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V-MART: THE SMALL TOWN VALUE RETAILER



LALIT AGARWAL
CMD, V-MART RETAIL LIMITED



A value retailer pioneering modern trade in small towns and cities

V-Mart – one of India’s largest value retailers – was incorporated as Varin Commercial Private Limited under the Companies Act in 2002 in West Bengal. A year later, it opened its first V-Mart store in Ahmedabad, Gujarat. Since then, V-Mart Retail stores have expanded and opened in prime states and cities such as Bihar, Chandigarh, Gujarat, Haryana, Jammu and Kashmir, Madhya Pradesh, New Delhi, Punjab, Rajasthan, Uttarakhand and Uttar Pradesh. V-Mart Retail has been a pioneer in setting up modern ambience stores equivalent to large retail malls across various small towns and cities like Sultanpur, Ujjain, Motihari and many more such places.

By **Sanjay Kumar**

LALIT AGARWAL 
CHAIRMAN AND MD, V-MART RETAIL LIMITED

Based in Gurgaon, the company's operations are today spread across northern, western and eastern parts of India. As of March 2018, V-Mart operates 170 stores in 144 cities across 14 States & Union Territories with 14.20 lakh sq.ft. of retail area under operation. "At V-Mart, we recognize that in a country marked by extensive under-consumption in organized retail, there would always be a premium to expand across Tier II, III and IV cities," says **Lalit Agarwal**, Chairman and Managing Director, V-Mart Retail Limited, in an exclusive interview with Progressive Grocer.

In terms of stores' presence and location, 105 of V-Mart stores are located in Tier III and IV cities, 42 stores are located in Tier II cities and just 23 stores are located in the metros and Tier I cities. V-Mart has the strongest presence in Uttar Pradesh with more than 72 stores, where the election of a new pro-business and investor-friendly government will likely translate into increased disposable incomes and consumer spending, thus strengthening the retailer's prospects further. V-Mart's uniqueness lies in its regional cluster-based store expansion strategy, which acts as a bandwagon for driving top line growth.

As a strategy, the company opens stores only within 50-100 kilometres of its existing stores, which helps in supply chain management and achieving operational efficiency. The stores are the first of its kind retail experience in all the places it sets shop. Basically, these are places where people have newly increased purchasing power and aspire for a better shopping experience. The stores mimic retail outlets in urban places, are equipped with trained staff, air-conditioning, escalators, toilets, etc. The company's motto is to provide modern retail at affordable prices by focusing on value and playing on the shift from unorganized to organized retail. "Our location strategy is to pursue a cluster approach under which our expansion footprint, until now largely focused on Tier II and III cities of India, will likely gain traction in Tier IV regions. This approach will help us bridge the gap for the aspirational consumers who do not have access to organized retail," says Agarwal.

Store formats

V-Mart stores are categorized under different formats, which have been designed keeping in mind all its consumers. V-Mart Aspire houses products for the youth in line with the latest trends. V-Mart Plus addresses consumers across age groups; stocks clothes and discretionary products and the stores

are located in densely populated areas. V-Mart Corporate targets office goers and its product line is known as Gold Line Fashion with stores located in areas inhabited by working professionals. V-Mart Values stores comprise cost-competitive products addressing all age groups.

V-Mart's business can be classified under three business verticals: Apparel, General Merchandise and Kirana Bazaar (FMCG and pack staple food). V-Mart was among the first consumer retail companies to be positioned around the concept of family fashion offering value-for-money products for the fashion-conscious middle-class youth in Tier II, III and IV cities. Over the last decade, the company has evolved into a one-stop brand of choice, offering an extensive range of products around the concept of 'Price Less Fashion' in non-metro cities. Maintaining high standards in quality and design, V-Mart offers fashion garments at down-to-earth prices and, over a period of time, has emerged as the destination of choice for bargain hunters and the fashionable alike. Likewise its Kirana Bazaar has a reputation for serving customers with a well curated assortment of products that are high on quality and freshness and sold at a very competitive price in keeping with the company's tag line "Price Less Fashion". The Kirana Bazaar range include products such as biscuits, fruit juice, hair oil, soap, atta, masala, rice, tooth paste and tooth brush, energy drinks, liquid antiseptic, shampoo, etc.

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V-MART: VITAL SPECS

Retail format of stores: **Value**

Number of stores currently in operation: **170**

Launch of first store: **2003**

Average size of stores: **8,500 sq. ft.**

Total retail space under operation: **14.20 lakh sq. ft.**

Operating model: **Company owned stores**

SKU count in stores: **approx. 1200**

Average weekly footfall at stores: **5-5 lakh**

Average bill size/ transaction: **Rs. 725**

Average sales per sq.ft.: **Approx. Rs. 850**

Average monthly turnover of stores: **Rs. 100 crore**

Size of supplier base: **Approx. 5,000**

Catchment of customers: **Young shoppers in Tier II, III, IV cities**

Sales growth y-o-y: **25%**

Latest revenue/ sales figures: **Approx. 1,200 crore**



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Focus on value, quality and price

The focus on quality and price integrity has brought rich dividends for the retailer. So even though the financial year 2016-17 was one of the most challenging for retail-driven Indian companies, owing to the market skittishness triggered due to currency demonetization, V-Mart sailed through the troubled times quiet comfortably. "The demonetization move created a temporary shortage of high denomination currency notes within the economy, which cascaded into a crisis

in consumption confidence. Buyers backed off and retail sales declined. V-Mart tided over the crisis by taking some smart initiatives. We introduced the 'Smart ATM concept' to help customers get cash, which saw us acquiring new customer streams as well, and drawing operational efficiencies by automation in our supply chain. During this Smart ATM drive at our stores, we started dispensing the collected cash to anyone who needed it by swiping cards on our stores' credit card swipe machines, irrespective of whether the person was buying or not buying from our stores. This drive saw long queues outside all our stores across the country. Our store teams took the initiative to lead these people to explore our stores, often resulting in sales and new customer formation. This, along with better supply chain management, led to robust sales during a period that saw almost all industries, including retail, witness a massive downfall in demand," says Agarwal.

The retailer led and showed the way on how to convert a threat into an opportunity, which Agarwal affirms is a core part of the way of doing business at V-Mart and the way it approaches its external macro environment. At a time when consumers cut down on consumption as they struggled with inadequate currency, when buyers deferred purchases and retail offtake was affected, V-Mart reported one of its best years in business in 2016-17.

One part that played a key role in catalyzing the retailer's stellar performance is its deft inventory management. Those in the retail business recognize that inventory management is one of the key parameters that make or break a retail business. As changing fashion trend can lead to inventory erosion, the cluster-based approach helps VRL in inter-store stock movement and easy stock rotation from its stores. Being entirely focused on Tier-II and Tier-III cities, VRL easily rotates out-of-fashion stock within the vicinity of nearby stores as semi-urban areas tend to catch up with the changing fashion trend at a slower pace compared to Tier-I cities.

A strong believer in targeted merchandising, V-Mart believes that there are a number of different countries within the geographic boundaries of India. "There are diverse regional markets with distinct consumer preferences that are completely different from each other at even a distance of 100 kilometres. The success of any retail enterprise depends on how well we map consumption patterns and address emerging demand in these different markets. Through a combination of consumer insight and technology, we believe that we are getting better at providing just what the market needs at right prices

“As a value retailer we target the aspiring middle class consumers”



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Our stores operate on key guiding principles of “Price Less Fashion” and they primarily operate in Tier-II and Tier-III cities, with a chain of “Value Retail” departmental stores offering apparels, general merchandise and kirana catering to the entire family.

— Lalit Agarwal
Chairman and MD,
V-Mart Retail Limited

How would you describe the key attributes of your stores and its journey over the years?

With a vision to establish the concept of organized value retailing in certain untapped regions of India, I started my venture under the brand name “V-Mart” in 2002 by launching V-Mart’s first life-style store at Ahmedabad in 2003. This store was recognized as the First Organized Life Style Retail Store in Western India for the middle and lower segment. The company caters to the ‘aspiring class’ and ‘middle class’ population with an added focus on youth and young families. Our stores operate on key guiding principles of “Price Less Fashion” and they primarily operate in Tier-II and Tier-III cities, with a chain of “Value Retail” departmental stores offering apparels, general merchandise and kirana catering to the entire family. Today, we have a team of 20,000 people who work directly and indirectly with the organization. V-Mart stores attract a footfall of 30 million every year and the count is growing.

What do you feel are the marked differentiators for your stores that put them apart from the other retail players?

The key differentiators that put V-Mart stores in a league of its own are its offerings of fashionable products at affordable prices, store ambience, customer service, pricing strategy, promotions/ schemes/ offers, loyalty program and its young buying team, which understands the youths’ taste preferences.

Tell us about your business model.

The company follows the concept of “value retailing” to target the expanding “aspiring class” and “middle class” based on the customer’s socio-economic conditions, purchasing power, demographic details and customer trends. The key elements of our business model are as follows:

Store size: We target an average store size of 8,500 sq. ft. This is based on our experience as the optimum size which is financially viable and sustainable in the geographies where we operate.

Cluster based approach: All new stores which we open are within a distance of 100-150 km of an existing store. This gives us obvious benefits in terms of cost savings and at the same time giving us

the benefit of having a sense of the customer taste and preferences.

Geography: The company is focused towards the Tier II, III & IV cities. It has been our experience that these cities offer much better financial viability based on the latent demand and under serviced appetite for quality products.

Debt: The company follows a conservative approach of relying on internal accruals to fund growth. The capital assets are fully funded through internal accruals and some portion of the working capital is also funded from the same. The board has mandated a limit of 0.75x in terms of the permissible level of gearing.

Controlled growth: The company is of the view that for growth at the front end to be sustainable, capability at the back end also needs to scale up at the same pace. If there is an expectation that growth at the back end is not going to keep pace with the front end, the company is sure that the growth plans will be moderated.

Which are the new and emerging food categories at your stores?

In kirana, the emerging hot categories are Canola Oil, Savlon Handwash, Manpasand Mango Sip, Patanjali products, YoliYola soft fruit candy, Lion dates, and herbal brand Joy in personal care.

What is your share of private labels? In which categories do you have private labels?

The share of our private label stands at 54 per cent, and the target is to increase the share to 80 per cent, which will help us to gradually improve margins. We are aggressively planning to have more private labels in kirana – in pulses, rice and masala.

What is the scope for utilizing and leveraging technology for your store format?

We are using ERP/POS, HRMS, VM –Space Planning tool and WMS system, besides introducing our own mobile app.

What’s in store by way of your expansion?

V-Mart aspires to open 30 stores per annum on an average. We aspire to go to the Northeast in the future.



at the right time, the result of which is visible in our improved inventory turns,” points out Agarwal. The past fiscal saw V-Mart improve its inventory turn to 3.73, which was better than what it clocked in the previous year at 3.96. Correspondingly, inventory (days of sale equivalent) declined from 88 days to 86 days thanks to prudent technology investments.

Similarly, V-Mart’s gearing or its debt-to-equity ratio stood better at 0.13 in 2016-17 than in the previous year (0.12). In a business that warrants resources to build stocks and widen store rollout, the company remained virtually debt-free even in a particularly challenging year. Total footfalls in 2016-17 at V-Mart stores climbed to 25 million, up from 20 million in the year-ago period. Average selling price in 2016-17 jumped to Rs. 208 from Rs. 195 in the previous year and the ticket size increased to Rs. 713 from Rs. 663. Same store sales growth in apparel rocketed to 13.3 per cent in 2016-17, a dramatic shoot-up from 0.4 per cent in 2015-16. The company also went on to launch 20 new stores in the most challenging year for Indian business. It also bettered its average revenue per square feet in 2016-17 at Rs. 799, which was a sharp improvement from Rs. 756 a year ago. In 2017, the company also achieved a financial landmark, crossing Rs. 1,000 crore in revenue, and also winning the best short-term ICRA rating of A1+. Most notably, the company reported profitable growth – revenues increased 24 per cent and profit after tax strengthened 43 per cent. The results validated V-Mart’s long-standing focus in extending the benefits of organized retail to a non-metro India, an under-consumed India and an aspiring India.

At a time when consumers cut down on consumption as they struggled with inadequate currency, when buyers deferred purchases and retail offtake was affected, V-Mart reported one of its best years in business in 2016-17.

“At V-Mart, we have consciously selected to extend the standards of a well-consumed India to an under-consumed India – extending across tier II, III and IV cities and towns. The result is that V-Mart reported a CAGR in revenues of 27 per cent and a CAGR in profit after tax of 22 per cent in the five years ending 2016-17, making the company one of the most exciting proxies for India’s consumer retail industry,” says Agarwal, whose company hit Rs.1,000 crore revenue milestone within 14 years of operations. He informs that the company is also targeting over four-fold jump in revenue to touch Rs. 2,300 crore (US\$ 391.71 million) by 2020 with smaller towns expected to be its key growth drivers. “About 68 per cent of our revenue comes from apparel, 19 per cent comes from Kirana Bazaar, 6 per cent of from Non-Apparel and the remaining 6 per cent from Home Mart,” he reveals.



Going ahead, V-Mart has singled out effective automation, warehousing, packaging, and assortments as the other priority areas. Another focus area for the retailer – which currently employs over 7,000 people that directly and indirectly support several more individuals and MSMEs across India – is to further build on its people capabilities. “At V-Mart, we believe that all corporate growth essentially begins with people. During the past few years, even during periods of economic and retail sluggishness, the one investment that we continued to emphasize on was our investment in human resources, which are the true assets on our balance sheet. In addition to recruitment in line with growth in the number of retail stores, we have enhanced the capabilities of our people through training to better manage consumer needs. The result is reflected in increased productivity: revenue per employee, which increased to Rs. 22.39 lakh as on 31st March, 2017, from Rs. 20.96 lakh as on 31st March, 2016. The

TECH ADOPTION FOR RETAIL EFFICIENCY

Strong IT Infrastructure, systems and processes: VRL has a strong focus on systems and processes. It invests Rs.100 million per year on technology. It uses a software called ‘Ginesys’, which fulfils all business requirements right from sourcing, making payment to vendors, understanding the requirement of supply chain, maintaining customer database and, last but not least, managing the accounts by using the complete ERP solution. It also uses a software called ‘Oracle Discoverer’, which is an efficient tool for comprehensive analysis of data pertaining to operations of the company and one which enables the management to exercise control over the stores, supply chain and financial management. In addition, management information system (MIS) appraises the management on critical areas relating to operations of the company at regular intervals.

Customer database: VRL currently has a database of about 9mn customers, which helps it to track customer purchases and preferences. Out of all the customers who make purchases at its stores, VRL manages to obtain phone numbers from 50 per cent to 65 per cent.

fact that a number of our customers were willing to buy from us indicates a stronger connect between our employees and customers,” notes Agarwal.

Faith in technology

One investment that has been critical to V-Mart’s aggressive growth is its belief in developing robust and scalable technology. This has made it possible to locate inventory, analyze consumer trends and measure its performance in real time. “In the past few years, we have made proactive investments in advanced IT tools and software for informed decision-making. I am pleased to point out that each time we scaled the business, this technology foundation made it possible to amortize costs better, providing our business with the room to enhance our competitiveness,” says Agarwal. Over the years, V-Mart has consistently invested in cutting-edge technologies to enhance operational efficiencies. The company invested in the ‘put to light’ sorting system to improve inventory management and reduced dependence on pre-packing materials. V-Mart automated priority-based inventory allocation, helping identify stores to be stocked with the fastest-moving products. In FY17, the company improved flexibility in stock packing and supply; it introduced ‘Ginesys-Quick view’ facilitating retail analysis, strengthened Vinculum INFOR (warehousing management system) and introduced Safron (biometric for syncing daily store attendance) to reduce human dependence and related errors.

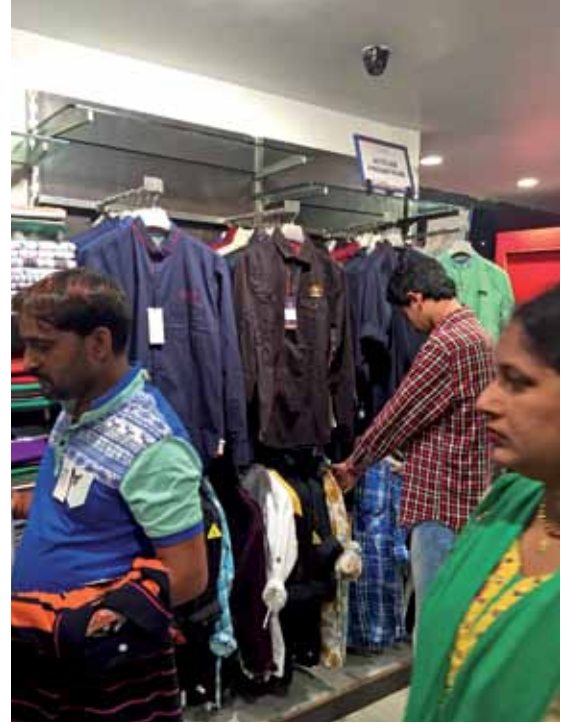
“At V-Mart, we have invested in strengthening our supply chain with the objective to accelerate deliveries from vendors (making them responsible for on-time delivery). We invested in technologies



that would provide an informed understanding of what product lay in which warehouse, minimizing mismatches between demand and stock,” reveals Agarwal. Similarly, the retailer has been steadily ramping up its warehousing capability: V-Mart has been investing in warehouses with the objective of leveraging a hub- and -spoke delivery model. The company sources about 95 per cent of its products from these centralized warehouses. It has commissioned a centralized warehouse of 2.2 lakh square foot in Bilaspur, its geographic location helping moderate inward product movement from vendors and outward deliveries to stores. It has also made a large investment in a warehouse management system (INFOR, the world’s leading such system)

V-Mart has the early mover advantage in Tier-II and Tier-III cities with about 85 per cent of its stores in these cities. Sales from these cities are growing at much faster rate for almost all consumer items due to faster growth in disposal income and wealth, coupled with increasing awareness and aspiration.





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for improving warehousing and supply chain efficiencies. In FY17, the company implemented a warehouse stacking mechanism to optimize space utilization and it standardized processes that enhanced inventory visibility and management.

In the days to come, V-Mart is looking to further sharpen its focus on technology, which is in keeping with its goal for FY 17-18. The company's theme this fiscal is 'Aligned with Customers, Prepared for Growth', which reflects its core belief of keeping the ever evolving needs and wants of its customers in the center and aligning all its operations and growth strategies around it. Amongst the several identified areas that V-Mart has been focusing on is fashion forecasting, fashion designing, quality assurance, data analytics & business intelligence across the entire value chain, investments in technology & customer experience, Big Data applications in supply chain / merchandising / logistics / retail operations to ensure better cohesiveness and relevance of support functions to its retail operations to ensure better and more relevant / fresh bouquet of products to offer superior value to its customers.

"We are focusing on enhancing the customer shopping experience – making it stand out as a distinguishing feature. Our newly launched customer loyalty program V-Mart Value Club – is being expanded to offer even better value to our customers. We have started to outline our strategy for omni-channel retail to future-proof our business and provide multiple modes to our customers to engage with us. Treating each day as a new avenue for more learning, we listen to our consumers, understand the shifts in the market and consumer behavior, and experiment and prototype to come up with new workable ideas. To do all this effectively, we have increased our spending on information technology. We invested in one of the world's

best warehouse management system (INFOR); we wired our systems better; we connected our various stores; we standardized the warehousing processes; we document every sale; we analyze our costs sheets and we study sales data closely. Most industry experts said that this was unlikely to yield significant benefits. The reality is that we reduced our overheads, made our pricing more affordable, widened sales, generated superior procurement economies and increased surpluses without charging the customers higher," discloses Agarwal.

Optimistic outlook

V-Mart has the early mover advantage in Tier-II and Tier-III cities with about 85 per cent of its stores in these cities. Sales from these cities are growing at much faster rate for almost all consumer items due to faster growth in disposal income and wealth, coupled with increasing awareness and aspiration. Tier-II and Tier-III cities contribute to around 60 per cent of the company's revenue, which is expected to increase to 70 per cent by the end of this fiscal. The company enjoys higher margins as compared to its urban counterparts on account of lower rentals, due to its significant focus on Tier II and Tier III cities. The retailer is looking at further improving its per square foot sales, open new stores, launch new festival collections, and target even better marketing for primary customer segments in rural as well as urban areas and enhance its fashion offerings at superior price points – all part of the company's key drivers for growth. The company also plans to launch private labels across all divisions along with aligning with and becoming stronger in the basic 'Never out-of-stock' merchandise. V-Mart aims to increase the share of its margin-accretive in-house brands (Flick, Twist, Desi Mix, Charcoal, J White) to 80 per cent by offering new variants. Increased emphasis on

wedding apparel and winter wear for all age groups could augur well for the company's revenues, too. Its blueprint for the future includes leveraging its strengths, reducing internal weaknesses, mitigating the threats to business model to make the most of the opportunities in the markets that it operates in.

"We believe that farm loan waivers announced by the UP government should translate into increased income in the hands of farmers, strengthening rural offtake and benefiting consumer-facing companies like ours. We feel that Goods & Services Tax is the most decisive initiatives for the benefit of the value

of V-Mart. As a result, rent per sq.ft over the past five years has hovered around Rs.28. That is, almost no inflation for five years in rent," points out Agarwal. The retailer's focus is on volume-driven growth by adding to its customer base in price-sensitive Tier IV zones. V-Mart is unlikely to increase the average selling price of its products, which is typically in the range of Rs. 280-290 per unit, roughly 60-65 per cent lower than most of its organized counterparts. "At V-Mart, we have resolved to maintain or reduce sticker prices instead of pursuing the objective to enhance profits. We recognized that the only way



Going forward, V-Mart's growth agenda includes commissioning a larger number of stores in non-metro locations, widening its product categories and the merchandise and servicing a larger number of customers.

retail industry, wherein apparel with a sticker price of less than Rs.1000 has begun to attract the lowest tax slab of 5 per cent. This augurs well for a company like ours where we derive around 85 per cent of our revenues from products priced at Rs.1,000 or lower, making it possible for the market to widen on the one hand and for a company like V-Mart to widen its industry share. We believe that as incomes and media exposure increases, consumers will consume more and a larger breadth of products. At V-Mart, we are attractively placed to capitalize on this phenomenon; our technology investments will make it possible for our supply chain efficiencies to be leveraged better, making it possible to respond to the wider and larger needs of customers," says Agarwal.

With an aim to increase its top-line, V-Mart plans to add 25-30 stores every year with a targeted area addition of 12 per cent. The investment required to open a new store is also low, roughly Rs. 1400 per sq. ft. for capex and another Rs. 1700/ 1800 per sq. ft. for inventory. This also results in higher RoE as compared to urban retailers. The company secures long term leases (9-10 yrs) with all the rental locations with escalation costs of 10-12 per cent every three years, and the termination would be at the discretion

to achieve this challenging objective is to question every paradigm, every practice, every process with the singular objective to do things faster, better and at a lower cost," says Agarwal. With technological integration undergirding its expansion plans, V-Mart's long-term strategy is to foray into the online space by spending 2 per cent of its operating income every year. Though e-commerce could be potentially disruptive, the impact of the same may not be very significant (at least not in the initial stages) since customers in smaller territories still prefer brick and mortar outlets.

Going forward, V-Mart's growth agenda includes commissioning a larger number of stores in non-metro locations, widening its product categories and the merchandise within and servicing a larger number of customers. "We will grow with speed but to the extent that our balance sheet permits without jeopardizing our financial integrity. We will seek synergic sectoral opportunities that make it possible to explore alternative revenues engines that sustain our corporate ambition. We have the resources to map our own journey; we know where we are headed and we have the right team of professionals in all areas of retail trade," avers Agarwal. **PG**