July 2013

Bachelor of Business Administration (BBA) Examination

VI Semester

Retail Management

Time 3 Hours] [Max. Marks 80

Note : Attempt any four questions (out of seven questions) from Section A. Each question of Section A carries 15 marks. Section B carries 20 marks. (A Case Compulsory)

Section A

1. Has India really reached the growth stage in retail ? What are the strategy that needs to be adopted by the retailer to ensure that they succeed ?
2. Explain the concept of the retail life cycle and discuss its applicability in the Indian Context.
3. Explain various kinds of Retail formats adopted in changing scenario with their characteristics.
4. What is the importance of a retail brand ? Is retail branding important for a Retailer ? Discuss.
5. Write short notes on the following :
   (a) Market Penetration and Market Skimming.
   (b) Mark up Pricing.
6. Explain the components of the Retail Marketing Mix.
7. Discuss the critical need for common data and communication standards to support the retail industry.

Section B

Read the case and answer the questions at the end :

It was hyped as India's first supermarket chain. Barely seven years later, the Nanz chain of food and grocery stores was put in cold storage. The Nanz story shows that a combination of internationally successful people or organisations need not translate into another success. The Nandas, Helmut Nanz - head of the multibillion-dollar German retain chain - and Don Marsh, CEO of the US convenience store major, Village Pantry, have all been successful in their own fields. These three were equal co-promoters of the Nanz stores in India. They also supervised its closure.

In 1997, the chain had projected a turnover of Rs. 100 crore. By 1999, however, its seven stores managed to scrape together, a turnover of Rs. 20 crore. Of profit, there has never been a sign. Today, Nanz is a case study of how not to operate a retail chain. In retrospect, the Nanz management failed on all counts. It failed to do its homework, a fact that affected both its cost structures and its target market. It also failed in the most crucial element of the retailing business : of building effective partnerships with its vendors to ensure an efficient supply chain. "The reason Nanz failed was because the stores were built on the lines of the promoters' egos and not with customer needs in mind," says a former senior executive of Nanz Food Products.

The problems began right from the groundwork - literally. Nanz chose to start its chain in Delhi, where the Indian promoters, the Nandas, are based. But this proved to be a bad decision because of crippling realstate prices. "Real estate was the main killer," admits B. R. Kapoor, executive director, Goetze (India) Ltd, the Nanda group company backing Nanz Food Products Ltd. Contrast this with the RPG group's Food World, which set up shop in Bangalore, Hyderabad, Chennai and Pune, where real estate prices are almost a quarter of those in Delhi. For one of its outlets in Delhi's Greater Kailash locality, Nanz was paying as much as Rs. 5 lakh for its 10,000 square foot space, in 1993. Thus, at Nanz, rent accounted for as much as four to five per cent of the gross margins. Apart from real estate, says Kapoor; "three per cent of gross margins was used up in paying the power bills". Manpower costs were also high. "If you take around four per cent of the margin for paying manpower, that leaves very little," he adds.

This pinched, because Nanz's margins were pretty low - Kapoor argues that gross margins in food and retailing can only go as high as 14 per cent. But real estate proved a bigger killer than Nanz had bargained for. The first Nanz outlet was opened in May 1993, in South Extension in Delhi. Within a year, it was attracting 2000 customers per day. The dream run came to a sudden halt when the municipal corporation of Delhi razed the building. Apparently, Nanz had violated building by-laws by taking a lease on residential property. Kapoor claims that the Nanz management was unaware of these irregularities; it had merely leased the property from parties who owned the real estate. Also, he says, MCD did not follow a consistent policy. Though it demolished the Nanz outlet in South Extension, it did no touch the surrounding buildings which were also illegal, he alleges.

This may be true, but the experience should have taught Nanz basic lesson - that it needed to do its homework before it signed a lease. It didn't. In 1998, a part of the Nanz outlet on Pusa Road was also demolished because the builder had taken up more area than was permitted. Meanwhile, Nanz had another bigger problem on its hands - the lack of a market. When Nanz Food Products was formed in 1993, the supermarket concept was in its infancy. Though retail activity had started in the mid-eighties, players like Nilgiri and Foodland were restricted to the south and west. The first Shopper's Stop outlet opened in Mumbai in 1991. Nanz was the first major food and grocery retail store chain in northern India. It was, therefore, in direct competition with the kirana shops, which have three distinctive ardvantages - proximity, service (they offer such conveniences as home delivery) and high margins due to low infrastructure costs.

Nanz's glitzy ambience may have been, in keeping with the promoters' aim of providing an international shopping experience, but it failed to lure middle class and lower middle class consumers, who would help generate the volumes to partially neutralise the high overheads. "While some consumers might feel at home in the upscale ambience, many others stayed away. They felt that their Kirana store offered better bargains. At least, it wouldn't charge them for the air conditioning," says a former senior executive of Nanz Food Products. Not surprisingly, Nanz began to have difficulty in expanding volumes. For instance, the average footfall in the Nanz store at the Greater Kailash complex, was 300 to 500 per day. The "basket size" - the average purchase per person - was a substantial Rs. 600 to Rs. 700. But analysts believe that if Nanz had targetted the mass segment, the daily traffic could have risen to Rs. 800. While the basket size would have come down, the total revenue would have increased.

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To be fair, Nanz did try to rectify this by setting up "**LoBill**" stores - no frill stores of 1000 to 2000 square feet, to increase its consumer base. These stores were opened in such middle class-"catchment areas" as Noida, Shahadara and Karol Bagh, in 1994. This format was extended in December 1996, when Nanz established six sub-1000 square foot stores, called "**Kiryana from Nanz**". However, by 1997, two of these had shut down. The reason : Nanz kiryana stores did not offer sufficient price differentials from the neighbourhood shops, so most consumers continued to do their shopping elsewhere. If this was one deterrent for customers, Nanz did little to strengthen customer relationships in a durable manner. Where, for instance, Shoppers' Stop has an energetic loyalty programme, Nanz launched special promos and went in for some aggressive advertising. The problem was that these efforts were rarely consistent. Nanz would step up its media presence during the fag end of one month and the beginning of another (from 25th of one month to the 10th of the next month). However, such measures only brought temporary relief.

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Partnerships, in fact, were a major scuree of failure. Nanz was trying to fight the general perception that a supermarket or branded store need not necessarily charge higher prices. Retail chains and supermarkets are successful abroad because people associate them with economy. Apart from stringent cost controls per square foot of management space, a crucial element to success lies in cost efficiencies in supply management and bulk sourcing. Nanz didn't do this. Typically, retailers source directly from manufacturers, instead of from distributors. By cutting out one link in the chain, they are able to negotiate bulk discounts. Kapoor blames manufacturers and large multinationals for not supplying directly, and at discounts, due to which the chain was forced to source from distributors. But a former employee says that Nanz did get direct supplies from some companies like Nestle and Colgate, among others, but was unable to capitalise on this because it never attained the volumes needed to negotiate significant discounts.

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A basic lack of vigilance added to the management's woes. One major problem was high degree of pilferage - as much as six per cent of the total turnover. "We managed to bring it down to three per cent," says Kapoor. "We had to depend on manual supervision". "We did not have close circuit TVs in the stores. That is why we could not bring the pilferage level lower," he adds. Frisking customers was ruled out as an option since that would have put off people. The lax standards at the store level were a direct reflection of the management, which was constantly in flux. In a short span of eight years, Nanz Food Products had six CEOs. The first CEO was a German, Andreas Blankenhorn. After a two-year tenure, Daljit Walia succeeded him. Both Walia and his successor, General S. Mehra - both were seconded by Escorts - were superannuated. VT Bajaj took over for a short period. In mid-99, Sarabjit Ghose succeeded him. In mid 2000, S. K. Manchanda, then head of merchandising, took over as the acting CEO, when Ghose resigned.

Despite numerous troubles, Nanz continued to open new outlets and appoint franchises at an alarming rate. By November 1997, it had 23 outlets in Delhi, its surrounding areas and Punjab, which included ten franchisees. However, within a year, Nanz decided to jettison its franchising route and fall back on its original formula of expanding through its company outlets. This change in plans was necessary because franchises were loosing interest. They were not benefitting, say sources. Franchisees felt that they could get supplies directly from the distributors. Sourcing products from Nanz reduced their profit margins. By 1998, the Nanz supermarket chain had come down to 18 stores. Also, earlier targets of opening 50 stores and achieving a turnover of Rs. 100 crore by 1999, were proving to be increasingly difficult to achieve. By 2001, the number of stores had dropped to seven - three in Delhi and one in Faridabad, Noida, Ghaziabad and Patiala, respectively. Indeed, some of the stores were close to breaking even on the back of large volumes.

To be fair, part of the reason Nanz was put on the block is that it no longer has a fat with the promoters' overall plans. Nanz of Germany was exiting the retail chain business. The Nandas were going through tough times. In April 2000, they sold their 24 per cent stake in the two- wheeler company Escorts Yamaha Motor Ltd., to the Japanese partner, in as Rs. 230 crore deal. In the end, however, Nanz failed on the most basic issues. The problem was not that it was ahead of its times. It simply did not have a proper plan and business model.

Review Questions :

1. Which are the key factors to be taken into consideration while setting up a supermarket/ departmental retail chain operation ?
2. What is the growth strategy that should be adopted by a supermarket chain in a country like India ?
3. What organisation structure would you recommend for the same ?
4. Nanz was said to be an idea before its time - how could Nanz have used the first mover advantage to its benefit ?

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