Subhiksha : A Battle For Survival

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INTRODUCTION

Retailing, one of the largest sectors in the global economy, is going through a transition phase not only in India, but the world over. For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains (Food World, Spencer, Reliance Fresh, More, Apna Bazaar), convenience stores (Convenio, HP Speed mart) and fast-food chains.

The emergence of new sectors has been accompanied by changes in existing formats as well as the beginning of new formats: Hyper marts, large supermarkets, typically 3,500-5,000 sq. ft., Mini supermarkets, typically 1,000-2,000 sq. ft., Convenience stores, typically 750-1,000sq. ft., Discount/ shopping list grocer.

RETAILING SCENARIO- GLOBAL VIEW

Retailing in more developed countries is a big business and is better organized than what it is in India. According to a report published by McKinsey & Co., along with the Confederation of the Indian Industry, the global retail business is worth a staggering US$ 6.6 trillion. In the developed world, most of it is accounted for by the organized retail sector.

The service sector accounts for a large share of GDP in most developed economies. And the retail sector forms a very strong component of the service sector. In short, as long as people need to buy, retail will generate employment. Globally, retailing is a customer-centric activity, with an emphasis on innovation in products, processes and services.

RETAIL INDUSTRY IN INDIA

The Retail industry in India has emerged as one of the most dynamic and fast paced industries with several players entering the market. That said, the heavy initial investments required make break even hard to achieve and many players have not tasted success to date. However, the future is promising; the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations.

In a developing country like India, a large chunk of consumer expenditure is on basic necessities, especially food related items. Hence, it is not surprising that food, beverages and tobacco accounted for in Indian retailing industry has seen phenomenal growth between 2001- 2006. Organized retailing has finally emerged from the shadows of unorganized retailing and is contributing significantly to the growth of the Indian retail sector.

Buying behavior and lifestyles in India too are changing and the concept of *'Value for Money'* is fast catching on in Indian retailing. This is evident from the expansion of the pantaloons chain into a large value format, Big Bazaar, and the entry of discount stores in food retailing in the South, namely, Subhiksha.

The traditional grocers, by introducing self-service formats as well as value-added services such as credit and home delivery, have tried to redefine themselves. However, the boom in retailing has been confined primarily to the urban markets in the country. Even there, large chunks are yet to feel the impact of organized retailing. There are two primary reasons for this. **First**, the modern retailer is yet to feel the saturation effect in the urban market and has, therefore, probably not looked at the other markets as seriously. **Second**, the modern retailing trend, despite its cost-effectiveness, has come to be identified with lifestyles. Otherwise, retailers have to suffer a lot like in the case of *"Subhiksha"*.

Subhiksha, the retail store, is battling for survival. First generation entrepreneur R. Subramanian, owns Subhiksha - India's largest (in terms of number of stores) food and grocery, small format, neighborhood, convenience, discount retail chain. He opened the first store in Chennai in 1997 that grew to more than 1000 stores by the end of 2007. But it

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was on the verge of bankruptcy, as on 2 Feb, 2009. Its founder R. Subramaniam is a B.Tech from IIT and PGDBM (MBA) from IIM, Ahmedabad. Subhiksha has ICICI Ventures and Wipro's Aziz Premji as its investors.

Everything seemed to be in the right place. But, then, what went wrong?

ENTRY OF SUBHIKSHA

R. Subramaniam, in an interview once said-"*There was no great logic behind entering the retail market in 1997. We made a study of two areas: **software and retail**. Between software and retail, we thought we were a bit late for software as Satyam, Infosys, Wipro, TCS, etc., had already established themselves by then. We didn't want to be a small and late entrant. In retail, we would be one of the early entrants, so we would have the learning curve much to our advantage. We allocated a ₹ 5 crore (₹ 50 million) corpus to it and entered the retail business. There was a lot of thought process behind it. We wanted to attract not the top end customer but the 'Aam Adami'. From our research of three months, we found that consumers prefer buying groceries from closer home. So, we decided to set up 1,000 sq ft shops all across the city and not a 10,000 sq ft big store at one location in Chennai. The next question was why would the customer come to our store abandoning the existing store? It had to be the price, because ultimately, there is no difference between the branded products like say Boost or Surf or such things. So, we decided to sell branded products at a lower price.*"

INITIAL STAGE OF SUBHIKSHA

Firstly the **Name**, according to officials, the Sanskrit word "**Subhiksha"** was chosen (means "the giver of all good things in life"), because it reflects the Indian ethos and it is a word that can be understood all over India. Their **Theme** was, *'Why pay more when you can get it for less at Subhiksha?'*

In March, 1997, they opened their first store in Thiruvanmiyoor in Chennai with an investment of around ₹ 4-5 lakh. (₹ 400,000- ₹ 500,000). They thought that there would be a stampede because the prices were low and they would sell goods of ₹ 30-40 lakh by the month end. But there was nothing of that sort! They sold goods of only ₹ 5-6 lakh in the first month.

INITIAL EXPANSION PLAN OF SUBHIKSHA

By March 1999, Subhiksha started expanding rapidly. From 14 stores, it expanded to 50 stores by June 2000. In the next two years, it had 120-130 stores across Tamil Nadu. Another big thing was, in 2000, ICICI Venture invested in this company.

Subhiksha targeted every part of India, which was significantly literate and was a significant consumption market. It took telecom companies as its role model. It employed capable regional managers and expanded. The business was also extremely local, thus, the company decided to have very good quality people to run the region, area, town and the store.

In 2004-05, they decided to have 420 stores in places like Gujarat, Delhi, Mumbai, Andhra Pradesh and Karnataka, and by the end of 2006, they planned to open 1,000-plus stores . By the end of 2008, they were operating through over 1,500 supermarket stores across more than 100 cities selling food, grocery, drugs, and telecom products across India.

OPERATING PATTERN

❋ Cost cutting strategy;
❋ Market Research for expansion;
❋ Management of front end and supply chain operations using its existing local Enterprise Resource Solution (ERP).

OPERATING CYCLE

❋ All goods are bought on cash to extract the maximum discount from suppliers.
❋ SKUs (stock keeping units or the number of items on display). Most of the SKUs are bought directly from the manufacturer, cutting the intermediary out.
❋ Supply chain software, developed in-house, keeps track of what's selling and what isn't.
❋ The Management is divided into two simple sections: Operations, which is centralized and looks after everything

from ordering to accounting, and stores, which are responsible for all store level activity. There is one manager for every three stores, and he reports to a chief manager responsible for business development, who in turn reports to a vice president. The VPs are responsible for sales targets.

BUSINESS STRATEGY

Any Retail Business is based on 2 factors- Margins and Turnover. On the bases of these, it is further classified as: High turnover, High margin, low margin, low turnover (details are there in the following Figure 1.

Figure 1: Important Factors Of A Retail Business

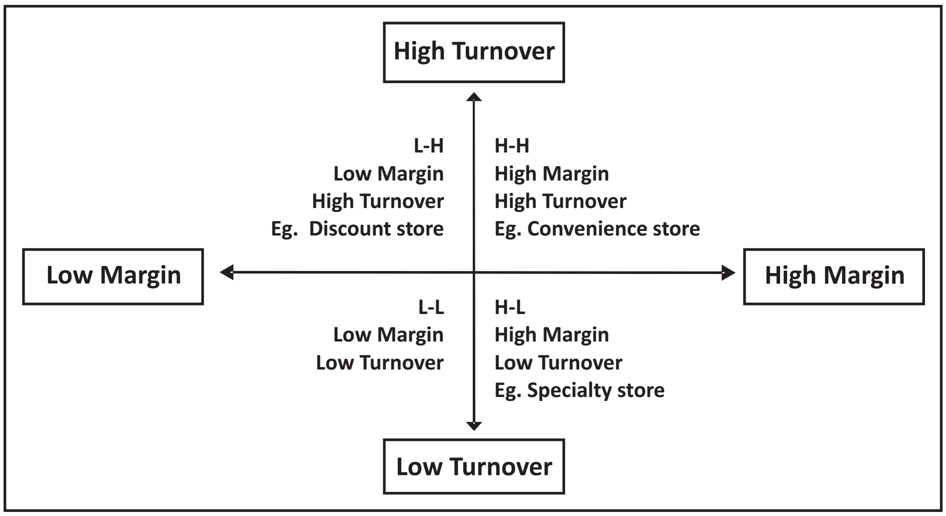
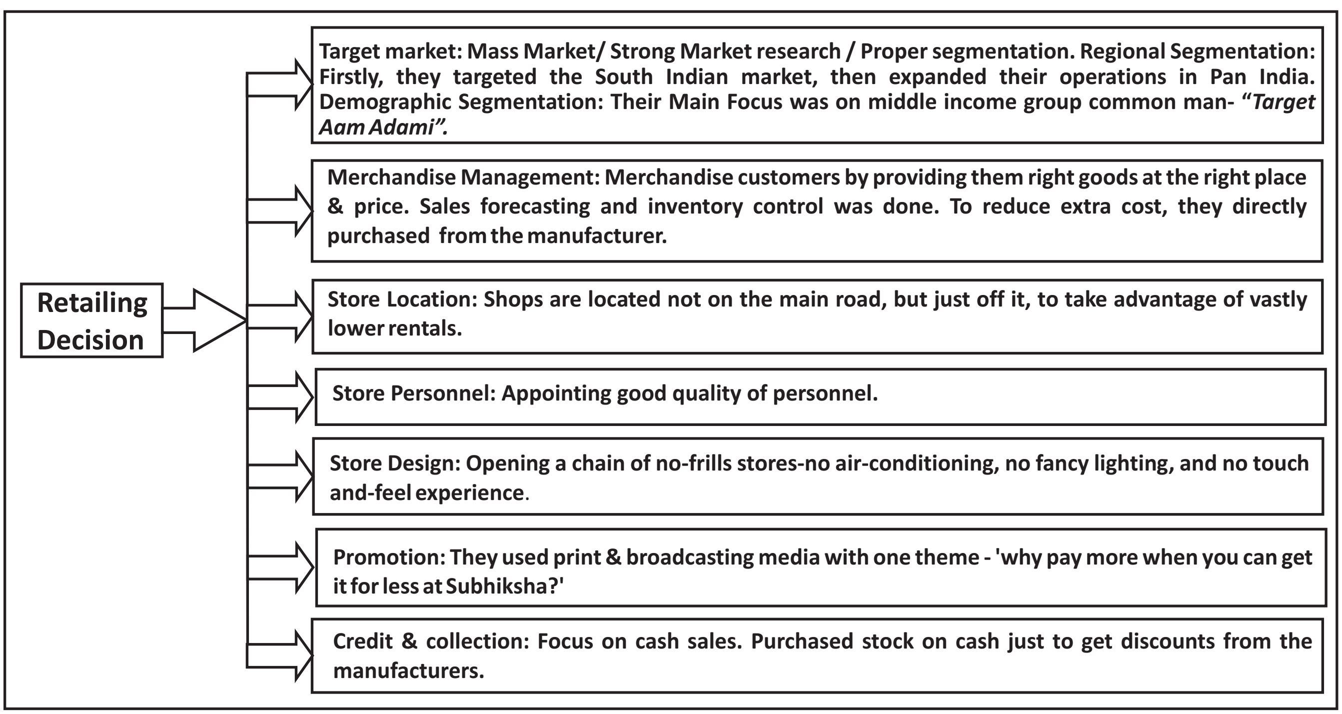


Figure 2: Other Retail Decisions Or Area Of Operations Claimed To Be Opted By Subhiksha



Subhiksha is based on High Turnover and Low Margin concept, in this operation; it is assumed that low prices are the most significant determinant of customer patronage. The stores in this category price their products below the market level. Market communication focuses mainly on price. Because their **theme** was, *'Why pay more when you can get it for less at Subhiksha?'* .Thus, they concentrate on prices just to increase the footfall of the customers.

ENTRY OF COMPETITORS

Subhiksha has to compete with its high profile competitors like Reliance Retail and Future group etc. Reliance Retail has set up 700-odd stores in the past two years, almost at the rate of one store per day, Future Group has begun opening a new no-frills discount retail chain called KB's Fair Price Stores, a format that is similar in concept to Subhiksha stores. Reliance's food and grocery format Reliance Fresh on the other hand is high-end in terms of display, ambiance and size.

GROWTH PATTERN

Riding on the back of rapid expansion, Subhiksha's turnover grew from ₹ 330 crore in 2005-06 to ₹ 833 crore in 2006-07, and then to ₹ 2,305 crore in 2007-08 (year ending March 31, 2008). Likewise, having grown from 150 stores in September, 2006 in Tamil Nadu to 1,600-odd stores across the country in September, 2008, Subhiksha has been the envy of its competitors. By the end of this 2009, it was looking at grossing a turnover of ₹ 4,300 crore from 2,300 stores. Interestingly, all the growth was, however, fuelled from a small net worth base of ₹ 250 crore, having equity component of ₹ 180 crore (face value of ₹ 32 crore).

PROBLEMS FACED BY SUBHIKSHA

When everything was in its right place, they earned profits, but unfortunately, this growth phase lasted for only a short period of time. The following are the some reasons for it:

1) Smaller in size and in prime localities in a city with no air conditioning and fancy shelves and designer lights. Only thing which went against them that was that one could not be getting all brands that they wanted in their outlets; essentially, the choice was limited. It could have been driven by strategy of stocking a few brands on which they were able to get a good offer from the manufactures or supply chain bottlenecks. So, there would be many consumers who would come and buy a few products from them and go on to buy the others from another retailer.

2) Expansion Against Consolidation: With the availability of free capital and the irrational exuberance of the markets, Subhiksha tried anything and everything to just expand without actually looking back at what they had become.

3) Lack of Focus: In Subhiksha's case though, it is not conglomerization, but the lack of focus on the product mix they are offering.

4) Cut Price Strategy: Opening a chain of no-frills stores-no air-conditioning, no fancy lighting, and no touch and-feel experience (customers have to ask for products at Subhiksha stores)-was a deliberate strategy. Shops are located not on the main road, but just off it, to take advantage of vastly lower rentals. The catchments area of customers is rarely beyond a two-km radius, since its customers usually come on two-wheelers or on foot.

5) Enterprise Resource Solution (ERP) : *"We were facing a lot of difficulty in accessing data across different regions using this local solution,"* Ankur Saigal, vice president (Tech Initiative), Subhiksha Trading Services. *"Because of this problem in the system, there are a lot of related problem like-delay in payroll system, communication failure, no proper information received regarding empty shelves."*

6) Expansion Without Sufficient Funds In Hand : *"We got into trouble during the second half of last year (2008), when we were unable to tie up funds for our ongoing operations. That slowly started choking and has lead to paralysis of operations completely now,"* said Subramanian. Not even able to clear dues of advertisements of ₹ 8 crore, the company, according to the report, is also carrying a debt of ₹ 700 crore at an average interest cost of 12 per cent per annum.

7) Expansion Of Stores, Without Adequate System Control And IT Support : That's why there were huge Audit and abnormal losses in the system. And when they started implementation of SAP, things had become extremely difficult for survival of Subhiksha. Maharashtra FDA, the state government's regulatory authority for food and drugs, had asked Subhiksha to suspend operations of its warehouses at Bhiwandi (Mumbai) for 20 days as well as cancelled licenses of three of its vendors, charging that they had *failed to maintain health and hygiene norms* as prescribed by the regulator. Many wholesale suppliers in Azadpur subzi mandi, or vegetables market, had *stopped supplying* fruits and vegetables to Subhiksha outlets in the National Capital Region (NCR) surrounding the national capital. This came in the wake of the company *holding up payments* for two to six months against normal credit period of one month.

8) Lack Of Strong HR Policy And Staff: Due to this, Subhiksha was not able to retain the talent which it initially brought into Junior, Middle and high level management. Whatever was remaining with it was all family bound, with no commitment policy. They were paying *huge rentals* for the stores, which was a huge drain on the company's finances. Huge frauds were committed while entering into rental agreements by their own management people. There was no proper check and control on this cost, though this is a very crucial part to defeat competitors and to gain profitability in future. This, coupled with less than-expected footfalls, drove the operational costs to unsustainable levels. One wrong assumption was that the telecom segment is a sound, and profit making segment. The CEO never looked into system losses arising from the sale of telecom products. Subhiksha stores always sell handsets at below DP, while its benchmarking is to match DP. There was no control on inventory of mobile accessories and the stock value were unable to circulate the working capital. The company thus gradually started sinking down step by step and now stands on the verge of collapse. The management frankly admits that their over confidence and aggressiveness are the main reasons for their loss. They should have gone for an IPO when the things were well and good to prevent such a downfall. If they had responded on the right time, they wouldn't have been in such a bad phase.

RESTRUCTURTION PHASE

In Feb '09, the management of Subhiksha declared the bad health of the organization. Its entire stores were not in operation. Now I-Venture and other members of the management are putting in their efforts for the restructuring of Subhiksha. On their restructuring path, in Sept`09, Subhiksha made a second attempt to negotiate with creditors; it filed appeal against petition set aside earlier and also, on 20th Oct, 09 they opened 4 stores in Chennai to sell crackers during Diwali etc just to seek the attention of the market. Mr. Subramanian is confident of reviving the business of his company. *"The market is tough and banks are cautious about lending, but, if we are to get back on track, I cannot predict a timeframe, but we will bounce back."* believes Mr. Subramanian.

CONCLUSION

In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. In a sense, this trend is already visible with the emergence of stores with an essentially *`value for money'* image. The attractiveness of the other stores actually appeals to the existing affluent class as well as those who aspire for to be part of this class. Hence, one can assume that the retailing revolution is emerging along the lines of the economic evolution of society.

According to some experts: *"The desire to expand at breakneck speed is not typical of Subhiksha alone. All retailers have read the Indian market wrong,"* says Devangshu Dutta, who runs retail consultancy Third Eyesight in Delhi. *"There was no prudence; (there was a mismatch) between what the real consumer demand was and the number of stores opened."* Pinakiranjan Mishra, partner of retail and consumer product practice at Ernst & Young, says, *"Retailers have spread themselves too thin to benefit from scale."* No doubt there is a huge potential for growth in India. Ultimately, the share of the unorganized *kiranas* will come down and the share of organized sector will go up because of the efficiency in buying and distributing, but retailers must find the USP of these sectors because this is an extremely low margin business. Ultimately, everybody has to sell within the cost.

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