

# 'Mid-market & luxury are where the growth is'

*Spencer's Retail, part of the Rs 13,500 crore RPG group, is the oldest retail chain in the country. It has been around since much before the giants Reliance and Birlas moved into the space. But not many know that the brand itself has been selling products since 1863. And from being a 48-store chain in 2005, Spencer's is set to become a giant in the space with 2,500 outlets by 2011.*

*Samar S Shukhawat, vice-president, marketing, Spencer's Retail Ltd, shared with DNA Money's Tanvi Shukla the company's plans going forward and some interesting trivia about the game of retail. Excerpts:*

**Spencer's is one of the oldest retail chains in India. Tell us a bit about your history...**

Spencer's has been a part of the Indian consumers' lives since 1863. In fact, it is the oldest retail chain in India. At that time, there were 153 stores, spread all across the country from Peshawar to Rangoon. These stores were owned by a Briton John William Spencer. Sometime in the 1960s, Homi Bhabha and his family acquired the company and RPG finally bought it out from them in 1989. Then in 1995, we launched Foodworld, which was a joint venture with the Hong Kong-based Dairy Farm International. But, we had very aggressive plans and Dairy Farm International was willing to invest, so we decided to go ahead ourselves.

**And is that when Spencer's was re-launched?**

Yes. The joint venture ended in 2000 and we re-launched Spencer's. There were 93 stores at the time. We got 48 stores and our partners got the rest. These 48 stores were re-branded.

We have been rapidly expanding since then and we have 400 stores now. We completely changed the business model. A re-branding and repositioning exercise was launched to shift from a small, convenience store format of Foodworld to Spencer's Hyper model.

In the last three years, Rs 100 crore may have gone into this re-branding exercise. We also hired a completely new management team, which is much more

neither about price nor about luxury retail. It is all about assortment, quality, promotion and experience. That is the priority for us. Pricing only comes next to these. Though there may not be much difference in the pricing with other brands, but there's a difference in the target segment. Others are building on a common man's imagery. We don't talk about price in terms of our brand positioning.

**So, is Spencer's more expensive than the value F&G retailers?**

If you shop at Spencer's or any other store, nine out of 10 times the bill will be the same. Spencer's is not expensive. If the world is selling potatoes at Rs 10 a kg, I cannot survive by selling at Rs 11. Like I said, it is only the image that we carry for our target customer. No woman would like to pay even Re 1 extra for sugar.

**q&a**

**Are any of the retailers selling it cheaper than what customers are getting outside organised retail?**

Not really. Bills may vary from time to time even if one is visiting the same store. But one data point is not enough to compare, since prices differ from day-to-day and product-to-product. But we have only 7% margin on fruits and vegetables and it also contributes only 7% to our sales. I get half-a-percent of my total 20% margin from fruits and vegetables. So, selling it any cheaper is not possible. For example, if there is an advertisement, which says 'beat the inflation, 20% off on food and grocery items,' there is also a fine print to it that says you first need to buy non-food items worth Rs 750 first and then purchase for the same amount from the food section on which you get 20% discount. So, that is not really giving it cheaper.

**What are your expansion plans?**

We will open 2,500 stores in the next three years. From 400 outlets currently, we will have 1,000 stores by the next fiscal. Spencer's has 1.5 million sq ft of retail space currently and we have already tied up an additional 3 million sq ft. This would call for Rs 1,500 crore investments



**“** We are in the mid-segment, which is neither about price nor about luxury retail. It is all about assortment, quality, promotion and experience. That is the priority for us. Pricing only comes next to these. Though there may not be much difference in pricing with other brands, there is a difference in the target segment. Others are building on a common man's imagery. We don't talk about price in terms of our brand positioning.”

our old stores making money. We reported losses worth Rs 150 crore in the last financial year. Spencer's will break

You'll see a lot of people pushing empty trolleys, moving across quickly, but not buying anything. If too much of that happens, you are dead.

**But how can it be so low? Food and grocery don't even make for a good window shopping experience...**

If you go to smaller cities, a new supermarket is equivalent to a new mall or a multiplex that has just been opened. It is the talk of the town and the place to be. When we opened in Vadodara, we had everyone and his uncle coming in. There were 30,000 people who came in on the first day to a store that is 70,000 sq ft in size. We had to shut one hour before the stipulated closure time, but the conversion was only 20%. There were enough billing counters, so people shopped, but left because they didn't want to wait. Footfalls stabilised later.

For example, when HyperCity opened in Malad, the crowd became too much to handle and people abandoned their trolleys before their billing turn came. Our store, which is right next door, saw a jump in sales for the first few weeks after HyperCity opened simply because several shoppers then migrated to our store.

**How much are the current rentals and revenues per square foot? Will you go ahead with your expansion plans or wait for a correction to happen in the real estate prices?**

I hope there would be some correction soon. The best thing today is to be the landlord because you have everyone wooing you. Landlords actually play against each other. Rentals are today at a level where it is not possible for food and grocery retailers to make money. Most goods and grocery retailers are paying Rs 45-55 per square foot. But that doesn't mean there aren't higher or lower rents than this. For example, a small store in Gurgaon is leased at Rs 250 per sq ft, but it is still making money. Another 1,000 sq ft store is making Rs 3,500 per sq ft in revenues. But it is difficult to take such calls. On an average, a store that has seen a breakeven is raking Rs 1,000 per square foot.

Interestingly, the ability to drive higher per square foot sales in a smaller area is always more than in a larger store.

Despite the increases in costs, we are going to go ahead with the contracts signed, but we planning to slow down.

**What are the current trends in the Indian retail industry?**

Globally, the retail industry took more than half-a-century to evolve with food and grocery taking the lead and luxury evolving the last. But in India, luxury retail started first and food and grocery only came in later. What this has done is to push the threshold level of rentals for food and grocery retailers.

Also, we are skipping stages, running twice as fast to catch up with other matured markets. The 60-year evolution in America is being achieved within five years here. So, the process is completely new to everyone. Indians are far more aspirational. The visible trappings of being successful are of utmost importance to us. Look at our films, advertisements, weddings, etc. We are the number two mobile market in the world. We want the latest mobile phones and

**before that. Any more in the offing?**

We believe in giving whatever our consumers demand. If we have it, we deliver, else we get it from elsewhere. That's why we got Chads Valley toys here. Same for the coffee store.

Two more joint ventures will be announced in the next two months in the apparel segment. One of these will be for kids while the other is a fashion brand. So, that would make it four big international brands. Currently, 65% of our revenues come from our food business. But, in the next three months, we see this coming down to 50% as non-foods, especially the fashion and home segments, pick up.

**Why this shift in product mix?**

One doesn't make money through food and grocery. They just drive the footfalls. It is the fashion and home retail that gets us the bottomline. These categories have 30-40% margins, so the average margin is 20%.

**What is the conversion ratio like for a typical food and grocery outlet?**

Our conversion ratio is 60% while the