

More in store for Spencer's

Retailer shows improved figures in five years with expansion of large format stores and their rationalisation

ISHITA AVAN DUTT

In the last five years, RP-Sanjiv Goenka Group company Spencer's Retail has moved from an average sales of ₹650 per square footage to ₹1,600 per square footage; from revenues of ₹500-600 crore to ₹2,200 crore, and from a store EBIDTA of ₹32 crore to ₹112 crore.

"We went wrong on a lot of things, but we have finally figured out how to do things scientifically, clinically and profitably," explains RP-SG Group chairman Sanjiv Goenka. Among the first decisions was to follow a conscious strategy of expanding only the large format stores. Spencer's still has three formats: convenient stores (neighbourhood stores), supermarkets (that offers a larger assortment of food) and hypermarkets (a play of food and non-food). But the preference is for the large format stores, upwards of 15,000 sqft to 25,000 sqft and above.

So, if Spencer's currently has 38 hypermarkets in the next four to five years the figure would go up to 100. "Eight stores have been opened this year. We are not opening any more this year," says Shashwat Goenka, Sanjiv Goenka's son and the sector head for RP-SG Group's retail operations. In terms of square footage, hypermarkets would account for 114,000 square feet, which will double over the next three-four years. The total square footage area across 126 stores is about 1.1 million.

Large format stores are the way to go. Without commenting specifically on Spencer's, Pragya Singh, vice-president - retail and consumer products, explains that food players are in the process of a course correction. "There has been a lot of euphoria 2006 onwards and everyone opened a lot of stores. But now players are experimenting with formats, closing down stores. A lot of rationalisation has happened and will happen."

True enough, Spencer's has gone through the phase. In 2012 and 2013, there was a high degree of rationalisation. "Earlier, the expansion was ad hoc and we didn't get economies of scale," explains Shashwat.



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INCHING AHEAD

	FY12	FY13	FY14	FY15	FY16
Revenue (₹ cr p.a.)	1,206	1,347	1,458	1,672	1,865
Revenue per sft per month	1,060	1,226	1,305	1,349	1,452
Store EBIDTA (₹ cr p.a.)	32	56	68	80	112
Corporate EBIDTA (₹ cr p.a.)	-109	-76	-59	-57	-30

Source: Spencer's Retail

There has been a rationalising of stores; everyone in the company is now chasing the same vision of profitability. There has also been expansion in select geographies to help capitalise on that market and growth, and establish the brand more. Adds Sanjiv Goenka, "We are becoming a lot more scientific in opening stores. We have understood the DNA of store expansion, so the ratio of closing down to opening has improved."

Singh says location is the single most important factor for success.

Expansion for Spencer's, thus, will be in select regions. Its strongholds are the north, east and south; in the west, Spencer's has one store.

"The consolidation that happened in the past was in the west. So we will grow in these areas and saturate the markets first," adds Shashwat.

At the micro level, a lot of work has gone into the stores as well. In 2013, processes were put in place for Spencer's at the store and corporate levels. At least 300 different processes have undergone change at the stores, from shutter-up to shutter-down. Each member of a team has a defined checklist. Earlier, Shashwat explains, there was no planogramming, the strategy was to put upfront what sells most. "But a planogram makes it easier for the consumer to make a choice. So we have worked a

lot on how the store looks."

Though the Spencer's product basket is dominated by food, at 80 per cent, work is on for the apparel offering. "Spencer's positioning is upper middle class. But while the food segment catered to the upper middle class, the apparel target was very different. There was a fundamental mismatch. From February, the apparel mix will change. Everything will cater to the same kind of audience," says Sanjiv Goenka.

The overhaul in strategy seems to be paying off. The average sales per square footage in the latest quarter is ₹1,600, up from ₹1,400 last year and ₹650 five years ago.

The management also expects the second half of the year to have an operational profit. That would be a first for Spencer's. In FY16, gross revenues were at ₹1,865 crore while net loss was at ₹142 crore; this year, revenues will be ₹2,200 crore, but it's likely to still end with a loss. But the Goenkas believe, it's getting there.

Goenka sums up that in the past few years, costs have been reduced,



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sales have improved, margins have gone up, partially by changing the product mix, and the hit rate for stores has improved. Last, but not the least, Spencer's has been able to attract talent. In the last one year, Vipin Bhandari was roped in as deputy CEO of Spencer's Retail. He was CEO with Hypercity earlier; Rahul Naik (earlier director, operations, at Star Bazaar THL) was made executive director, operations.

With retailers going for multiple formats, Spencer's has also entered the grocery ecommerce space with the acquisition of meragrocer.com.

"It's a highly commoditised product that we are trying to sell. So a kirana store is as much competition as a Big Bazaar," says Shashwat.

But going by that rationale, demonetisation might have had a positive rub-off effect on Spencer's, to an extent, as Singh says that modern retail has been a beneficiary of the government as they are geared to serve a cashless economy. "Modern retail has seen a jump in sales as traditional sales didn't accept cards."