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Building Successful Indian Retail Brands

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The Global Retail Scenario

Large format retail businesses dominate the retail landscape in the United States and across Europe, in terms of retail space, categories, range, brands, and volumes. Indian retail industry cannot hope to learn much by merely looking at the Western success stories in retail. Their scales of operations are very huge, the profit margins that they earn are also much higher and they operate in multiple formats like discount stores, warehouses, supermarkets, departmental stores, hyper-markets, convenience stores and specialty stores.. The economy and lifestyle of the West is not in line with that of India and hence the retailing scene in India has not evolved in the same format as the West nor can we learn valuable lessons from their style of operations.

In retailing, the conventional wisdom used to be, that, the critical success factor was location. But precise location no longer matters and geo-demographics is increasingly becoming irrelevant. The leading multiple chain retailers, superstores and malls create their own centers of gravity, attracting customers by car, bus, train or even by plane to wherever they are located.

The growth of multiple chain retailers has been relentless for many years in the west and this has been accompanied by the development of retail names as brands in their own right. Discount retailer Walmart has catapulted to the top of the Fortune 500 rankings in the U.S. with a turnover of \$258 billions (2003 revenues – the basis for 2004 rankings), ahead even of oil major Exxon Mobil and the mammoth manufacturing giant General Electric. A ruthless policy, of, ‘Always Low prices. Always.’ has brought Walmart to the top. On the day after Thanksgiving in November 2002, Wal-Mart sales hit \$1.43 billion in one single day.

Walmart and Nordstrom in the U.S. and Sainsbury’s and Marks & Spencer in the U.K. have grown by rapid geographic expansion in their own countries. Specialists like Benetton of Italy and IKEA of Sweden and The Body Shop of the UK are international

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and the fast food chains like McDonald's and Pizza Hut are everywhere. The same products are increasingly available from the same names on every continent. Retailers worldwide have immensely benefited from the sustained growth of the disposable income of their global consumers.

Geographic saturation

The end of the nineties has signified a turning tide of retailer power. The limit to retail ambition is geographic saturation. There is already a fear that the U.S is 'over-malled', that available shopping space exceeds customer demand for products. The retailer logic that 'if we build new stores they will come', is being belied. Many retailers have started postponing their store expansion plans. The track record of some of their international store expansions is also not promising.

Category killer competition

The threat of saturation is accompanied by a new competition from the low cost category killers. Specialist competition is eating away at the market share and forcing down the prices and gross margins of the multiple chains. The success of the giant killers in the toys segment – Toys R Us and in home furnishings – Home Depot, in the are a case in point.

Alternative shopping channels.

The newest retail format that is showing growth in the U.S., and is more frightening for retailers than for consumers, is the Internet. The potential for on-line shopping which is growing in the U.S. questions retailers' investments in more physical sites and stores and makes it imperative that they too explore the new agenda of 'E-retailing' or 'e-tailing'.

The Indian Retail Scene

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailers function in less than 500 square feet of shopping space. Global retail consultants KSA Technopak, have estimated that organized retailing in India is expected to touch Rs 35,000 crore in the year 2005-06. The Indian retail sector is estimated at around Rs 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. *The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself.* In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

There is no doubt that the Indian retail scene is booming. A number of large corporate houses — Tata's, Raheja's, Piramals's, Goenka's — have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, new-age book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores. Every retail category has been attacked, by the organized players today. The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies, or having a well thought out branding strategy. To illustrate, the Indian

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lifestyle/fashion retail scene is already exhibiting the following characteristics, which do not augur well for its future:

Lack of store differentiation : Leading retail stores like Shoppers Stop, Lifestyle, Ebony, Globus, and Piramyd, offer common brands, similar ambience, and a commitment to improved service. Where is the scope for differentiation and brand building? Can these retailers hope that location and ambience alone will do the trick?

Merchandising muddle : Mumbai's original retailers of Mumbai —, Amarsons, Akbarallys, Benzer, Premsons — have experienced no decrease in traffic in their stores, even after Piramyd and Westside opened shop. These retailers exploit what they know best — what the customer wants with regard to product, selection and price — and ensure their customers do not go back disappointed. Consumer insights built over their years of experience in business is helping them to hold the fort against the onslaught of the new players on the horizon.

The organized new generation Indian retailers (Shoppers Stop and Westside) have recruited senior retail persons from abroad, who have the expertise in setting up systems and procedures, but they are going to take a long while to tune into the psyche of the Indian consumer.

With the permutations and combinations of seasons, fashions and regional preferences, merchandising is at the best of times a complex task. India's cultural diversity poses additional challenges to the merchandisers requiring them to be aware of local tastes and to be able to compete with the local retailer in terms of market knowledge and speed of response. While technology and systems are no doubt enablers, there can be little substitute for experience and insight.

Lack of labels/suppliers: Organized Indian retailing has to face the situation of lack of professional suppliers who are accustomed to deadlines, systematic in their production and consistent with their quality. Often, the local suppliers do not have financial strength or production infrastructure or discipline. Indian merchandisers are forced to compromise

due to a true lack of choice — which leads to huge unsold stocks and reduced profitability to the retailers.

Discounting: Given widespread availability of the same brands, large retailers have to cope with the phenomenon of discounts offered by the smaller retailers. Large stores are able wrangle larger margins from most suppliers, but these margins are retained to meet the higher operating cost. Small retailers are tempted to pass on the lower overhead in the form of a discount to the customer to get them to their stores. In a middle class-dominated, price-sensitive market like India, price manipulation is a strong weapon in the arsenal of the small independent retailer.

The large retailers themselves further dilute the strength of the retail market. With promotions becoming the order of the day, they too have entered into price wars against each other. ‘Up to 50% off’ sales and ‘Two for one’ price offers have now become commonplace even at the top retail outlets across our country. Deep price cuts may not be the answer to maintain their relevance against the small retailers nor does it auger well for the brand building of the store.

Limited margins and high real estate costs: It is well accepted that Indian retailers work on low margins compared to international chains. The retail margins in India are a meager 30 to 35 per cent for fashion brands (as, say, compared to 50 to 100 per cent across Europe). With overheads and allowance for dead stock, the Indian retailer is not left with much scope for error. Cost of prime land for the retail store is prohibitive. Land prices in prime localities across the metros have themselves become a major deterrent to sustaining a profitable retailing model for organized players. A number of the new chains have therefore preferred to spread in smaller metros, hoping to offset lower revenue potential with lower real estate costs.

‘Time abundant’ consumers?: In recent years, it would seem that the consumer has thrown the adage ‘time is money’ to the winds. The customer is willing to spend more time if he/she is getting a better deal. Scarcity of time seems to be the prerogative only of a few consumers. The crowds inside Sarvana Stores or Jayachandran textiles in Pondy

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Bazaar in Chennai, drive home the point that consumers are prepared to travel to reach stores that promise best prices.

The Indian model of organized retailing is still in a stage of evolution, and retailers need to understand the value of retail as a brand rather than remaining as retailers selling brands. However, the characteristics of the branding process, which are of interest to the retailers, are still the characteristics of the traditional product brands – they are simply extended to the intangible part of the business. Thus, the characteristics of a branded product, are simply applied in a different space.

What are the fundamental characteristics of a brand? While a myriad of characteristics have been catalogued by several researchers on this subject, five characteristics deserve mention:

- (1) *Recognizability*: A true brand is instantly recognized and identified. The brand name passes into every day use (Nike's 'Just do it') or becomes satirized ('Don't be such a Duracell') or appropriated ('Make a Xerox of this document'). Indian retailers like Shoppers Stop, the RPG Group's Food World and Music World have already earned national recognition. Subiksha in Tamilnadu and 'Margin Free' supermarkets in Kerala are household names in the two states.
- (2) *Meaning, story, value*: This is the second characteristic of a brand. The brand must have a value proposition. It must stand for something and one of the most effective ways is to have a story to transmit those values. Examples abound of effective leaderships that have helped to build corporate brand values in other sectors, but few retailers have succeeded in building a story to carry brand meaning. When they do so, their power will increase.
- (3) *Legitimacy*: The meaning of the brand should be obviously appropriated by the target customer group. Legitimacy rests on authority, earned by the brand and granted by the customers. Lessons can be learned from social organizations like *Greenpeace*, *Medicins sans frontiers*, *CRY* and *Helpage India*. In this case, legitimacy rests on moral authority. In retail businesses it may rest on an

emotional authority (a unique shopping experience, a store filled with warmth and friendliness.)

- (4) *Consistency, alignment*: A brand story should contain no internal contradictions and should appear to be consistent over time. It should be applicable across the business and attempt at total brand integration.
- (5) *Proximity*: The brand building process should culminate with assuring the brand's proximity to the consumer. The brand's definition gets expanded by opening stores in a number of locations to make it convenient to the consumer.

Retail brand building

Product brands make life easier. They make it possible to recognize products, which simplifies the decision making process. Furthermore, product brands make the consumer a part of a group, they create a sense of belonging. But retail brands do even more than that. These brands are visible platforms for kindred spirits: the physical shop is a container for the entire retail formula and therefore constitutes a large part of the retail brand. The tangible nature of retail makes the familiar slogan 'experiencing the brand' most logical of all, in a physical store.

Retail brands have gained in popularity in the past few years. Indeed, they have a number of advantages above product brands. In the first place, they are closer to the consumer. The physical store space offers the possibility of literally and figuratively communicating with consumers at the moment of purchase (one-to-one marketing). Retailers can show who they are and what they stand for through the store formula. Moreover, in principle, retailers are neutral, because the choice of product brand (or store brand, if present) is left to the consumers. Retailers help consumers because they make a shrewd pre-selection and present their product assortment in a specific manner. Once a consumer knows and trusts a retailer and has good experiences and memories about a store, the foundation has been laid for a long-lasting relationship that will ultimately lead to customer loyalty.

Retail branding creates a brand preference, which goes beyond the product or service in itself.

Retail Branding versus Product Branding

A great difference between product branding and retail branding is that in many cases products have an anonymous or even fictitious presenter, whereas in retail, consumers come in direct contact with the company and/or product. A Cadbury's Dairy Milk chocolate bar, for example, is a product made according to a set recipe in a factory that is not open to the public. In addition, the people who work there never come into contact with the consumers because the retail channel lies in between. And those who do sell the 'CDM' to the end-consumer (the retailers) do not have very much to do with it by virtue of their function. Therefore it is possible to conceive a brand identity for the product, establish it for a specific target group and then fix it in the minds of consumers. Compare the identities of 'Five Star' 'Perk', 'Gems' and 'Temptations': all very different, yet they come from the same manufacturer.

Contrast this with a store like Food World, for example. Because of its direct contact with the end-user, it must effectively live up to its brand reputation in every aspect, every day. It is impossible for retailers to escape the need to continually sustain the store brand. In a store, the entire retail organization is revealed and the true nature of a company can be experienced. A retail store, as said earlier, is the container that holds the entire formula. All the elements of the formula (including the elements of the marketing mix) come together in-store. The formula should be deliberately shaped from the standpoint of identity (the 'brand' of the retail organization) with mutual coordination of the elements being important.

What might it then mean, when branding is applied to retailing? The issue is not of retailers selling brands but branding the retail business itself, like the grocery supermarket chain or the fashion store. A hypermarket or department store, may offer several well-known brands, but in today's competitive world cannot afford to rest on its strategic product assortment and pricing initiatives to bring in the customers. The retailer

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must attempt to brand himself differently, especially when today's product brands are being launched through their product brand's own shops. (Examples in the shoe segment – Nike, Adidas and Reebok. Jeans segment – Lee and Wrangler, Perfumes –Hugo Boss.)

A retail organization, like any other corporate company, will have to ensure that its own brand includes the characteristics of product brands detailed above. Retailers need to work on three dimensions to achieve this:

(1) *Brand value*: The retail brand has to embody and transmit clear values to the customer. (Like 'value for money', 'Luxury shopping redefined'). Some companies have attempted to define this in their mission statements but they are often too vague and not actionable. For example the U.K. Virgin brand has the value of challenging conventions and the U.S. retailer Nordstrom has a built a value of customer service. While many Indian product brands have successfully weaved values around their brands (Hamam on 'trust', Godrej on 'quality' and TVS on 'service') retailers are yet to develop a consistent value across their businesses.

(2) *Brand strategy*: It is imperative that retailers have a systematic strategy on issues like whether to develop the retail brand or corporate brand and decisions on one product/one brand that they may be selling in their shop. Retailers can also decide to launch high quality retailer brands ('own labels') backed by promotional campaigns, reinforcing clear personalities. Pricing policies, today position retailer brands as good value lines or premium lines (Nilgiris department stores prices its grocery lines above manufacturer brand prices).

The view that retailer brands offer a cheaper alternative to manufacturer brand is no longer valid. There is even scope for retailers to develop alternative types of 'own labels' targeted at different consumer groups in their outlets. An essential ingredient for success, in such cases, must be consumer-relevant added values – not just lower prices. It is only a minority of consumers, today, who are prepared to trade off added values for lower prices. Experienced consumers are no longer primarily motivated by low prices.

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There is scope to attempt a retail segmentation strategy. For example, DCM Benetton India redesigned its stores as per its international format and also repositioned the brand from a casual wear brand to a wardrobe option. The company is now attempting to target a niche audience through its concept stores. It launched a 'Baby-on-Board' store, which targets mothers-to-be and kids, an 'Accessories' store that sells luggage, bags, sunglasses and vanity cases and an 'Adults Only' store that showcases Benetton's apparel collection for men and women.

(3) *Brand structure* : Operational levels of the retail business have to be held together to integrate the whole brand proposal. At this level, marketing, human resources, distribution, logistics, administration and sales have to work towards a common brand value that has to be communicated to the consumer. The retail brand's messages must be weaved into the every day experiences that the consumer has with the retail brand.

Brand building constitutes a way in which the main value of the retail store shifts to what has been traditionally called an intangible.

Indian Retailing is coming of age and needs to have a clear brand proposition to offer the discerning Indian consumer. There is no doubt that the retail business is gravitating from high street towards destination shopping (mall development) with an estimated 10million square feet of mall space expected to hit the metros and mini-metros across the country this year.

However, we need not assume that retailing at shopping-malls, is going to be fundamentally different from shopping at the traditional shopping areas, except that a mall has a more modern structure and in most cases brings multiple brand outlets under a single roof. The local retailers moving into malls, however, have to face the challenge of building brand recognition and loyalty right from scratch.

Most mall developers have on offer, the same combination of shopping (International/national brands), Entertainment (Theatre Multiplex) and food (McDonald's/Pizza Hut/Café Coffee Day) in their malls. It is therefore not surprising to note, that many mall visitors come out having no shopping bags, since they have been

enticed to visit only for watching a movie and / or having a burger or a pizza or even a cup of coffee. Malls are also fast becoming a place that youth can 'hang out', but if the crowds do troop in, but the cash registers are not ringing, it can harm the serious business of retailing and hurt this nascent industry on the growth path.

The critical lesson for mall developers is, to invest some quality effort in understanding the shopping-needs of customers in their targeted areas, and then build a carefully planned portfolio of retail options that can meet the needs of these targeted customers. Mall developers also have to create distinctive (brand) identities for their specific malls.

It is equally important for the would-be retailer tenants, to realize that merely moving into a mall does not build their brand or guarantee business for them. They have to work as hard to draw consumers to their own stores once the latter have entered the mall, and then have the right value proposition for them, to get them converted into customers, and then to become repeat customers. Building a differentiating brand identity would work for both the mall owner and the mall retailer.

We are also seeing organized Indian retailing in several businesses that speaks volumes of the staggering potential for the expansion of this sunrise sector in our country. But here again, the early initiatives in the sectors illustrated below seem to rely more on novelty and excitement of newer ambiances rather than truly investing in brand building .

Gourmet coffee retailing: The organized coffee retail business is estimated at Rs.250 crores and is showing a growth rate of 40%. Apart from the Quickys, Café Coffee Day and Baristas chains, the Tatas have launched their Bean Coffee Junction chain in Chennai. Coffee World an international gourmet coffee chain is set to launch its outlet in Bangalore this year. Reliance is offering gourmet coffee at some of its Reliance WebWorld outlets under the brand name 'Java Green'. There are not more than 350 outlets in the organised sector today but retail consultancy KSA Technopak opines that India's potential for coffee retail outlets could be around two thousand. However the coffee retailers are already cloning each others' strategies - by offering that "total experience" — right coffee, food and ambience with Wi-fis and jukeboxes — to pull

customers, across all their outlets and consumers are finding it hard to identify themselves with any one outlet.

Lifestyle retailing : Chennai has witnessed a manifold increase in the total retail space devoted to non-grocery or lifestyle retail. The four major lifestyle retailers — LifeStyle, Westside, Shoppers' Stop, and Globus — alone account for a little over 200,000 square feet of retail space. Add to that the retail space of the traditional apparel retailers such as Nalli's and Kumarans and the recent entrants such as Pothy's, R.M.K.V and Chennai Silks and that of the scores of multi-brand outlets, the figure shoots up. The reasonable real estate prices, overall lower cost of operations and accessibility to consumers vis-à-vis other metros, have spurred the growth of organized retail at Chennai. But, on the brand building front, the story is no different. A retail analyst has already observed that Chennai is over-retailed in the lifestyle segment, with little differentiation among the players.

Petrol pump retailing : As consumers, we have been noticing how India's state-owned petroleum companies are undertaking a massive image improvement, makeover and differentiator exercise. From signage to logos to canopies, clean floors, channel music, lighting, convenience stores, uniformed attendants, internet browsing and promotion schemes, the public sector pumps are working hard at delivering a new experience to the Indian motoring consumer. All this, of course, is being done as part of a bigger game plan to cope with the coming private sector competition from Reliance, Essar and Shell. Let's wait and watch whether public sector hindsight into branding pays off for them in the face of private competition in the next few years.

Indian Retail Brand Building – the road map ahead

There is no doubt that the Indian retail shopping experience has been enhanced by giant superstores and shopping malls across our country. They should however learn quickly to build the retail brand directly and not look to factors like prime location, value pricing or product assortment to build their businesses. Indian retailers, to build a strong retail brand presence, can use the following strategies.

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Relationship management to enhance in-store shopping experience: Competition will force retailers to think about their customers as individuals, analyze their shares of customers and calculate their customer lifetime values. Retailers need to build data bases using in-store data collection and launch frequent shopper rewards, carry on an interactive communication with them, make special offers, drive traffic and add value outside the in-store relationship.

Retail brands get built by developing personal relationships with consumers rather than only through product and pricing. For example, staff should be trained to recognize their V.I.P customers. 'Soft' rewards for V.I.P customers include priority service, free gift wrapping, enhanced guarantees and sales pre-notifications. 'Hard' benefits include privileged rewards and extra value offers as well as straight discounts.

The quality of management of the customer is becoming an increasingly important source towards building the retail brand. Education and training of staff needs to be done to enhance customer service. Local store management can be empowered to maximize the value of each customer visit. Analysis of customer behavior can guide store merchandising to match the profile of their customers and even the needs of the shoppers at different times of the day.

External communication to add value outside the store: Retailers use advertising to build their brands and promotions to drive store traffic. Retailers have, still not felt the concept of individual customer communication outside the stores as a necessity. It is necessary that they seek to add a new form of dialogue with their customers. Retail chain Subiksha, for examples, mails a broadsheet to its customers giving them details of the promotional offers available and price comparisons across brands that helps its customers to take more informed decisions.

Motivating the staff to volunteer value : The quality of in-store service is a key factor in differentiating the retailer and winning a higher share of customer spend. In one survey, shoppers were asked, would they ask for the same salesperson on their next purchase visit; the 'yes' respondents were found to more likely give the store a 8-10 rating. On the

other hand, shoppers unhappy with the salesperson gave the store a very low performance on overall service and performance. Staff must be trained and motivated to recognize their best customers and to offer them superior service.

Successful retailing has always been said to be, about getting the nitty-gritty right of merchandising, forecasting, the supply chain, training and recruitment of high quality personnel and category management. Building retail brands that offer value will, in future, overshadow all these areas, and emerge as the dominant reason for the success of the organized Indian retailer. Indian retailers should also understand that the retail experience has become a popular leisure activity and they are vulnerable to any new competition for customers' entertainment. Indian retailers must build their brands with images that seek to entertain and involve their customers. It is the quality and value of the retail brands that they have sought to establish that will determine the loyalty of the retail shopper in future.

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