

*Full Length Research Paper*

# Unprecedented growth of organized retailing in India: A case study on the rise and fall of Subhiksha Retail Chains

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Accepted 6 May, 2014

Organized retailing in India has reached a point of transformation after witnessing unprecedented growth over the last few years. It has lot of potential for further growth and for penetrating into semi urban and rural markets. Opportunities for retailing are increasing day by day due to changing customer behaviour, technological developments and modified regularities by allowing more than 51% FDI's in retail sector. India is a palace for all sizes, varieties and formats of retail sector. The country is a mosaic of wide diversity-urban, rural, rich and poor customer base. Technological advancements have witnessed phenomenal growth in retailing over the past few years. On the other hand, adoption of information technology (IT) in retail business should be largely cautious, incremental and supportive of the conventional operational functions rather than being drastic for successful implementation. The current study is on Subhiksha retail chain's raise after expansion with significant reach across country-wide with the application of IT and fall arising out of rapid expansion resulting in insufficient funds. Subhiksha has made a grand entry into retail sector a decade earlier when the sector was on a boom but hit hard by the global financial crisis during 2008 for further expansion. The authors have collected data by means of observation and interviewing customers of various retail outlets at different parts of Hyderabad and Secunderabad. To support the primary data secondary data is also collected from newspapers, journals, websites, books and articles. The causes of failure that are identified are lack of skilled personnel, know-how, poor implementation, coordination and improper allocation of funds.

**Key words:** Retail sector, information systems, point of sale, SAP, enterprise resource planning (ERP).

## INTRODUCTION

Retailing is more of service than selling alone. Retailing is the terminal point of marketing where the producer or marketer meets with ultimate consumer for exchange of products and services with a motto of profit. Retailing

Includes sale, services and distributing to the end user. Today's customers are getting attracted towards organized retailer's with store décor, cheering window shopping, point of sale, variety of merchandize, increased product

assortment and best quality services. Service in the retail is generally customized and personalized. More customers are attracted towards shopping malls and organized retail formats because of their service feature. The quality of services can be achieved through proper implementation of information systems with the support of well trained and qualified personnel. No customer would like to wait for long in queue for billing and collecting the items. Retailers are currently depending on itemized bar coding system with computerized software at the billing counters known as point of sale (POS) or check out. POS helps in taking orders, billing, purchasing and maintenance of inventory. Convenience is another factor which the consumers look out for. Convenience to the customers and easy billing of the retailers can be possible through technology that uses radio frequency identification (RFID). Cost of inventory is the important factor at organized retailers. Retailers are able to reduce the inventory cost by following just-in-time (JIT) technology in collaboration with their suppliers. They can also provide efficient supply chain services through third party vendors. Integrated ERP system enables retailers in proven customer centric methodologies, extensive market research, front end and back end store systems, merchandizing, and long-term relationship with customers.

### Objectives of the study

1. To study the importance of information systems in retailing.
2. To study the growth and expansion strategies of Subiksha retail store.
3. To find the causes of failure of Subiksha retail stores in India.

### Scope of the study

The current research "information technology in Indian retailing - issues and challenges, a case study on rise and fall of subhiksha retail chains" is confined to the twin cities of Hyderabad and Secunderabad. This study mainly focused on the strategies of subiksha retail outlets and the reasons for its failure in spite of the use of modern methods like ERP systems, best marketing practices like everyday low pricing (EDLP) pricing and early entrance in to the market.

### MATERIALS AND METHODS

The present study is a qualitative research. This paper attempts to review some examples by which information technology is playing a key role in providing quality services and quick delivery. It explores the reasons for change of customer behaviour and assessing the use of emerging information systems for improving effective customer service. The current study is based on observation and interviewing customers of various retail outlets. The data is also

derived from company confidential information by conducting interviews with the middle and top level managers of various retail outlets. In order to combat the problems associated with the implementation of information technology the opinions of bankers, top level managers in the form of interviews available with various reputed national news papers, websites are mentioned.

### Indian retail industry

Indian retail is one of the fastest growing markets in the world. The sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities. Indian retail landscape is evolving from the brick-and-mortar model to adopt technology for connecting with consumers and achieve complete seamless customer experience. Currently Indian organized retail sector consists of 8% in the entire retail industry. It may grow much faster than traditional retail. It is expected to gain a higher share in the growing pie of the retail market in India. The Indian retail market, currently estimated at \$490 billion, is project to grow at a compounded annual growth rate of 6% to reach \$865 billion by 2023. The organized retail is estimated to register a growth rate of around 25% by 2020. With growth in the E-commerce industry, online retail is also estimated to touch US\$ 70 billion by 2020 from US\$ 0.6 billion in 2011. The Government of India (GOI) has approved 51% foreign direct investment (FDI) in multi-brand retail and increased FDI limit to 100% in single brand retail and for cash and carry (wholesale) trading and exports. Emerging organized retail outlets and higher disposable income of consumers makes the middle and upper middle classes inclined to purchase from these stores (Srivastava, 2008). Retail chains like Subhiksha (Apna bazaar in Hyderabad, Andhra Pradesh) entered with gorilla marketing strategy to capture a good market share with cost effectiveness strategy but failed before customers realized its presence in Andhra Pradesh.

### Subhiksha retail chains

Subhiksha is a small format, neighborhood, convenient and discount store that offered a product mix (Table 1) of food, grocery, medicines, telecom and other products under one roof. The name Subhiksha is taken from Sanskrit that means "prosperity" as it reflects the Indian ethos and can be understood by every Indian, with the tag line "why pay more when you get it less at Subhiksha". It opened its first store in the year 1997 at Thiruvannamiyoor in Chennai with Rs. 3-4 lakhs an initial cost out lay, aims to 500 stores by 2007 covering more than 100 cities all over the country and wants to double the outlets by the end of the year 2007. They focused on low prices with high sales and have an image of being a best place for good buys. They also adopted every day low price (EDLP) strategy to achieve economies of scale. It even competed with neighborhood grocery stores on the promise of discount on maximum retail price (MRP) by negotiating substantially for lower rates from suppliers by paying cash. The most important target market for Subhiksha was 'aamadmi' that is lower and middle income people and the slogan for it 'you can never get products cheaper than at Subhiksha'. Table 1 shows the product mix.

### Three key differentiators of Subhiksha

**Product mix:** Subhiksha sells a mix of FMCG, fruits, vegetables, pharmaceuticals, telecom products and accessories. These product lines constitute the bulk expense of any average household.

**Deep Discounting:** Subhiksha offers its consumers low prices, which are consistent and cheap. A consumer can save close to Rs400 every month by purchasing their households at Subhiksha.

**Table 1.** Product mix.

<b>Groceries</b>	<b>Fresh Fruits and Vegetables</b>	<b>FMCG products</b>	<b>Pharmacy Items</b>	<b>Mobile Instruments</b>
Pulses, Grains, Spices, Atta, Oils and other groceries	<b>Vegetables</b> Tomatoes, Potatoes, Green vegetables etc <b>Fruits</b> Apples, Oranges and other fresh fruits.	Soaps, Detergents, Shampoos, Brooms, etc.	Medicines, Health beverages, etc.	Mobile handsets, and other accessories.

**Branded Products:** Subhiksha did not compromise on neighborhood presence and caters to brands that the consumer prefers to buy. These factors gave them an edge over other retail competitors.

### Issues in Indian retailing - Post information technology

#### Inventory management is the key area of success

Management of inventory at the store is a key focus area for all retailers. There is an increasing evidence of a partnership between the operations and finance functions with both process and policy being tuned to inventory management. Perpetual stock takes are outsourced to specialist firms by an increasing number of retailers who seem to have reaped significant benefits from this move. Retailers are also looking at decreasing shrinkage levels by focusing on process, policy and technology initiatives. Visual merchandising (VM) viewed as additional revenue driver. It is being viewed as a function that should drive sales rather than just enhancing the 'look' of the store. To this end, some retailers are starting to correlate the performance of specific VM displays with the sales of the respective categories. It is interesting to note that value retailers had a significantly higher process maturity than their department store and fashion counterparts. Space management tools are slow to take off for large format lifestyle retailers, space efficiency assumes great importance, and, given the high real estate cost, slight deviations can significantly affect revenues.

#### Below the line (BTL) marketing is the way forward

Below the line marketing is emerging as a strong focus area for retailers. Catchment initiatives are considered as important across retail segments to arrest declining sales from the store. Store managers are increasingly pushing the strategies to catch customer and enhance the level of satisfaction to each customer. Weak store expansion and strong focus on optimization of existing investments, market acquisition through new store launches has taken a back seat, and store profitability has become the top objective. While store managers are being trained and measured on store profitability, there is also a need to tighten central functions.

#### Value added services in retailing

In today's competitive retail environment, businesses need to offer an expanding set of retail value added services (VAS) at point of sale in order to increase store traffic, satisfy customers and generate additional revenue. Evolving consumer's behavior has dramatically impacted the way retailers are delivering products. Value-added services offered by retailers are more likely to cultivate strong customer loyalty providing a competitive advantage.

With the help of information technology retailers are now offering value-added services to transform shopping into an inclusive and enjoyable experience. Fast customer services, digital channels of distribution, free on board pricing, stock availability check make the retailers to focus on well being of the customers and in turn earn higher profits.

#### Modest adoption of customer loyalty programs (CLP)

Few retailers have a rich customer database to reach out their individual customers. Not many retailers are maintaining an integrated loyalty program. Even today they use the phrases 'rewards program' and 'loyalty program' interchangeably not recognizing that they are a part of a continuum. Customer segmentation is another important area that retailers have to focus on the modern retailing. Retailer must have processes across the following six segments like customer service, inventory management, marketing, relationship management, visual merchandising, people management and space management reveal ample scope for improvement and good customer loyalty.

#### People management or human resources management

The successes and failure of every business depends on the people working for it. Retailing is not an exception to it. People management has emerged as yet another strong theme, with retailers making renewed efforts to engage, train and retain key employees at the store front. Customer service, attending queries, helping the customers, educating the customers are the services expected from the store staff. Employees are the final link in the retailing process to customers and service interaction is the final moment of truth for retailers. Retention of key employees is recognized by the industry as being important for sustained store growth. This is a function of human resource policies involves training, incentive management, engagement, career planning and progression.

#### Retail life cycle

Retail stores also pass through stages of growth and decline called as 'retail life cycle David Gilbert ("Retail Marketing Management 2003-Pearson Edition"). The life cycle of retail stores depends on the effectiveness of well formulated and well implemented customer target strategy by keeping customer loyalty. The retail business's outcome depends on customer targeting, customer retention, customer profitability, and customer satisfaction. The life cycle of retail stores can be extended through successful implementation of information technology for customer relationship, merchandizing, human resource, and supply chain management practices. As shown in Figure 1.

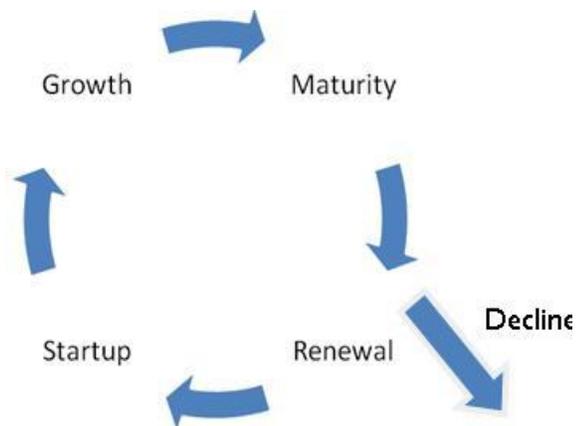


Figure 1. Retail life cycle

### Challenges in Indian retailing - Post information technology

In India, economics of small-format organized retailing is very challenging due to strong competition from neighborhood kirana stores and vegetable vendors. Subhiksha did not compete with the neighbour retailers and left the market before customers felt its presence and before it could achieve the target of doubling the stores across the country. It failed to deliver the services and had gone into severe debts.

### Expansion strategies – Rapid expansion of Subhiksha retail chains

Started expanding rapidly from 14 stores to 50 stores in 2000, it had 130 stores across Tamilnadu by the end of 2002. Rapid growth of telecom sector in India made them to go into the deeper parts of the country to attract literates and middle class segment. They even expanded their stores into Gujarat, Delhi, Mumbai, Andhra Pradesh and Karnataka by recruiting people in various regions and had 500 plus stores by the end of 2005. It was considered to be India's largest retail chain store with 500 plus stores and plans to have 1,000-plus stores by the end of the year 2007. It was looking for a gross turnover of Rs4300crore with 2300 stores. However the growth was fuelled from a small net base of Rs250crore.

### Fall of Subhiksha retail chains

The promoter of Subhiksha Mr.R.Subramanian has 59% equity and there were no traces of liquidity crisis faced by the company, till October, 2008. It was only in the month of November, 2008 the management admitted that there was a severe liquidity crunch with mounting debt and unpaid employees and suppliers. The problems are also related to competitors, marketing, information technology, location and layouts. As shown in Figure 2.

### Challenges from implementation of information technology

"We are facing a lot of difficulty in accessing data across different regions using the local ERP system" Ankur Saigal, Vice-president (Tech) and Subhiksha Trading services. Wide spread retail chains rely on information technology as it plays an important role for speed and accurate service to the customer. Even small individual

retail outlets are benefiting from information technology. The enterprise resource planning solutions help all sizes of the companies by designing sales modules, relationship management, POS system, and shipping orders. Information technology is extremely valuable function by providing a direct link with the accounts receivable and inventory modules (Randy and Michael – November, 2006). The company decided to invest more on effective ERP like SAP and has taken long time to implement than expected accompanied by many problems like lack of technical expertise and system users.

### Challenges faced from competitors

Subhiksha faced competition from strong multinational giants like, Reliance, More, Fresh@Heritage, Big Bazar and many more local kirana stores. The strategies adopted by these organized retailers like -ambiance, display, availability of merchandize, window shopping, free on board pricing are not followed by Subiksha. Table 2 shows the comparative analysis of reputed retail stores at Film Nagar and Hyderabad.

### Challenges from poor marketing decisions

With increasing customer awareness, retailers should offer unique or special assortment of goods that suits the demands of the customers at lower prices than its competitors. No customers want to pay more for the same product. Products were not available at the stores due to lack of stock or it could not make consistent decisions on promotional services, product assortment, store décor and service levels. It did not focus on frequent festive and promotional offers from time to time to attract and retain the customers.

### Challenges from location and layout decisions

Location and layout plays an important role in the success of every retail store. Though there are number of stores located in major places they not in proximity to the market and there is low focus on target customers. Lack of parking place, poor visibility of merchandize, improper maintenance of breadth and depth of the stores has created lot of problems.

## FINDINGS OF THE STUDY

The organized retail sector in India can expect to witness a second big revolution in the not too distant future in spite of setback faced due to several reasons. The opportunities in food and grocery retail in India are immense and constitute about 69% of India's total retail market. Though, there is scope for growth of organized retail sector in Indian retailing, Subiksha was not able to encash those opportunities due to improper decisions. Any retail sector that intends to enter into the market will make a thorough research before its entrance. Subhiksha did lot of research and felt that customers were price conscious, prefer to a convenient store to buy the needy products with specific purpose and not for fun. In spite of its research, it faced lot of problems like lack of sufficient funds for expansion cropped up by un-mindful expansion spree across different parts of the country with improper selection of ERP systems. Other reasons for failure are:

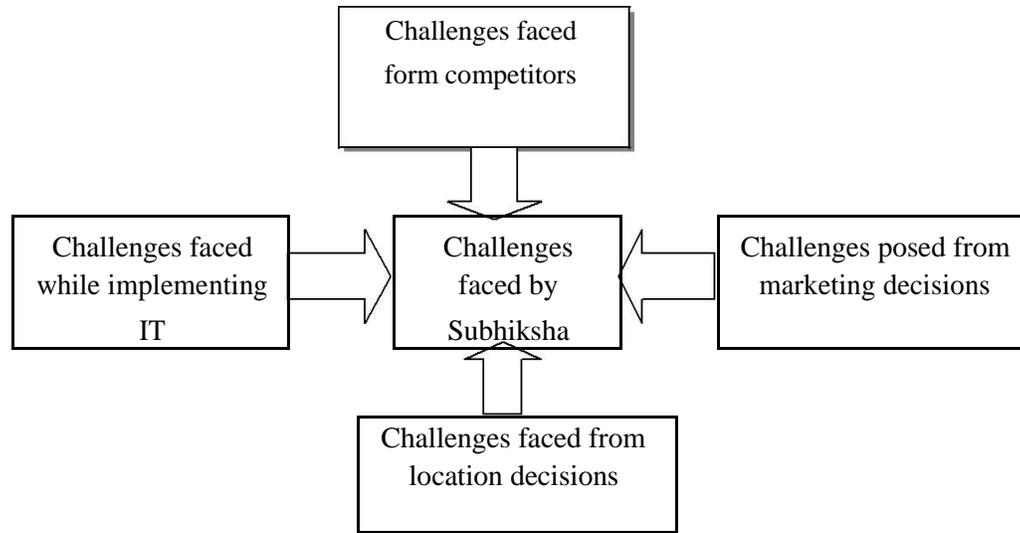


Figure 2. Challenges faced by Subhiksha

Table 2. 4 P's - Comparative analysis of reputed retail stores at Film Nagar, Hyderabad

	<b>Subhiksha Supermarket</b>	<b>More Supermarket</b>	<b>Fresh@Heritage</b>	<b>Reliance Retail stores</b>
<b>Products</b>	The merchandize includes FMCG, Groceries, Fruits Vegetables, Pharmacy, Mobiles and other Products.	Not very wide range of merchandize but includes Groceries, Fruits, FMCG and Vegetables	Wide range that includes Groceries, FMCG, Vegetables, Fruits, Own manufactured Dairy Products, Pastries and other ready to eat items.	Merchandize includes Groceries, FMCG, Vegetables, Fruits, Reliance mobile Handsets, SIM cards, Steel and plastic items.
<b>Promotion</b>	Not that effective	Not that effective	Effective	Effective
<b>Pricing</b>	EDLP pricing	Normal	Normal	Normal
<b>Place</b>	Stores are located at most of the places in the city and more than hundred cities in the country.	Stores are located at most of the places in the city and some of the states in the country.	Stores are located at different places in the city only.	Stores are located at different places in the city and in other states in the country.

are- discount pricing with thin margins, poor inventory management like managing inventory at two extreme ends. Some stores were having high inventory levels and some others were with no or low stock. Bad history of credit defaults that led to supply breakages as they acquire entire merchandize on cash basis. It entered into the market with gorilla strategy and tried to be the number one in every place in the country. Out of the total stores established only few stores were profit generated and rest were not that much profitable. It moved across different sectors such as medicines, grocery, IT, mobile, than others very fast than competitors. Global economic meltdown, labling its own products, going for wrong IPO in 2007 but shelving in view of uncertain market conditions were other reasons for the failures. The growth pattern in organized retailing and in the consumption made by the

Indian population may follow a rising graph helping the newer businessmen to enter the India Retail Industry.

**Limitations of the study**

The study is limited to twin cities of Hyderabad and Secunderabad. This may not represent the true picture of the total population. The findings are derived by analyzing the data collected from the respondents and every care has been taken to avoid their biased opinions. Still there was an ample scope for biased opinions which will affect the results of the study. The data collected for the study is limited to the selected retail outlets but not for the whole retail sector in twin cities.

## Conflict of Interests

The authors have not declared any conflict of interests

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