

Old Retail story, but repeats often!

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Hi friends, I was working on this story from long time. It is true that history repeats itself. But in case of retail, it is repeating at higher pace than ever and more frequently. Even before ending of one story, new starts. Just the difference is that the actor and the background changes. So, here goes my story...

There was a retailer XYZ dealing in 'formal clothing'. He has one store and he was serving his customer very well. He had huge loyal customer base and majority of them prefer buying from him only because of trust which was build up as a result of unique offerings, consistent and excellent customer service and good pricing. So, he sees double digit growth in his sales and realizes that he can make his company bigger by entering the catchments which have similar target market. So, he conducts market research and comes up with few similar markets. He opens branches over their and provide similar proposition. As a result sales jumps and he experiences exponential growth in sales. This continues until he explores all such markets.

Now, at this stage he feels that all such market has been covered. But he is now more confident and has an eager to grow further. His confidence makes him believe that he can now tap the uncovered market too i.e. people who don't lie in his target segment right now. He thinks that he can influence their buying habits. Moreover retailers who reach this stage have a mental block that popularity and growth is directly proportional to number of stores they have. So, XYZ is now all set for an expansion spree. So, now they need a good capital. What can be a better option than raising money through IPO as they have goodwill in market and their balance sheet is showing huge profits? As a result company raised sufficient capital easily and increased number of stores manifold within a year or two.

This is the point where the story takes 'U' turn. After IPO retailer had so much of money that he recruited a team of domain experts for its expansion spree. This nascent team didn't have much knowledge of retailer's business strategy, services and all. They diluted it by increasing offerings. They decided to widen the product category and offer 'Casual wear, accessories, kids wear, footwear etc. etc.' to make their store as one stop shop for their customers. Now as retailer had new offerings, the previous base of market research which was successful for him was no more valid. So, the team decided that since they need to expand fast they will open new stores faster. So, they came up with plethora of stores without sufficient studies. Retailer realizes that his sales are not matching his investments. Than they feel that in initial years it will take some time to match. But even after few years things had not changed. Moreover he realizes that his first stores are also not performing as well as it was earlier. This is because of following reasons:

- As number of stores has increased manifold, they need to stuff all stores. But merchandise are blocked in non-performing stores where as performing store is facing dearth of same.
- They are not able to provide consistent services due to overgrown business.
- They are not having loyal customer base as many customers had bad experiences in nonperforming stores.
- Customers knew them for formal clothing but now their new offering confuse them and moreover they are not that much unique in this category due to lack of focus.
- As the company grew, managing team felt that now they are superior brand and can charge premium prices now. This discouraged many customers.
- Customers were not getting personal attention which they use to get previously.
- Cannibalization

But the domain experts hired by retailer had different orientation and false confidence in their strategies. So, they came up with conclusion that they need to attract customers and build a loyal customer base rather than analyzing that why such a situation arrived. This point is starting of a vicious cycle. Management now decided that they will come with promotional offers to attract customers and loyalty program to build a loyal base of customers. Whereas a simple way out would have been shutting the large numbers of non-performing stores and concentrating on high performing stores. But I have already discussed the mental block these people have regarding number of stores, so they resort to blunders.

So, the marketing team came up with exciting offers and loyalty program. Company experienced a tremendous increase in sales suddenly. It made a lot of members under its loyalty program and tracked that they are making repeat purchases. Management felt that now they have good hold over the business and they withdrew the offers. At this point management experiences a steep fall in their sales curve. They realize that customer's loyalty was gone with promotional offers. So, they end up shelling more money with no results and worse margins.

But even at this point they don't realize that they can come out of this trap by shutting non-performing store because they are waiting for disaster yet. So, they feel that such small strategy like promotions and loyalty won't work for them. They need a bigger thing, i.e. a more devastating solution. The solution at which management arrives is 'REVAMP'. They decided to change look and feel of store, hire a brand ambassador for making company more popular, spent millions in outdoor marketing etc. etc. All these on the hard earned money of share holders. This all again result into a big failure. More

investment and greater losses this time. This vicious cycle continues for some more time with little more impact every time.

After all this, at last management realized that it's actually the huge numbers of non-performing store which have been the reason behind all this drama. So, they now decide on correction and shut down 50% of their stores. But now this strategy works negatively for them. This is because people now think that this company is almost bankrupt. They have seen the share prices of company falling to ground level. They have seen declining profits and finally losses. As a result, financial institutions, suppliers, third party agents etc loses confidence and trust in the company and are not ready to co-operate. Even customers now don't trust them. So, now nobody can save them.

But at this point another Retailer who is in similar expansion spree acquires him and is all set for the same story. So, it continues.

Conclusions:

- Retailers should have defined target markets and should expand in those only.
- They should follow consistency in services as well as product offerings.
- Market Research is primary step for success of a retail company.
- Size doesn't matter in Retail.
- Cut sown on stores whenever required.
- Identify your core strengths and capitalize on them.