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Retail Giants of Tamil Nadu

THIS IS THE NINTH PART OF "YESTERDAY ONCE MORE" – A SERIES OF STORIES INITIATED BY *IMAGES RETAIL* ABOUT SUCCESSFUL LOCAL AND REGIONAL RETAILERS SPREAD ACROSS URBAN INDIA WHICH CONTINUE TO EXPAND AND GROW DESPITE STIFF COMPETITION FROM NATIONAL AND INTERNATIONAL RETAILERS.

By Amit Bagaria

→ Everyone talks about them but most do not have a clue about the real size of their business. I am referring to the traditional retail giants of Tamil Nadu which have dominated the state's retail landscape for decades. Even today they do not seem to be affected a bit from the onslaught of modern department stores and malls in their home turf.

Saravana Stores does annual business of ₹510 crores from a single seven-floor store – that is more than what any single Lifestyle, Central or Shoppers Stop store does. From four stores, Saravana does about ₹1200 crores annually. This is two-thirds more than the ₹717 crores turnover reported by Tata's Trent, which includes Westside (54 stores), Landmark (18 stores) and Star Bazaar (12 stores).

Chennai Silks is estimated to be doing a business of ₹1150 crores

(excluding jewellery) from nine stores, Nalli of ₹700 crores from 22 stores, Pothys of ₹650 crores from four stores and RmKV of ₹510 crores from four stores. These five Tamil Nadu retailers do sales of ₹4200 crores every year collectively, which is more than the turnover of Shoppers Stop, Lifestyle, Westside and Reliance Trends put together.

This is the power of regional retail, when modern retailers are still trying to figure out how to make this kind of business happen. After months of efforts, Asipac's research team finally got hold of two of these regional giants. Read on about what they had to tell us.

RMKV OF TIRUNELVELI

Back in 1924, when India was under the British rule and organised retail was non-existent, Rm K Vishvanatha Pillai set up a 1000 sq.ft. women's



wear shop in Tirunelveli, named RmKV after his initials. With silk sarees as its core product, the shop operated from the same location until it shifted to a much larger 35,000 sq.ft. megastore in another location in the same town in the 1950s. As it turned out, that market was to grow by leaps and bounds, positioning RmKV at the centre of a thriving retail hub.

According to Rm K Sivakumar, a third-generation family member now running the business, it was no coincidence that RmKV became the brand it is today. He says: "From day one, my grandfather worked with a mission of being honest and transparent, while focusing on efficiency at the back-end. Even in the 1920s, he had a system to identify each product through a unique numbering system. With the advent of computers in the 1980s, it became

Even today, the retail giants of Tamil Nadu do not seem to be much affected from the onslaught of modern department stores and malls in their home turf. This is the power of regional retail.

THE FIVE TAMIL NADU RETAILERS DO SALES OF ₹4200 CRORE EVERY YEAR COLLECTIVELY, WHICH IS MORE THAN THE TURNOVER OF MANY BIG NATIONAL RETAILERS PUT TOGETHER.

According to Rm K Sivakumar, a third-generation family member, it was no coincidence that RmKV became the brand that it is today. The reasons for its success are transparency and efficiency.

much easier. The transition was however smoother for us because of the system he had put in place, and we follow the basics of that system until today."

For 80 years, RmKV operated as a single store. Eventually, the market became so big and crowded that, Sivakumar recalls, the customer experience started deteriorating. Access had become a problem and there was hardly any parking for the increasing number of shoppers with their own vehicles. With organised retail emerging at the turn of the century, RmKV decided to expand and take the brand outside Tirunelveli. A 35,000 sq.ft. store was opened in Chennai in 2004. Four years later, RmKV opened its biggest store, a 100,000 sq.ft. outlet in Tirunelveli. The original shop in the old market area still continues to operate.

As a sign of RmKV's desire to move

with the times, its fourth store spread across 58,000 sq.ft. was opened in 2010 inside a mall, the Brookefields Plaza at Coimbatore. Says Sivakumar: "We did a survey before taking this decision. Normally, silk sarees are sold in traditional markets, and we were unsure of the turnover we could achieve in a mall. However, we were pleasantly surprised with the results of the survey, with a majority of people saying if the price and quality of the products stayed true to the RmKV brand, they would shop with RmKV in a mall." Asipac estimates RmKV's sales at Brookefields Plaza at ₹14-16 crores per month, which is three times that of the similar-sized Lifestyle in the same mall.

Another example of RmKV adapting

'low margin and high turnover', with margins usually in line with the prevailing interest rates." During World War II, India had a quota system that put a ceiling on the amount of merchandise a retailer could sell to each customer. "Retailers used to make a killing, selling at 2-3 times the normal price. Even then, my grandfather used to sell only at 6-7 per cent margin, equal to the prevailing interest rate".

When asked about entering market segments other than silk sarees, he says: "Silk sarees define our brand. It is who we are. We are open to other segments as long as the parent brand is not diluted. We have diversified into RTW, dress material, artificial jewellery, women's accessories,

at the upcoming Forum Mall in Chennai. Sivakumar explains: "We believe growth is important but so is sustainability and turnover. Planning and controlling the back-end process is critical. We did not want growth for the sake of growth alone. It was only after a thorough study of new locations, competitors as well as customer behaviour that we decided the time was right to expand".

As for future expansion, Sivakumar feels the biggest challenge lies in managing multiple stores spread across a wider geography, and getting their formats right. He says Nalli's is a great example of a regional competitor that has successfully expanded across the country. When queried about how he plans to fund future expansion plans, Sivakumar says he would be open to external funding although "it might be too early to think of an IPO".

I couldn't agree more, considering that RmKV has not yet stepped outside Tamil Nadu. PE investors will give RmKV a valuation of ₹900-1000 crores.

"WE BELIEVE THAT GROWTH IS IMPORTANT, BUT SO IS SUSTAINABILITY AND TURNOVER. PLANNING AND CONTROLLING THE BACK-END PROCESS IS CRITICAL. WE DID NOT WANT GROWTH FOR THE SAKE OF GROWTH, AND IT WAS ONLY AFTER A THOROUGH STUDY OF NEW LOCATIONS, COMPETITORS AS WELL AS CUSTOMER BEHAVIOUR THAT WE DECIDED THAT THE TIME WAS RIGHT TO EXPAND" – SIVAKUMAR OF RMKV.

to change is its online sales platform. A catalogue of almost 1500 sarees is currently online. Adds Sivakumar: "Weddings is our main business, and with weddings now planned, it helps customers to visit the website and identify the products that fit their taste and budget. Even if they do not buy online because they want to touch and feel the product, by the time they visit our store, they pretty much know what they want, making the process that much easier".

With a turnover that crossed ₹510 crores in the last fiscal, RmKV's ATD is an impressive ₹1865. This is almost three times that of Shoppers Stop! This is noteworthy because RmKV's ABV is just ₹1250, not exceptionally high by industry standards. With an average (four stores) footfalls of 7500 daily and 11,000 on weekends and holidays, RmKV may cross ₹700 crores in sales this year.

Sivakumar stresses: "Competitive pricing and quality have been our strength. From the beginning, our business model has been one of

innerwear and synthetic sarees, but silk sarees is where we focus most of our energies on." Maybe it was due to this unyielding focus that RmKV was not heavily impacted by the recent slowdown. In fact, they expanded in that phase and ended up benefiting from lower sourcing costs during the slowdown.

Why did RmKV open three stores in six years when it took them 80 years to open the second? Incidentally, RmKV has also signed a store of 60,000 sq.ft.



That's more than listed companies such as Brandhouse (S.Kumar's Group) and Provogue. If FDI was allowed in multi-brand retail, the valuation would be above ₹1250 crores.

While on the topic of Nalli's, Sivakumar gives them credit for spreading awareness about Indian ethnic wear amongst India's youth, especially at a time when the general trend is towards western wear. "It is one of the challenges we face – getting younger women to wear sarees more often", he says.

Like most businesses, identifying, recruiting, training and retaining high-quality manpower remains a challenge

Is it because they are 87 years old? Or that they work on lower margins? Or is it because a majority of Indian women still wear ethnic? I believe it is a combination of all three. I see RmKV crossing a turnover of ₹1000 crores by FY 2013. Surely, a retailer of this size cannot be ignored by the industry.

THE CHENNAI SILKS

Born into a family of weavers at Tirupur in 1962, A Kulandaivel Mudaliar set up a 100 sq.ft. shop in Madurai, selling khadi products. Over the next 30 years, he set up 12 more "khadi vastralays" across small towns in Tamil Nadu, gradually increasing

the range of products and carrying on wholesale as well retail operations.

In 1991, Mudaliar set up a 25,000 sq.ft. store named The Chennai Silks (TCS) at Tirupur, selling textiles, silks sarees and RTW garments. "At that time, it was one of the biggest stores in the area", says P A Ravindhiran, GM – sourcing and operations. A store of that size in Tirupur 20 years ago, with economic reforms yet to be introduced in India, had to be a rarity.

In 1996, Mudaliar opened a 45,000 sq.ft. store in Coimbatore. Another store of the same size opened in Erode in 1999, followed by a 125,000 sq.ft. store in Chennai in 2001 and a



for RmKV too. "Our frontline staff are from modest academic backgrounds. We conduct weeklong training sessions three times a year, outsourced to a professional agency, thereby ensuring that the staff's product knowledge and customer service are top notch. Our senior management, on the other hand, comprises of educated professionals from reputed institutions. Overall, we strive to instil in our employees a sense of ownership and belonging towards the brand – it makes a positive impact on customers and it helps us counter attrition issues to some extent", says Sivakumar.

So what makes RmKV achieve three times the trading density of Shoppers Stop and four times that of Westside?



ACCORDING TO RAVINDHIRAN OF TCS, THEY ARE PLANNING TO TARGET 'ALL SEGMENTS, AGE GROUPS AND INCOME LEVELS.' THAT'S A MIGHTY AMBITION, CONSIDERING THAT EVEN NATIONAL PLAYERS OPERATE AT OPPOSITE ENDS OF TARGET INCOME SEGMENTS. TCS CATERS TO A VARIETY OF INCOME LEVELS BUT WITHIN A RESTRICTED RANGE OF MERCHANDISE. HOW IT EXPANDS ALONG BOTH AXES NEEDS TO BE SEEN.

100,000 sq.ft. store in Trichy in 2004. Two stores opened on the same day in 2007 – 100,000 sq.ft. in Karur and a second 80,000 sq.ft. in Coimbatore. This spate of aggressive expansion continued, with a 75,000 sq.ft. store opening in Coimbatore in 2008 (the third in the city), and TCS also started selling jewellery.

Another 125,000 sq.ft. store was opened in Ernakulam in 2009, spread across nine floors. This was also TCS' first foray outside Tamil Nadu, and an indicator of their confidence in the brand, business model and market conditions. A 150,000 sq.ft. store is under-construction in Tirunelveli and is expected to open by end-2011. This will take up TCS' total retail space to over 870,000 sq.ft.

All TCS stores are located on high streets – not one is in a mall. What's more, TCS owns all the stores, including the land under them, and has an in-house project division to identify suitable land parcels and carry out construction. Surely, they must be using third-party agencies in some form? What about market and location analysis? "Although we do have an in-house research division, they usually work in conjunction with third-party agencies, especially for customer preference surveys", says Ravindhiran.

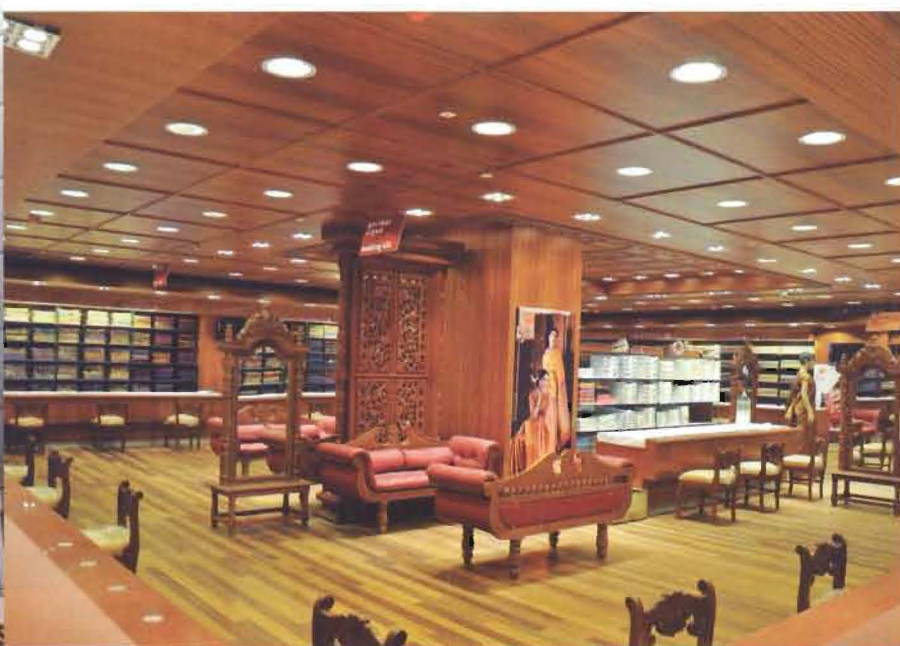
The development of all stores has been self-funded, and Ravindhiran maintains that TCS might not look at external funding for their short-term expansion plans.

This reminded me of my father's generation where debt was often considered 'bad'. Leveraging or using one's own capital to generate higher returns while borrowing at relatively lower rates to fund income-generating assets, cannot really be considered bad, can it? But who is to question convention wisdom, especially if it is so successful?

Ravindhiran claimed he was not aware of the latest turnover of TCS,

designer sarees and wedding silks, they also sell cotton sarees, kidswear and western wear for men and women.

Ravindhiran says in the near future, TCS is planning to target "all segments, age groups and income levels". That's a mighty ambition, considering that even national players such as Lifestyle and Fashion@Big Bazaar operate at opposite ends of the target income segments. TCS caters to a wide variety of income levels but within a restricted range of merchandise, and how it manages to expand along both axes needs to be seen.



ACCORDING TO RAVINDHIRAN, TCS HAS MANAGED TO DIVERSIFY CONSIDERABLY WITHIN THE APPAREL SEGMENT. ALTHOUGH SILK SAREES ARE THE CORE SEGMENT, THEY ALSO SELL COTTON SAREES, KIDSWEAR AND WESTERN WEAR FOR MEN AND WOMEN.

and was unable to provide the same by the time this article went to press, but Asipac's research arm estimates that TCS currently does an annual business of around ₹1150 crores (excluding jewellery). Since the TCS stores covered in this article also sell jewellery, an ATD calculated using these figures would be inaccurate; nonetheless, doing a business of around ₹1150 crores from nine stores is impressive. This figure will increase if we consider jewellery as well.

According to Ravindhiran, TCS has managed to diversify considerably within the apparel segment. Although silk sarees are its core segment, supported by sub-categories like

With more than half of their merchandise designed and manufactured in-house and separate directors for production and retail, Ravindhiran sees TCS as a trendsetter. One of the things that struck me was that they have had an online sales platform since as early as 2000. "Although it was slow to take off, it has been doing very well in the last few years and now we have a large team to handle our online operations", says Ravindhiran. Online sales in India have become commonplace only in the last five to six years, and I see this as one sphere where they have indeed proved to be early adapters.

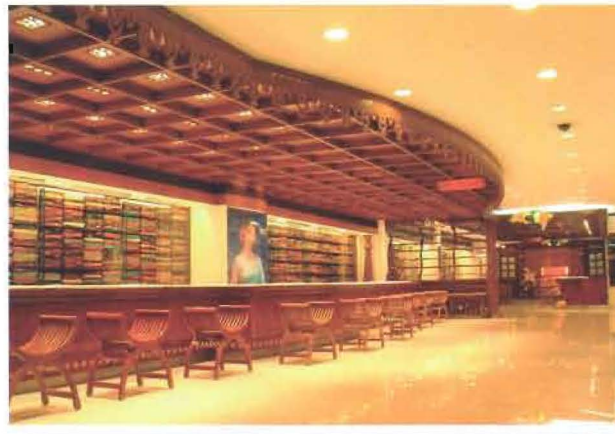
On manpower, TCS, RmKV and many other regional players seem to have a similar model – fresh graduates are recruited as store staff and then trained, professionals with corporate experience are recruited for middle management positions and then groomed for more responsibilities, and people who are either from “the family” or who have been with the business for a very long time normally occupy the top management positions. Ravindhiran himself is related to the Mudaliar family and joined the business in 1996. Syed Mushtaq, GM – operations, has been with the business for 30 years.

The third generation has now entered the business, handling segments like men’s western wear and designer sarees. The young blood has led to fresh ideas and strategies to take the TCS footprint further. “We will be pan-India very soon”, claims Ravindhiran. Funding, especially for expansion, is where most regional retailers seem to stumble, but TCS does not appear to have that problem.

And then there’s the precedent of Nalli’s. It is a bit like the four-minute



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mile. Athletes globally tried to run a mile under four minutes for decades, and it was considered “almost impossible”.

Finally, Roger Bannister ran it under four minutes in 1954. Once proven possible, Bannister’s record was bettered the same year and another four times in the next 10 years. Nalli’s has already set an example by metamorphosing from a regional to a national player in a very short while. So, while a pan-India presence for TCS might take a while, I am not willing to bet against it.

Mudaliar passed away a few years back, but when he sat in his 100 sq.ft. Khadi Vastralaya in 1962, could he imagine that TCS will be one day where it is today -- a \$250 mn company with a valuation of not less than Shoppers Stop’s market cap of

₹1710 crores? Unlikely, but he was fortunate to have lived long enough to see this success. Only time will tell whether his successors manage to make a national giant out of The Chennai Silks, but they sure are sitting on a solid launch pad.

Westside’s website boldly claims that “Westside is one of India’s largest and fastest growing chains of retail stores.” I wonder whether equity analysts and investors who give Trent a market cap of 4.3 times its annual revenues or 71.5 times its net profit are even aware of the existence of The Chennai Silks and RmKV, and the threat regional retailers could pose to the highly overvalued national chains. ❏

ABOUT THE AUTHOR



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