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ABSTRACT

1. Preface:

Organised Retail Sector in India is in a very nascent stage of development. There are many challenges faced by the present day retailers. One of the major challenges is maintaining profitability and at the same time attaining satisfaction on the consumer front. This calls for alignment of Marketing Strategies on the basis of Financial Indicators of Profitability.

2. Introduction to Retail Industry:

Retailing is a fundamental activity which exists right since the trade became center of human life. Though it evolved its various forms in different periods over the development stages of mankind, its purest form of breaking down the bulk still exists.

Retailing is the set of business activities that adds value to the products and services sold to the consumers for their personal or family use. Retailers attempt to satisfy consumer needs by having the right merchandise, at the right price, at the right place, when the consumer wants it. Retailer also provides markets for producers to sell their merchandise. Hence they are the final links to the consumers in the distribution channels. Since they are the final and in most cases only point of contact for the consumers the entire success of the product delivery is dependent on the retail activity.

Modern Organised Retail formats have grown rapidly in the recent past in India. It’s major driving factors are attributed to the changing socio economic pattern of the Indian society. Indian middle class is growing at a rapid pace leaving Indian Economy with the largest consuming class all over the world.
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Due to the increasing number of global players in the retail business and the kind of initial heavy investments required, it has become a matter of foreboding to watch the profitability of the retail stores to keep them functioning healthily. In the early stages, retail industry has witnessed hasty and incorrect decisions, frenzied and ill planned expansion and excessive investments. This has resulted in financial losses and serious operational inefficiencies for many organised retail chains. After this financial burn out some of the retailers such as Shoppers Stop have posted profits and have shown the signs of recovery. Some of the retailers are still adopting the wait and watch strategy. With this background it is very important to study the financial and critical success factors influencing the financial efficiency of a retail store in the organised sector.

3. Performance Indicators as a basis of Marketing Strategies

There are several issues in the investment decisions which need to be critically analyzed while setting up a store to be critically analyzed. If a good investment foundation is laid while setting up a store, it will breakeven within the given time span and will start generating the profits. One that generates enough to put funds back into the business for necessary expansion, will in turn, drive cost down and increase revenue.

This study was aimed at bringing out critical profitability issues in the retail scenario. Based on the financial indicators arrived at, Marketing Strategies can be developed for the retail store chains to improve the performance.

Pune has always been on the forefront of industrial growth in Maharashtra. The city has grown many folds in terms of geo-demographic expansions. It is one of the fastest growing urban areas in the country. This has amplified economic wellbeing. The growth in young population which is exposed to the cosmopolitan
lifestyle is changing the skyline of Pune. Weekend activities clubbed together with weekly shopping have made the leisure and entertainment scene in Pune very colorful and vibrant. This has given way for entry of almost all the national players in the retail industry.

On the other hand Pune real estate market has witnessed buoyancy in the recent past. Rentals are sky rocketing. The central business district of Pune is very crowded and the retail space is very scarce and expensive. The electricity rates are exorbitant. Hence it is necessary to review the financial indicators in Pune and its correlation with marketing strategies. The critical success factors which are identified for the study are as follows.

4. **Critical Success Factors:**

Though Retailing revolves around understanding the customer thoroughly and offering him exactly what he desires and how he desires, there are number of important functional decisions required to be taken on the basis of financial analysis. Unless the business is financially healthy there is no point continuing or expanding it. The financial analysis works as a foundation for the marketing strategy formulation and evaluation. Any strategy that is not turning out effective in producing positive inflows has to be reviewed and altered.

A typical organised retail outlet works on the basic fundamental factors which are extremely important in turning out to be profitable. It works on the following assumptions which are important for generating the positive cash flows.

a. **Floor Area Per Department:**

Floor space area per department is one ratio that can say a lot about the floor space utilisation by the retail outlet. The
department allocation of floor space area needs to be done judiciously on the basis of sales turnover and daily footfalls.

b. Floor Space Area to Total Footfalls:

Footfalls contribute directly towards revenue generation. The allocation of floor space mainly depends upon, number of footfalls in the given time span. This ratio can also indicate whether the floor space area is adequate for a particular department for the people to move around comfortably.

c. Conversions Per Sq. Ft. Area:

While allocating the floor space to different departments, conversions to each department also contribute towards decision on allocation of floor space area. The guideline for decision on department wise allocation of floor space area can be taken on the basis of conversions per square feet for the categories of products. The ratio can be arrived at as under,

\[
\frac{\text{Total Conversions}}{\text{Total Sq. Feet Area}}
\]

d. Total Footfalls To Conversion::

Retailers strive very hard to bring the prospective customers to their doorsteps. But it is further necessary to trace the conversions of these footfalls. Many more factors go into the conversion ratio such as merchandise selection, reality of promises made, prices of the products, choice of brands etc. Footfalls to conversions contribute largely towards the decisions regarding merchandise selection, effectiveness of employees, and ambiance.
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The ration can be used as under

<table>
<thead>
<tr>
<th>No. of Conversions per year</th>
<th>Total footfalls per year</th>
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**e. Employees Per Department:**

Requirement of employees depends upon the merchandise on display and the amount of interaction and assistance desirable at the point of purchase. Employee requirement per department can also be used as a norm to identify whether all the departments are adequately staffed. This ratio can be shown as

\[
\frac{\text{Total No. of Employees}}{\text{No. of Departments}}
\]

**f. Sales Per Employee:**

Employees directly affect the sales in a retail setup. Interventions of sales assistants at right time can boost sales to a great extent. Effectiveness of sales assistants can be measured on the basis of employee to sales ratio. The ratio is represented as

\[
\frac{\text{Sales Turnover (Rs.)}}{\text{No. of sales assistants}}
\]
g. **Conversions Per Employee:**

Footfalls being converted directly speak about the overall effectiveness of the retail outlet. But one step further could be to find out conversions per employee. This ratio can gauge the effectiveness of sales assistants in converting prospects into actual sales. The ratio can be calculated as

\[
\text{No. of Conversions p.a.} \quad \frac{\text{No. of sales assistants}}{\text{No. of Conversions p.a.}}
\]

h. **Pilferage / Shoplifting Ratios:**

Pilferage / Shoplifting is a major area of concern for a retail outlet. A properly laid down security system can greatly reduce losses due to pilferage and shoplifting. Hence the performance of pilferage / shoplifting control mechanism should be judge on the basis of proportion of loss due to shoplifting to the sales. The following is the interpretation of this ratio.

\[
\text{Loss ( Units) p.a.} \quad \frac{\text{Pilferage Ratio}}{\text{Sales ( Units) p.a.}}
\]

All these profitability indicators were studied for the Pune based organised retail outlets. The results were compared with the customer satisfaction scores, to formulate marketing strategies.
5. Objectives

Objectives of the study were as follows;

- To study the expenses and investment heads of various departmental stores
- To study the available profitability indicator in Retail Stores
- To identify the critical items under the expense head
  
  To calculate the shop floor area of each department and calculate the return from each department

- To set the profitability indicators for the retail chains with reference to different locations.

**On the basis of these Indicators to evolve the Marketing Strategies for Retail Chains in Pune.**

6. Hypotheses

On the basis of the objectives of the study, Hypotheses were formed and were also tested.

1. Lease Rentals and a percentage of Sales Revenue in Pune is same as the national benchmark
2. Conversions as a percentage of total Footalls in Pune are more than the national Benchmark
3. Recurring Expenses as a percentage of Sales Revenue in Pune are same as national benchmark.
4. There is positive correlation between people visiting sale and awareness about prices of the products during sale.
7. Methodology:

This research was mainly oriented towards organised retail outlets in Pune city opened during the period of 2001 to 2006. The study is focused on developing marketing strategies based on the financial indicators for organised retail sector in Pune City. Certain Financial Indicators were studied for all organised retailers which were started during the period of 2001 to 2006. 17 outlets out of 25 that are present which belong to these organised retail players were contacted. Simultaneously responses from consumers were collected to explore the satisfaction levels and problems faced in shopping. Entire study was carried out in the following steps.

a. Desk Research:

Extensive desk research was carried out to collect the data regarding various retail chains in India. The details such as number of outlets in a city, the head office, regional office, number of employees, total investments and other financial data was collected. National statistics on financial indicators was also collected from the numerous research articles and Industry Reports. The data was used to set the national benchmark for retail industry. This data is used as a basis to compare the financial profitability indicators in Pune city.

b. Designing a Checklist and questionnaire:

A checklist was designed to include the details such as outlet location, sq. ft. area going rate of real estates, number of employees in each section/department and items dealt in by each department.

A questionnaire was structured for the consumer contacts separately. The questionnaire was formed to find out the store
purchase behavior, shopping preferences and satisfaction levels of various sections.

c. The Data Collection:

The data was collected through direct personal interviews and observation method. The direct personal interviews of the shop managers were carried out to find out the details such as sales turnover, shop investment, and returns. The observation method was used for tracking the traffic in various departments / sections during the day. The direct interviews of the customers were taken through a structured questionnaire.

d. Analysis & Interpretation of the data:

Data collected from the field was then compiled together. From the raw primary data received, financial profitability indicators were calculated separately for each outlet. These indicators were compiled together and were compared with the national benchmark worked out from the data compiled from desk research. This data was then used to explore the profitability rating of Pune based outlets.

Consumer feedback was analyzed on the parameters such as satisfaction levels, consumer shopping preferences and their general shop choice behavior. This data was compared with the profitability indicators viz. floor space utilization, merchandising and category preferences for the merchandise.

The inferences from both the categories of contacts (consumers and retailers) were compiled together to formulate the marketing strategies for organised retailers in Pune.
8. Field Observations

Appropriate statistical tools were used to analyze the data. Data interpretation was done scientifically and inferences were drawn which were presented in terms of the field observations. The field observations are presented in three parts, viz.:

I. Comparison of Profitability Indicators at sample retail outlets in Pune with the National Benchmark
II. Customer Satisfaction Feedback
III. Comparison of Profitability Indicators with the Customer Satisfaction Feedback

The field findings are presented as follows:

I. **Comparison of Profitability Indicators at sample retail outlets in Pune with the National Benchmark**

   a. **Lease Rentals:**

      It is observed that the lease rentals as a percentage of Sales Revenue range between 1.98% to 19.26%. The rentals in prime locations such as Shivaji Nagar are very high. The mean score for lease rentals works out to 6.84%.

   b. **Footfalls per sq. ft.:**

      Per Sq. Ft. Footfalls at Food Retail outlets are much higher as compared to the Lifestyle Retail outlets. The mean score for Pune is 99.53 per Sq. Ft. As compared to the national benchmark of 30. per sq. ft. it is enormously high.

   c. **Sales Per Footfall and Ticket Size:**

      Mean Score for Pune City with respect to Sales Per Footfall is Rs. 105.04. As compared to the national average of Rs. 321.01, Pune City Mean Score is drastically low. Similarly Ticket Size for
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Pune city is Rs. 195 which is almost half of the national benchmark (Rs. 425). At the same time, percentage conversions in Pune are observed to be 61.29% which are way above the national benchmark of 55%.

d. Sq. Ft. Area Utilisation:

Sales Per Sq. Ft. in Pune City are Rs. 9557. Compared to the National benchmark, there is very slight deviation of -0.4% from the benchmark of Rs.10038.

e. Shoplifting / Pilferage Ratio:

Shoplifting/Pilferage Ratio at Pune is recorded to be 1.15% which is less than the national benchmark (1.86%) by about 38.45%. Pilferage ratio in various outlets ranges between, 0.45% to 2%. Pilferage ratio at Food Retail is found to be higher than lifestyle retail.

f. Recurring Expenses:

Recurring expenses at Pune are at 4.01%. As compared to the national benchmark of 2.93%, they are very high. The percentage deviation from national benchmark works out to 36.45% which is very alarming.

II. Customer Satisfaction Feedback:

Average age of respondents is 35 years with equal number of male and female respondents. The satisfaction levels of respondents in all the four retail players show significant difference.

- Westside is ranked at the top at overall satisfaction score of the outlet.
• General Cleanliness and Ambiance at Westside is observed to be the best among all the four outlets followed by Shoppers’ Stop.
• Highest satisfaction level of (1.99) is reflected at Shoppers Stop followed by Westside (2.23) for Merchandise Selection and display.
• Spencer’s Consumers are more satisfied (2.47) regarding trolley availability as compared to any other outlet.
• Shoppers Stop Billing System is observed to be better than the other stores.
• Information about special offers is imparted more efficiently by Shoppers’ Stop than any other outlet.
• Prices at Shoppers Stop are high according to the consumers. (Mean Score = -0.06).
• Respondents generally agree that the quality of products available is very good,
• Availability of stock is very poor in Spencer’s (Mean Score = -0.10)
• Communication of the special offers at Spencers is not satisfactory (Mean Score = -0.20)
• Prices and the billed amounts generally match at all the stores.
• Respondents visit the outlets only when discount sale is announced though they are aware that the prices of products are inflated and then discounted during sale. Correlation Coefficient = 0.145
• Though the respondents feel that they get inferior quality of products, they also feel that discount sale offers good bargain. (Correlation Coefficient = 0.068)
III. Comparison of Profitability Indicators with the Customer Satisfaction Feedback:

- It is observed that Footfalls per sq. ft (132.38) are highest for Spencers however the General Cleanliness at Spencer is extremely unsatisfactory (2.64).
- Sales per sq. ft. are very low at Shoppers Stop (Rs.4847) whereas Merchandise display is found most satisfactory in this outlet. On the contrary consumers do not find all the products with this retailer. (Mean Score = -0.10)
- % Conversions from Footfalls is highest at Spencers (74.31%). The mean conversions in Pune City are also 61.29% which are more than the national benchmark of 55%. This is also supported by the consumer responses that at all the outlets in Pune, the quality of products available is very good.
- At Spencer’s the conversion rate for vegetables section is 45.08% which is way below national benchmark of 55%. This is also supported by the response from consumers that they prefer to buy vegetables from roadside vendors.
- Spencer’s spends about 3% of its revenue on promotional expenses which are same as the national benchmark. However it is observed that, the respondents do not get the information about special offers regularly. (mean score = -0.20).

9. Hypotheses Validation:

Hypotheses were validated by using suitable statistical techniques. Three out of five hypotheses were accepted. The results are enumerated as follows.

i. Lease Rentals and a percentage of Sales Revenue in Pune is same as the national benchmark

H0 is accepted : There is no significant difference between % lease rental in Pune and National Benchmark of 4.5%.
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ii. Conversions as a percentage of total Footalls in Pune are more than the national Benchmark

H0 is accepted : , There is significant difference between % conversions in Pune and National Benchmark of 55%.

iii. Recurring Expenses as a percentage of Sales Revenue in Pune are same as national benchmark.

H0 is rejected : There is significant difference between recurring expenses in Pune and National Benchmark of 2.94%.

iv. Seasonal sale is found beneficial by the consumers

H0 is rejected: Seasonal Sale is not found beneficial by the consumers.

10. Suggestions:

Based on the analysis and desk research it is clear that, Profitability Indicators in Pune city are representative of National Benchmark. However in the recent past some new entrants have withdrawn from the market. There still is a skepticism about sustainability of retailers in smaller cities. Though the retail boom is on the horizon, local strategies to attract the footfalls need to be devised. Hence the suggestions are made in two parts;

I. Suggestions directly related to the improvement in profitability indicators and satisfaction levels.

II. Formulation of marketing strategies to ensure the financial profitability for sustainable growth
I. Suggestions directly related to the improvement in profitability indicators and satisfaction levels.

- **Lease Rentals:**

  Pune being one of the cities where Real Estate Rates are sky rocketing, there is a need to devise strategies to reduce the burden of lease rentals. Retailers need to forecast the needs of retail space in the forthcoming period and book the space in advance to save on the lease rentals. Upcoming areas need to be scanned in advance so that the retail space can be acquired at cheaper rates.

- **Footfalls:**

  Footfalls per sq. ft. are way above the national benchmark in Pune. However there is a need to spread these footfalls over all days of the week and all hours of the day, evenly. The strategies such as happy hour purchase, quick pickups should be used to divert some footfalls to non busy hours. This will reduce the burden on infrastructure in busy hours and will result in better service and better satisfaction levels.

- **Conversions:**

  Conversions as a proportion of footfalls are greater than the benchmark of 55%. Continuous feedback about shopping experience and loyalty programs should be introduced at this time to keep the conversions high. With reference to the wheel of retailing the conversions are at peak when the outlet is new. As soon as the novelty factor diminishes, conversions also suffer.
II. Formulation of marketing strategies to ensure the financial profitability for sustainable growth

Since the conversions suffer as soon as novelty factor diminishes as per the wheel of retailing, continuous innovations is the key to success. The following are some innovation areas for the retail outlets for consideration.

- **Floor Space Management**: The prices of real estate are soaring up in the recent times. The retail space in prime areas is limited and very expensive. Hence the retailers need to make a choice either to pay overstated premiums for the floor space area or to move out of the central market area of the city. As Indian mindset is not to drive down to far away places just to shop, most retailers prefer staying in the central shopping areas of the city/town to get the assured footfalls. This calls for the effective and stringent floor space management systems. Certain techniques that will be required to be considered by the retailers for effective floor space management are:

  a. **Flexible Merchandise Display**: Depending upon the item wise purchases during the day the retailers use the flexible model of display system for the merchandise. E.g. if the peak purchases of vegetable are in the morning, 2 hours and afternoon 2 hours, the racks can be shifted on the front side in these hours and during the day other merchandise can occupy the same place.

  b. Must keep watch on the nonmoving items and should be replaced with some other items from time to time. Seasonal requirements of food items also change to a large extent across the country, this should be taken care of very well.
c. Signage should be clear so that unnecessary movement of customers can be minimized.

- **Technological Innovations:**

  Smooth functioning of the retail store intensely depends upon the technological quotient of the retailers. The retailers need to match the speed of technological advancements and also absorb whatever is relevant for improvising present systems. Certain areas such as payment mechanism, hand held stock register, commodity identification devises will the highlight of technological innovations of the future.

  a. **Visual Merchandising:**

     Visual merchandising has a key role to play in the Indian retail scenario. Fashion retail segment is mainly driven by the innovative ways in which the product can be displayed and is yet secure from shoplifting. Electronic devices, photographic equipments, computer peripherals are some segments which will welcome such innovations.

  b. **Shopping Aids:**

     Since the shoppers belong to various categories, age groups, segments and profiles, various types of shopping aids can be developed.

     i. Automated shopping carts, on which one can sit and shop.

     ii. Magnetic electronic diary to register bulk purchases of grocery items with the reminder facility

     iii. Listening aid with the preloaded information on ingredients and salient features of the products.
c. **SCM Innovations:**

The future SCM innovations will revolve around just in time approach for food retailing. Technological support such as RFID, stock handling devices and stock taking mechanism will smoothen up the process. Business intelligence will be the center point for these innovations. Multiple supply chain management systems will evolve for the single retail setup depending upon the customer segments that it caters to.

- **Innovative Promotions:**

Point of purchase promotions need to be very innovative and catchy since they play a major role in converting footfalls into actual sales. Apart from the point of purchase innovations, collaborative promotion strategy will also be call of the hour. For instance, the home décor retailers such as tangent, and Croma, can join hands with home loan companies which provide house renovation loans.

- **Creativity in Vegetable Retailing:**

Identification of accurate names of fruits and vegetables and feeding these names into the system is a great challenge for Indian retailers. It gets more complicated when the varieties are many and one cannot attach a barcode label to it. IBM has recently developed a gadget called Veggie Vision which can identify fruits and vegetables using a camera. This can eliminate the need to punch in a numeric code while weighing the produce. This can also allow a shopper to weigh his merchandise on his own without waiting for the shop floor assistant.
11. Conclusion

- Retail profitability indicators are a guiding force for the retail outlets for efficient management.
- Though the indicators should match the national benchmark they should also be compared with the satisfaction levels of the consumers. Continuous consumer feedback should obtained for making modifications in layout and merchandising at the local level.
- Most promotion decisions are taken centrally. There is no authority to the outlets to design their own promotion schemes.
- Profitability indicators are a good tool to design marketing strategies. The viability of retail outlet needs to be measured on a two dimensional scale i.e. profitability indicators against the satisfaction levels.