Segmentation:

- **Geographic :**
 - City - top 3 Tier I cities(population over 4 million) in any of the regions of India (North, South, East, West)
 - Density – Urban
- **Demographic :**
 - Age : 20+ with majority of [20-49]
 - Gender : Male & Female
 - Family size – 3 to 4
 - Family life cycle – Married with children, Single parents, young
 - Income – Aspirers, Seekers and Strivers
 - Occupation – Homemakers, Managers, Single professionals, Retired people

- Psychographic:
 - Social class – Middle, working and Upper middle
 - Life style – Survivors and Strivers
- Behavioural:
 - Occasion – Regular occasions
 - Benefits - Economy, convenience, quality and service
 - User Status – Regular user
 - User rates – Medium and heavy user
 - Loyalty Status – Strong
 - Readiness stage – Interested

Customer Profile:

Middle class indian homemakers, who is constantly looking for value for money grocery purchase in her limited/fixed monthly budgets. Among her choices, she compares the prices and go for the lowest ones. But yes, she is very particular about quality standards. She demands a wider range than her kirana store giver her where she can meet FMCG and food items, staples and foods and vegetables thus saving her time and energy. A place where she can easily browse through the whole product range and take her own time to decide her choice. Instead of advertising she relies on word-of-mouth communication. With the store very near, she need not wait for her husband to take her to store. She can go whenever she wants, whenever she has time.

Brand Proposition/Offering:

- **Value Proposition:** More for Less \

		Price		
		More	The same	Less
Benefits	More	More for more	More for the same	More for less
	The same			The same for less
	Less			Less for much less

Positioning Statement:

“To customers who strive for quality products, Subhiksha offers them at affordable prices with great customer service, so they can live life the way they want with no compromise”

Product range

Subhiksha aims to become one stop destination for grocery needs of indian middle class. It will have three distinct categories:

FMCG & foods

This will include the toiletries, daily use cosmetics, and packaged food and beverage items.

Fruits, vegetables and perishables

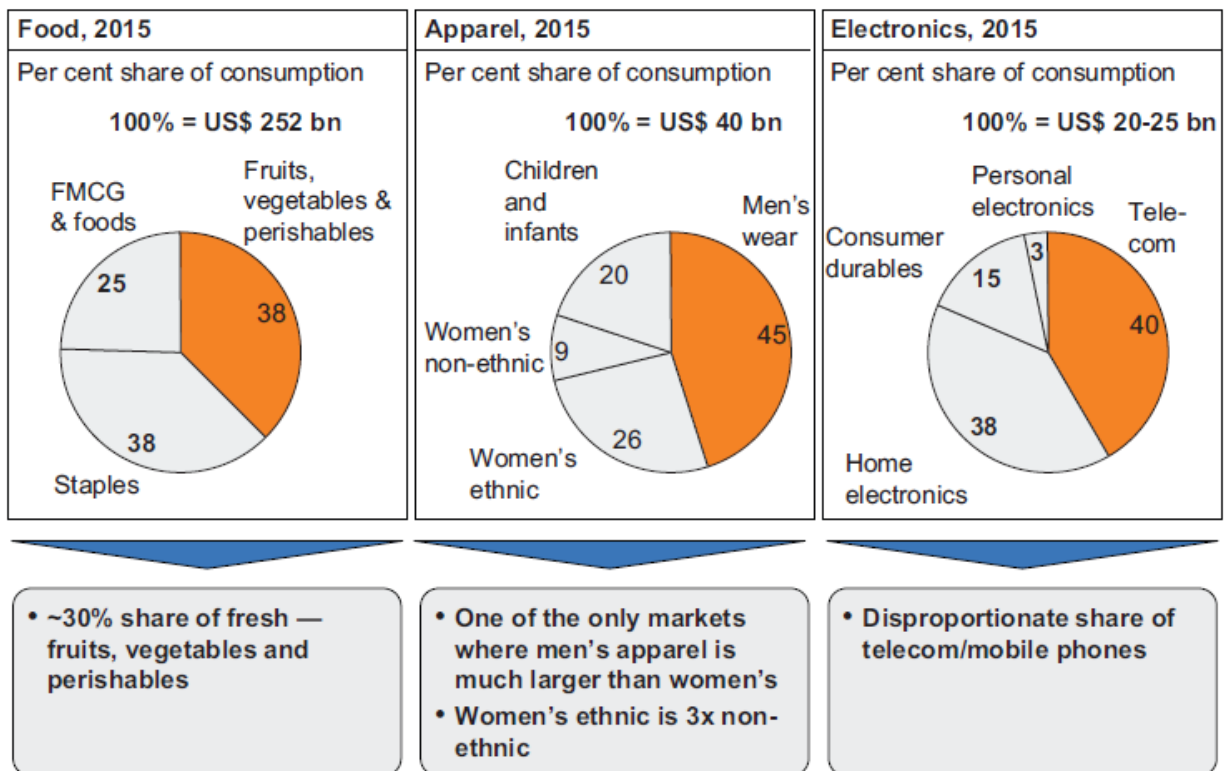
This consist of fresh fruits and vegetables procured from the mandi directly. Hence the shelf life is very short and they are replaced every morning. It also gives the customer to come in morning hours to get fresh vegetables.

Staples

Regular kitchen food items like rice, dal, pulses etc of good quality primarily branded ones.

Merchandise Mix

FMCG & foods: Fruits, vegetables and perishables: Staples :: 40:20:40



As we can infer from above diagram, the food sector accounts for maximum contribution in retail industry. At Subhiksha, we keep the product portfolio very close to the vision of Subhiksha which is to cater every grocery need of middle class Indian household.

Retail Format:

There are around 12 million retailers in the country, out of which kirana stores account for over 90% of the Rs 7,40,000-cr retail business in India. (Economic Times, 2008)

Execution:

1. Market Re-entry:

We would re-enter the market with the same brand name Subhiksha but with different positioning. The pilot project would start in Chennai with 5 stores. We have chosen Chennai as Subhiksha was operating in Chennai from 1997 – 2009. And it was doing well in Chennai until early 2008. So the goodwill of Subhiksha in Chennai is better when compared to other cities. These stores would be located in residential areas where there is no existing. Judging on the success of these 5 stores we would further open 20 more stores in Chennai.

One of the major reasons for the downfall of Subhiksha was the increase in the real estate prices. This can be countered this time by getting into revenue sharing partnership with the building owner where the Subhiksha store is supposed to be opened. We can decide on some percentage of the turnover depending on the area of the store. Our business relies heavily on turnover. This way we would be able to solve the problem of facing heavy losses when we have low turnover. In case we are unable to come up with such an arrangement in a locality we would lease the store.

Thus we would have 25 stores in Chennai in the first 6 months.

Once we make our strong hold in Chennai we would move to Bangalore and Hyderabad and follow the same pilot project model.

2. Marketing

Focus on the product Range: One of the main reasons for the failure of Subhiksha was the reason was the lack of focus in the product category. They were selling Fruits and vegetables, FMCG products, staples, Medicines and pharmacy. And they had planned to start their consumer durable stores soon.

With the restructuring we aim to be focussed in what we want to sell and what we stand for. We will not sell medicines, mobiles and consumer durables. As this items are not in sync with our vision. And these products are not connected to each other too. Moreover there is no point in selling the medicines at 10% discount. Medicines are such products on which discounts are least expected by the customers.

So we plan to sell only **Fruits and vegetables, FMCG products and Staples** in all our stores.

Maintaining the Quality of the product:

Quality was compromised on some of the occasions during the troubled times. This time our key focus would be keep vigil on the quality of the products. Also the USP of the store is to provide High Quality Products at affordable prices, thus improving standard of living of the customers.

Standardization of products across stores:

Last time around there was lack of standardization of products. Thus there was high level of customization. For example, In Calcutta it had an in-store sweets shop by a third party who would sell sweets to the customers of Subhiksha. The advantage for Subhiksha was that he would buy his raw materials from that Subhiksha store only. But this short-term gain hampered the brand image of Subhiksha in the long run. Subhiksha was losing its identity and there was lots of confusion in the minds of the consumer about what does exactly Subhiksha sell?

As part of our restructuring we aim to standardize the products (as much as possible) across all stores. Thus enabling uniformity and also improving the inventory management.

Price:

Previously Subhiksha provided EDLP on all its goods, on all the days, in all its stores. This is where it went wrong. Even Wal-mart doesn't give discounts on all its product range. Also Wal-mart prices a product differently in various outlets depending on the demand.

So we will make sure that we provide discounts on selective products on selective days. Subhiksha was providing an average of 9-10 % discount on the FMCG products. But these margins were wafer thin and more often than not it resulted in negative cash-flow. On the other hand, the kirana stores usually don't give any discounts and sell on MRP. This time we would give an average of 7% discount on all the products to get the competitive advantage on the basis of price and also at the same time maintain decent profit margins.

Promotion:

Change in communication message:

We are changing the core communication message. Previously the core communication message was about the savings the consumer can make by purchasing goods at great discount rates offered. But now we want to move our focus away from just the savings which can be achieved. Today consumers are not just bothered about the money they save but they are more concerned with the quality of life they are leading.

Our new communication message would revolve around this. It will highlight the fact that how the standard of living of the consumer is improved as he is able to buy quality products at discount. Which otherwise he would not have been able to buy.

This change in the communication message would help us to remove the label of being just a discount store and help us in positioning ourselves as a convenient store.

Advertising:

The launch has to be accompanied by heavy advertising in TV in newspaper in the city of launch. Strong Advertising is required to drive home the new communication message.

3. Operations:

Expansion plans:

As already discussed about in the market entry strategy, we would try to strike a deal with the property owner for a revenue sharing model if possible to cut down on real estate costs.

Now once we have launched 25 stores in each of the 3 cities – Chennai, Bangalore and Hyderabad and they are running successfully. We need to expand as the brand awareness has increased for Subhiksha.

Reckless Expansion was the major cause for the down fall of Subhiksha last time around. So this time around we would change our expansion strategy to minimise the

risks. We would convert the one of the existing kirana store in the locality of our interest in to a Subhiksha store. And have a revenue sharing model in place according the nature of the locality. Also Subhiksha would provide training to the staff and would appoint a store manager who would work in tandem with the kirana shop owner. The purchase would be taken care by the central buying The main advantage for the kirana store would be that he would be able to leverage on the brand equity of Subhiksha without spending on advertising and promotions by himself. On the other hand Subhiksha would benefit as it would have no setup cost, zero gestation period and access to the existing customers of the kirana store.

Thus after the initial six months we plan to increase the number of Subhiksha stores from 25 to 250 within one year. Thus we are achieving risk free expansion.

This is also in sync with the vision of Subhiksha in improving the standard of living of the kirana store owner.

Supply Chain:

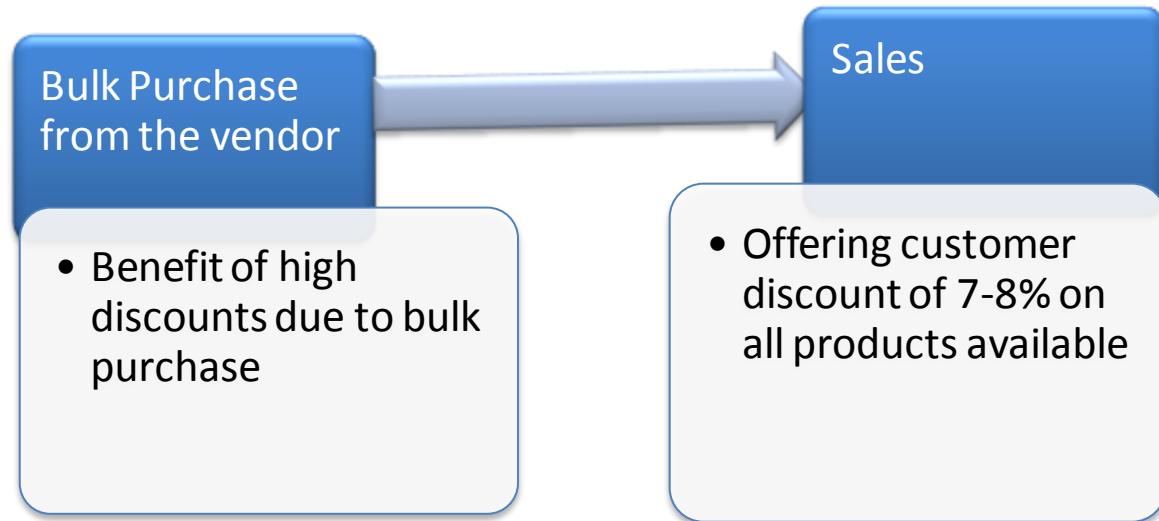
- Centralised Buying for all the stores in a particular city would be done to take advantage of economies of scale and hence enabling us to minimize costs
- Last time Subhiksha delayed the setup of private mandis. The stores came in to existence in 1997 and the announcement of setting of mandis came in 2008 which was very late. Thus they had to depend on the vendors of the vegetable market for the supply of fresh fruits and vegetables. Also the purchasing cost through them was higher. Now in the restructured format once the sale reaches good volume we can go for setting the mandis.
- The IT systems have to be in place to ensure effective inventory management and efficient centralised purchasing.

Component of supply chain	Current scenario	Selective modernise	Adapt to situation
Vendor/suppliers	<ul style="list-style-type: none"> Fragmented base 	<ul style="list-style-type: none"> Help a few become large 	<ul style="list-style-type: none"> Develop vendor management systems to handle several launched suppliers and tens of thousands of SKUs
Transportation	<ul style="list-style-type: none"> Small fleet sizes run by entrepreneur drivers 	<ul style="list-style-type: none"> Maintain dedicated outsourced fleet for last mile Tie up with emerging large fleets 	<ul style="list-style-type: none"> Optimise routes and locals but continue using small fleets
Warehousing	<ul style="list-style-type: none"> Bare-boned, labour-intensive warehouses No palletisation 	<ul style="list-style-type: none"> Modernise only in select cases (e.g., apparel central warehouse) Palletise selectively 	<ul style="list-style-type: none"> Operate low cost "godowns" but optimise picking and storage through world class IT
Flow patterns	<ul style="list-style-type: none"> Stocks "pushed" through network Flows through several intermediaries (CF&A, wholesales, etc.) 	<ul style="list-style-type: none"> "Pull" standard items through auto replenishment systems Move products direct from supplier to store (via cross docking) for certain categories 	<ul style="list-style-type: none"> "Push" seasonal and promotional merchandise Continue using intermediaries but maintain complete information ownership

HR:

- Recruit store managers with experience in retail
- Ensure the employees are trained adequately to ensure proper functioning of the store
- Strict guidelines to be setup for curbing unethical practices amongst the employees

Revenue model:



Revenue model aims at generating higher sales volume to achieve economies of scale and hence cover the apparent loss of providing discounts to the customers.

We plan to have high density of stores in the residential areas so as to generate more number of footfalls.

Cost structure:

Rentals: we will partner with real estate developers to reduce the rental costs

Supply chain and logistics:

- direct sourcing from wholesale markets
- making own distribution centers
- centralized negotiation
- contract manufacturing
- IT infrastructure development for inventory management.

Financial Projection

Revenue	1200
(COGS)	1000
(Fixed and variable Cost)	150
EBDTA	50
(Tax@ 30%)	15
PAT	35
(in million)	

	2011	2012	2013	2014	2015
Sales(million)	1200	1500	2800	4900	8,800
Outlets	75	90	200	350	550

Return on investment: $35/150 = 23\%$

With the trend assumed, it claims to achieve 8,800 Million INR business with five years of time. This is equivalent to 3% market share in FMCG retail business in India

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

Exhibit 1: From CII-McKinsey Report on Retailing in India

Year 2004	
Description	US \$ (in Bn)
Total retail	453
Organized Retail	11.5

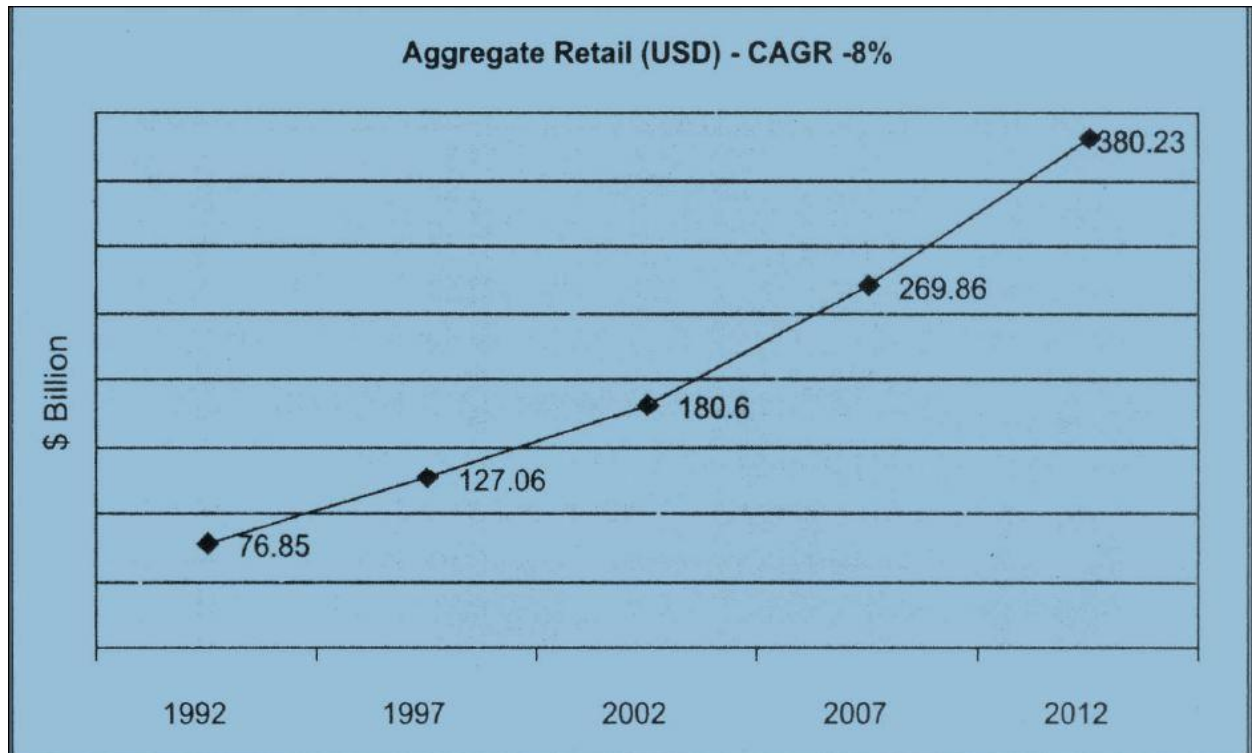


Exhibit 2:

Indian Retailing Comes of Age, McKinsey Quarterly, 2000, Number 4 Asia

Country	Total Market (in \$Bn)	% of Organized Sector
Taiwan	40	81
Malaysia	20	45
Thailand	32	40
Indonesia	5	30
China	325	15
India	180	2

Exhibit 4:

Product	Subhiksha (Rs)	MRP (Rs)
5 kg Ponni rice (I quality)	102	119.50
5 kg Ponni rice (II)	90	100
Toor dal 1 kg	36.95	42.50
Urad dal 1 kg	27.85	32.25
Sugar 1 kg	15.15	17
Moong dal 1 kg	32.50	37.50
Surf Excel Blue 1.5 kg	91.65	135.00
Tide 1 kg	43	46
Aavin butter 500 g	61	65
Amul table butter 100 g	12.50	13
Ponds Dreamflower 100 g	25.50	28
Lifebuoy Gold 100 g	11.75	12.50
Whisper Maxi 10s	54.95	60
Colgate dental cream 200 g	58.95	65
Kissan mixed fruit jam 200g	24.50	26
Kissan tomato sauce 200 g	23.50	25
Horlicks 500 g	91.30	99
Three Roses dust tea 500 g	90	100
Goldwinner 1 litre	55	64
Idhayam Gingelly oil 1 kg	97.50	101
Green Label coffee 500 g	65.95	69
Britannia Marie Gold 400 g	20.95	24
Britannia Orange cream 100 g	9.95	11
Five Star chocolate 120 g	36.10	38
Dairy milk 43 g	15.20	16
Top Ramen noodles 400 g	32.95	36

This is merely a representative sample. Note that in the final bill issued to the customer savings on each item is mentioned and his total savings are also exhibited.

Exhibit 3:

Subhiksha Advertisement & Communication



Subhiksha TVCs broadcasted across various channels and cities.

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