

# Managing Modern Indian Retailing in a Changing Environment

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## Abstract

Managing retailing in a volatile environment is essentially about the ability to change. It has been contended that those retail businesses shall survive and flourish in this decade and the next are those who are able to respond quickly and effectively to a dynamic business environment. These changes, both in the environment and in the organization, will also have an impact on the business system and traditional business function of organizations. Managers have to be aware of these changes so that they can adapt business information to meet, and even anticipate, the changing demands of customers. This puts a premium on certain capabilities, such as adaptability, flexibility and responsiveness. Drawing insights from modern format retailing in India, which can be considered to be a proxy measure of market success and a strong catalyst for growth, this article focuses on flexibility imperatives for Indian Retail to leverage the maximum gain in these changing times. It may be concluded that successful retailers will learn and act at a faster rate than the competition and their leaders will have no choice but to be effective anticipators and managers of large scale change.

Keywords: retail flexibility, adaptability, responsiveness, modern format retailing, business environment

*“Developing flexible organizations is critical for business enterprises in the 1990s. Flexibility is a multi-dimensional concept – demanding agility and versatility; associated with change, innovation and novelty; coupled with robustness and resilience, implying stability, sustainable advantage and capabilities that may evolve over time.”*

*(Bahrami, 1992)*

## Introduction

The rapid and often discontinuous change that is taking place in the environment has a direct impact on the manner in which retail businesses are managed. Managers are finding that old proven recipes for success and specialized routines are no longer effective and are of necessity adopting new approaches to managing their companies. These changes, both in the environment and in the organization, also have an impact on the retail marketing system of organizations. Retailers have to be aware of these changes so that they can adapt retailing information systems (RIS) to meet, and even anticipate, the changing demands of users.

A paradigm shift has taken place in retail management theory, as a result of the rapidly changing environment. The nature of the changes to which businesses are exposed determines the extent of the response required by management.

The environment of business in India have been subject to unprecedented and accelerated change in the recent times. Forecasting economic trends is always difficult, but if one went beyond the headlines of the popular dailies to the data, there would be reason to conclude that the long-run prospects for India continues to be good. Indian electorate have voted back to power the United Progressive Alliance at the centre, ensuring stability in the market. The sentiment of corporate India is upbeat and bullish. The next one year is likely to be critical for India. The Indian economy has tip toed to an exciting phase. It is experiencing a crisis and opportunity simultaneously. The world economy is slowly down. Many leading companies in USA are currently surviving on the federal stimulus package and treading a cautious path. The nation has witnessed the global economic melt down and the recession has been at the most bitter stage world has ever seen and confidence in individuals and Institutions that have lead the great organizations in the recent past have dipped to a all time low. Consumers are becoming more empowered and difficult to retain. The marketplace is reaching high levels of consolidation, with powerful players shifting the competitive landscape. Technologies are proliferating and becoming more powerful and more complex to manage. Against this backdrop, in relative terms, Indian economy is doing well. The average inflation during 2009-10 is projected to remain negligible at just 0.1 per cent as against 8.3 per cent in 2008-09, reported Centre for Monitoring Indian Economy (CMIE, 2009). The CMIE Report also stated that it is expected to hover around this level in most months of fiscal 2009-10. The global recession and the relative good performance of India herald a tectonic shift in the world economy. The challenges of strategizing growth in recent time are tremendous and it is important to understand the opportunities of a market that is expected to beat the impact of downturn much faster than any other market. India's potential for consumption is on the rise. India's retail sector has been growing at 30 – 40 per cent annually over the past decade, according to KPMG. It is now expected to grow at 15-20 per cent for the next 2-3 years owing to slowing down of the economy, but the India retail story is still intact. Real estate rentals, a high component of cost, have fallen by up 25% from their peaks in November 2007, which will work in favour of Indian retailers. Consumer spending is also expected to pick up later in the year. This will test the resilience of retail business models and operational efficiencies. Players who can continue to attract consumers with attractive discounts and maintain efficiencies in the system will emerge winners. The demographic dividend shifted toward the youth populace, increasing spending power and a rapidly emerging economy that is the cynosure of global investors, India is getting stronger than never before. Modern Indian Retail can indeed be a proxy measure of market success and be considered as a strong catalyst for growth. This article focuses on flexibility imperatives for Indian Retail to leverage the maximum gain in these changing times.

### **Role of Flexibility in Organizations**

This central role that flexibility plays in the survival and success of organizations in a changing environment is well recognized by several authors in Management Theory. [Peters \(1991, p.635\)](#) suggests 45 prescriptions for becoming and remaining a successful business but concludes that the *chief axiom* is the necessity of attaining and maintaining flexibility. He notes that each of his prescriptions is aimed at advancing the achievement

of flexibility. Pasmore (1994, p.4) maintains that the more flexible an organization becomes, the better it can respond to change. Volberda (1998, p.xi) suggests that the flexible firm facilitates creativity, innovation and speed while maintaining co-ordination, focus and control. Allen (1994, p.1) contends that under conditions of rapid change, competitive advantage is more likely to be a function of the organization's awareness, anticipation and adaptability and implies that flexibility in the organization is inherent in these qualities. According to Drucker (1980, p.47) a business needs to be able both to ride out sudden hard blows and avail itself to unexpected opportunities in turbulent times. This implies that the business should be flexible enough to handle both the unexpected threats and opportunities posed by an uncertain future and unstable environment. Finally, Johnson (1992, p.89) identifies responsiveness and flexibility as the two qualities for organizational success, and emphasizes that the need to be flexible and not just responsive, is an implicit imperative of competition in the information age. He argues that a failure to understand the costs of complexity and the *benefits of flexibility* caused American companies to lose market share and profitability to more focused and flexible competitors in the 1970s and 1980s (1992, p.52).

Managers of companies seem to be aware of the benefits of being flexible but lack the necessary guidance to create this rather ethereal and elusive quality in their organizations. Steers (1975) noted that flexibility was the evaluation criterion mentioned most often in organizations. Unfortunately there is relatively little theory on flexibility as well as a lack of theoretical frameworks to guide management in understanding and identifying different types of flexibility and in creating and sustaining flexible organizations (Volberda, 1998). Eppink (1978) confirms that although flexibility may be regarded as a means of addressing organizational problems, the areas for enhancing flexibility remain largely unexplored. The methods adopted by managers to create flexibility in their organizations consequently are of an *ad hoc* nature, rather than forming a comprehensive, systematic and structured approach (Aaker & Mascarenhas, 1984). There is a need for comprehensive frameworks of the theoretical and practical aspects of flexibility that will help decision makers to assess actual flexibility and assist management to create or, where necessary, destroy flexibility in response to environmental change. The first step in the development of a comprehensive framework is to clarify and define the ambivalent phenomenon of flexibility in business organizations. Such clarification, together with a demarcation of the study field can then be used to refine the phenomenon of flexibility into a construct which can serve as a basis for developing a framework.

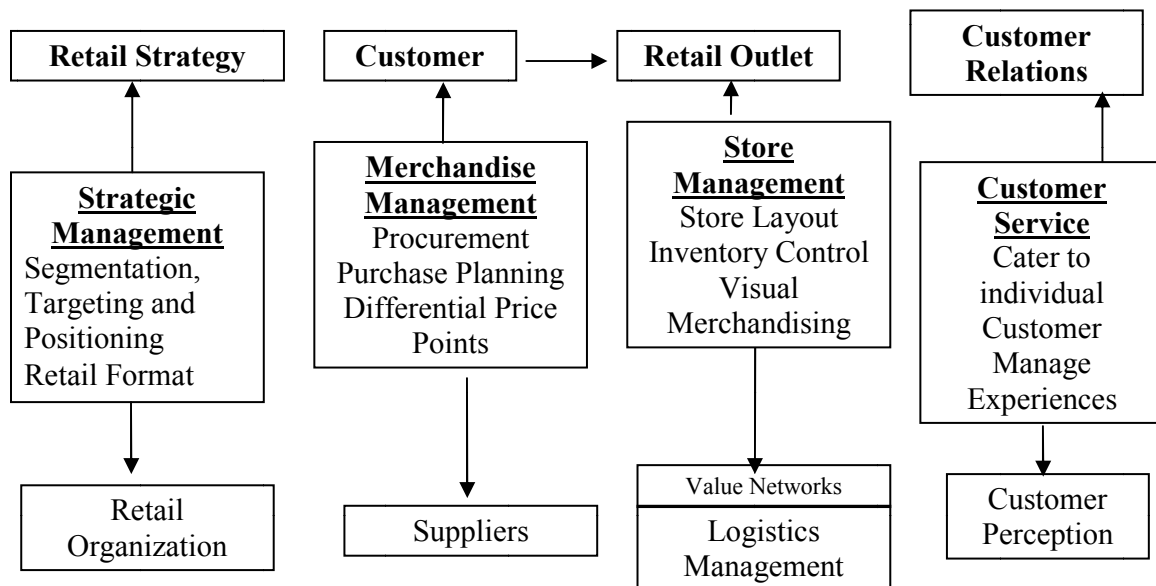
### **Flexibility and Retail Marketing**

Researching marketing literature for the past three decades points to the growing importance of retailing flexibility for creating customer delight and improving marketing return on investments (MROI). Flexibility as a concept has been associated with manufacturing processes (McTavish, 1984; Prabhaker, 2001), human resource management and strategy. Keeping in cognizance of the fact that flexibility is important in the application of the marketing concept (Combe and Greenley, 2004), very few studies have directly addressed marketing flexibility in general and retailing flexibility in particular.

Flexibility plays a critical role in the survival and success of an organization (Drucker, 1980, Peters, 1991, Pasmore, 1994, Allen, 1994, Volderba, 1998, Johnson, 1992, Sushil, 2001). The phenomenon of flexibility in modern organizations is essential for change management, handling uncertainty and strategizing for the future.

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**The term Flexible Retail Organization (FRO) may be defined as the power of the retail enterprise to think innovatively in the marketplace, to be agile and adaptive at all major touch points of the retail value chain and be able to create new goods and services to suit the tastes and preferences of customers.**



**Figure 1: A Conceptual Framework of Retail Flexible Value Chain**

A flexible retail organization gains competitive advantage as a result of its ability to change and reposition itself within a globally competitive industry. Let’s consider the case of Zara, the best – in – class fashion retailer.

**Case Study: Zara**

*One of the key differentiators for Zara has been its flexibility in responding quickly and efficiently to changing market dynamics and consumer demands. Zara prides itself on this ability to react extremely quickly to Consumer demand. Zara purchases over half of its fabrics which are not dyed to allow faster response to mid-season color changes. Zara procures from over 260 suppliers, none accounting for more than 4% of its total production, in order to minimize dependence on any single supplier and the flexibility to switch over to any supplier in case of delay in delivery. Zara’s pre – season inventory commitment was only 15 - 20% as compared to the retail industry average of 40-50%. All of these only go to show Zara’s philosophy of retail flexibility. As an example, Comditel,*

*which is a subsidiary of Inditex (the parent company for Zara), took only a week to finish a grey fabric. The 20 fully owned factories responsible for internal manufacturing applied the JIT production system. All the production was fully under control of Inditex. Vertical integration helped reduce the Bull whip effect. Keeping this flexibility across its stores and maintaining it as the bottom-line in all its endeavors will ensure that Zara will present the same face to consumers across the world wherever it chooses to go.*

It should be understood that FRO entails enormous opportunity. Only forward looking Retailers should start experimenting with it to realize the complete potential of flexibility in retailing.

### **Flexible Approaches for New Entrants in Indian Retailing**

Leading International brands and retailers may be going slow on their expansion drive, but new Indian entrants are identifying the opportunities created by the global economic slowdown and the flexibility to drive ahead in the lower cost environment. In general, the store rental-revenue dynamics have improved. The cost of real estate, which was till recently a critical factor for Indian retail, especially in the major metropolises like Delhi, Mumbai and Bengaluru, has turned favorable for the retailers. Though industry sales may have dipped 5 - 10% for a lot of retailers, rentals have come down 35 - 40% in the metros and mini metros. As a result, existing stores are now breaking even or becoming more profitable. The revenue sharing model, which has positioned malls owners as partners, is also transforming into a key stimulus. The minimum returns clause has been revoked in the Indian franchising, making expansion through franchising much easier. Home decor brand Rosebys, which has announced an expansion to 110 stores this fiscal, is a case in point. For new entrants, there are strong reasons to invest. For instance, the Jawad Business Group which franchises Papa John's and recently launched American south-western casual-dining chain Chili's ([Economic Times, 2009](#)). The economic downturn not only aids the retailers to revisit their core strategies and hone their competence, but also provides them the flexibility to look for the right alliance for business during a recession. The RPG Group, which operates Spencer's chain, sees it as an opportune time to test the market for its lifestyle format 'Mera World' and experiment with the shop – in – shop kind of retail format, which otherwise would have considered a stand alone stores for each of the brands if the economy would have been otherwise. Mera World has tied – up with Baccarose for perfumes, Just in Vogue for watches and Eternity for eyewear. Other leading players like Future Group, Shopper's Stop and Vishal Retail plan to re – structure their stores and replace slow-moving categories with specialty formats under the shop – in – shop model. Indian Retailers feel such an approach will assist them improve gross margin returns per sq ft in the present environment when same store sales growth is weak. Shopper's Stop recently tied up with Cafe Coffee Day to manage cafes within its stores. The cost of Integrated Marketing Communication is also a driving factor for Indian retailers to re – think how new players can get the competitive advantage to cut the clutter at the least possible cost. Recently, Godrej Group has also renewed its emphasis on modern retailing and rural retailing with the formation of the FMCG cell ([Business Standard, 2009](#)). New entrants in Indian Retailing are also likely to learn from existing players to start out with better inbuilt cost efficiencies. Prevailing economic

situation in the country is turning a market segment migrate toward value based offering. Retailers entering at this price positioning stand to gain competitive advantage.

### **Case Study I: Bharti Group**

*Indian companies are getting flexible so far as their product portfolios are concerned. They are diversifying into unrelated businesses for sustenance and growth. The Bharti Group, one of the leading business organizations in the country, has decided to invest \$2.5 billion (about Rs 12,500 crore) in agriculture and farm-based products in India (Food and Beverage News, 2009). The company will also focus retailing of farm-based products in the country and exports over the next few years. Agriculture retail is going to be the next focus area for expansion. The group have begun with fruits and vegetables and exploring other areas in a big way. Demand for consumer products has continued to swell in India. There is no slowdown for consumer goods. Bharti's telecom business is an example. There is a huge potential for growth for agro-based products in India. The company is working on a new model for this business.*

### **Case Study II: Carrefour**

*French retail major Carrefour is considering the multiple-partner option for entering India. Carrefour would test waters in India by appointing multiple licencees in various parts of India. The model that Carrefour is looking at with its licencees is short renewable contracts of 2-3 years. This gives the retailer ample flexibility to take over the business as and when foreign retailers are allowed in the country. Carrefour has already set up two business entities in the country —Carrefour Wholesale Cash & Carry India and Carrefour India Master Franchise Company for the direct-to-consumer front-end retail.*

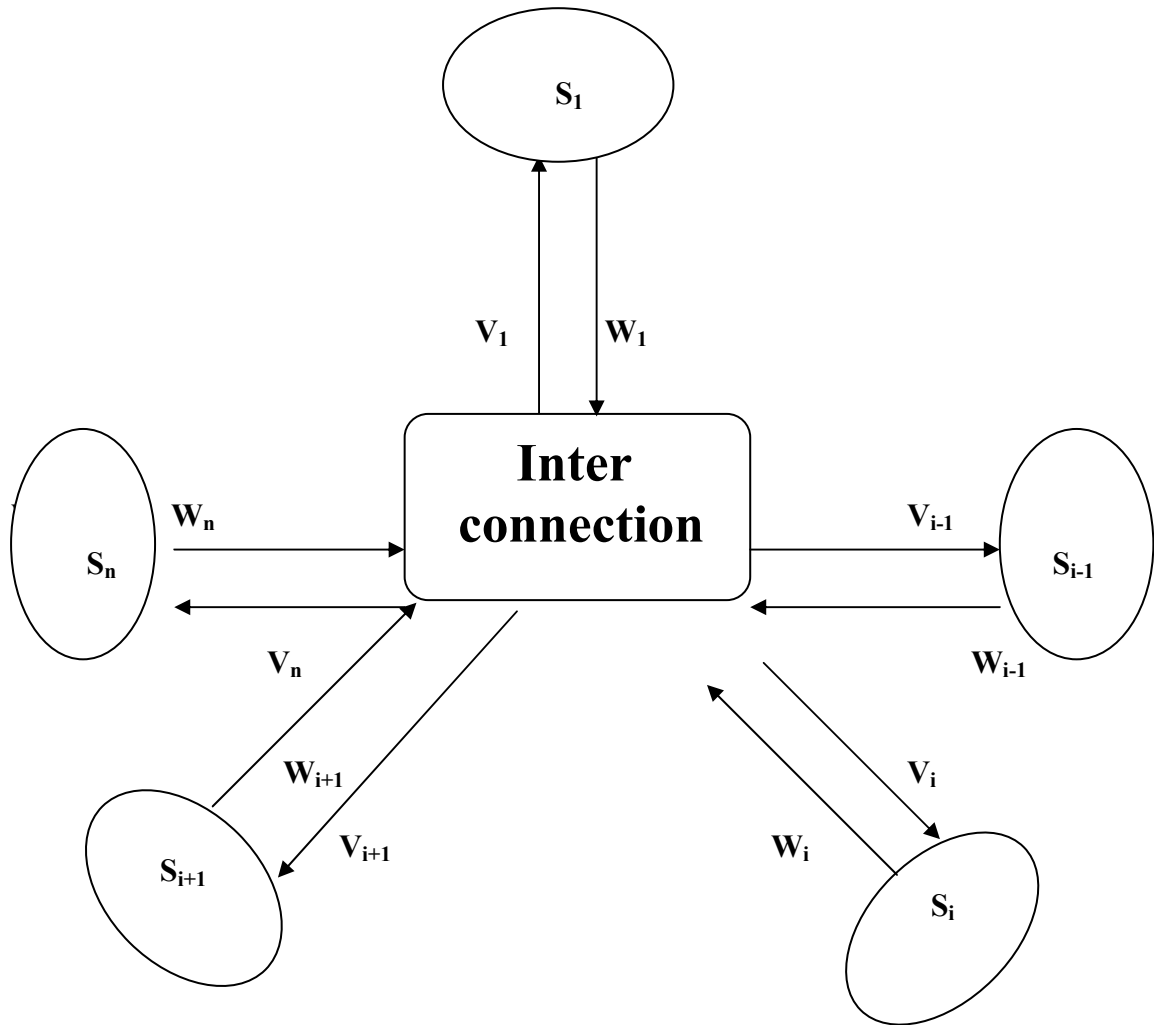
### **Customer satisfaction**

A proxy measure for retail flexibility is to ensure customer satisfaction and loyalty even during a downturn. Johnson (1992) defines flexibility from the perspective of customer satisfaction, by adopting a functional perspective and identifying the concept of flexibility as producing immediately or within a period that satisfies the customer, exactly what the customer requests. He concedes, however, that there is a human aspect to flexibility as is evidenced by his statement that flexibility is in the long run achieved only by changing lifestyles and ways of thinking.

Harrigan (1985) uses the term strategic flexibility to define flexibility from a somewhat broader perspective, namely a market perspective. Strategic flexibility refers to a firm's ability to reposition itself in markets, change its game plan or dismantle its current strategies. Eppink (1978) uses the term competitive flexibility and defines it as the ability of the enterprise to react to competitive changes caused by a major transformation of the market position, through the introduction of a new product or the entry of new competition. These definitions are all based on a functional approach in that they focus on the sales and marketing function of the organization, to the exclusion of other functions.

## **Conclusion**

The issue addressed in this article concerns the ability of retailing and its information system to adapt quickly and efficiently to the changing demands of users regarding business information. The inclusion of flexibility in retail management practices will address this in two ways. First, the inclusion of information on flexibility may enhance the usefulness of retail information systems. As uncertainty increases and flexibility becomes more important to the success of retailers, information on the different types and levels of flexibility in retail organizations should provide retailers with useful information. Second, the creation of an awareness of the importance of flexibility in the current business environment may sensitize retailers, vendors and academe to the need for retailing and its subsystem to become more flexible itself if it is to retain its relevance in an environment of increasingly discontinuous change.



**A Conceptual Diagram of an Expanding Construction of a Large Scale Flexible Retail System**

$S_{( )}$  , sub-system: Interconnection, Retail Information System and Retail Management:  $W_{( )}$ , input to interconnection:  $V_{( )}$ , output from interconnections

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