

ABOUT THE AUTHOR



This article has been co-authored by Bhavdeep Singh and Devangshu Dutta. Singh heads a billion-dollar retail business in the USA that competes against mega retailers such as Wal-Mart through a differentiated consumer offer. Dutta is a professional with wide-ranging experience in the retail and consumer products sector in India and outside in his roles as a consultant, entrepreneur and manager.

Devangshu Dutta

Bhavdeep Singh



playing with the big boys

– by Devangshu Dutta & Bhavdeep Singh



It was not too long ago that the retail market place was full of a diverse group of small to mid-size players selling goods and services to you and me in an environment that was comfortable and familiar. Then, one fine day, retailing got organised....

ANALYSIS

It used to be a crowded and loud group, but you were certain of one thing; you had a choice or two and could go to the "corner grocer or the local "sabzi" guy and get a good deal. Our mothers and their mothers before them had shopped there and were comfortable that they got what they wanted and needed at a fair price with pretty decent quality. It was about trust and relationships; value was sometimes solely based on those two key ingredients.

It seems that in every town and every community in India, everyone has a favourite or preferred "chaat

place" or a "mithai guy". Standardisation and norms have always been defined by the flavour of the local community and the articulated preferences of days gone by.

If truth be told, there was a certain familiarity when dealing with the local retailers. Change was minimal, and reliability and comfort was in abundance. They knew you and what you wanted; you knew them - more importantly, you trusted them to sell you quality products at a fair price. As far as everyone was concerned, the value proposition was solidly intact.

But, that was then.

Fast forward into the present and we see how quickly things are changing. The "big box" retailer is starting to show up and has started to make dramatic inroads towards capturing market share... local market share... national market share! Most of the time, their stores are bigger - much bigger. Very often, they are cheaper than the neighbourhood retailers! Sometimes, they have cleaner locations and better displays – they even wear those fancy name badges... Good Lord! What is the local retailer to do to compete – and not just compete, but compete effectively? What does he do indeed?



Sam Walton kept his prices low, and just differentiated, differentiated, differentiated, to get to the top.

The little store that could...

To understand how local players might build a strategy, let's take a journey. Travel back in time with us to the USA in the late 1950's and early 1960's. It's Middle America, more specifically; we are talking about Arkansas, a small state in the United States, home of Bill Clinton. A small retailer has just opened his doors and is going up against the Goliath of its day. The new guy, Little Sam, has ambitions – big ambitions – but, things are pretty competitive and this isn't going to be easy. The big guy, who we'll call Mr. K, has been around for years and has a great offering. He has large stores, huge market share and a loyal following. Little Sam is a feisty old fellow and thinks he can make inroads with his promise of great prices and quality service. He

works hard, along with his family, and manages to establish a steady business.

When we catch up with Little Sam in the mid-1960s, he appears to be doing well with two or three stores now. On the other side of the fence, Mr. K is a sophisticated retailer that gets low costs from his suppliers and tries to meet the needs of his local clientele. But, he is large and is not always able to satisfy every local flavour that comes his way. However, so far Mr. K manages to dominate wherever he has taken his offer.

So, Little Sam gives a lot of thought on how he could not just compete but win against Mr. K. He starts by making sure that he had fair prices he is obsessive, and keeps checking Mr. K's prices himself, and starts sending others into Mr. K's store when things become too obvious. To give low prices, Little Sam has to make sure that he has to keep his costs low as well. So, while he may not have Mr. K's muscle to buy cheaper, he can at least reduce the overhead that he has to charge to the product. So he tries not to spend nights in hotels, and if he has to, he shares the room with others. Above all, he tries to differentiate, differentiate, differentiate. He's sure that he can understand his customers better because he lives next door to them, and meets them everyday at his store. Having southern warmth underlying every customer interaction, with the boss himself immersed in the stores, makes things even better. Certainly better than Mr. K who lives in a big city far-away, and who doesn't really get involved in the day to day operations of his stores.

The market's growing, and the money's flowing, so Mr. K becomes a billion dollar business and a seriously big market leader.

However, Little Sam isn't doing too badly himself, and is actually able to compete effectively against Mr. K. As it turns out, Mr. K had gotten a bit complacent and had gotten a bit out of touch with his customers. With size, the company's bureaucracy and its inability to act quickly were starting to slow his responses.

On the other hand, Little Sam sticks to his simple lifestyle, hands-on approach and pumps back the money he makes into more stores, better systems and better prices for his customers. Over time, he has better inventory management, minimal over-time, high productivity from motivated people and overall a better offer for his customers than Mr. K.

Well, if you were following along, you can probably guess what happened. Fast forward 40



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Every retailer in the world has started to lose sleep over the likes of Wal-Mart - the world's largest retailer that also one day began life as a single, insignificant store.

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 There is a deluge of big retailers all over the world, whose primary competitive advantage is standardisation. This includes the likes of Wal-Mart, McDonald's, Tesco and Gap. So how about the little guy? What happens to the mithai guy or the vegetable seller in the local, the guy who has been selling us for so many years?

years and Little Sam is the largest retailer in the world (Wal-Mart) while Mr.K, (K Mart) is a mere shadow of what he once was, as he merges with another retailer facing tough times.

What about the little guy?

This anecdotal story merely serves as a backdrop for our theme of our article. Every retailer in the world has started to lose sleep over the likes of Wal-Mart. As we think about the local marketplaces around the country and start considering strategies against the big box retailers, one need not go any further than to look at what was done by Wal-Mart 40 years ago. They were small. They owned a very small piece of the market. And, at the time, they had limited resources. What did they do? They



Every community in India has preferred vendors, with standards being defined by the flavour of the local community.

developed a retail model that was built around quality products, fairly priced and sold with friendly service.

Sounds so simple. But is it that simple? Isn't the era of the local small retailer over? Don't customers only want to shop at big stores, where it is "all-under-one-roof" along with the glitz and the flash? Well, it certainly seems that way sometimes.

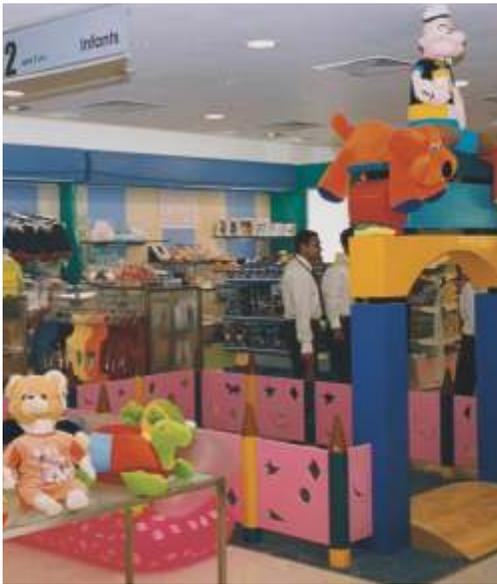
Look around you, there is a deluge of big retailers all over the world, whose primary competitive advantage is standardisation. This includes the likes of Wal-Mart, McDonald's, Tesco and Gap. So how about the little guy? What happens to the mithai guy or the vegetable seller in the local, the guy who has been selling us for so many years?

And what of the new small guy who is enthused by a retail idea, and wants to open his first store in his hometown? Can he compete against the muscle and weight of the big boys?

Reality Check

Let us acknowledge this once and for all: the big box retailer is here to stay. Companies with big money, big plans and big stores will become more and more a part of the retail landscape. And for all the losses that they might be making at the moment, they will grow and become bigger. And there will be more of them. We cannot wish them away.

Further, big box retailers from around the world are looking at India and are salivating at the idea of selling to over one billion new customers. They are working in overdrive trying to figure how they will capture our attention and



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imagination when they get here.

But is the game really lost? What is the proportion that the big box retailer has in India of the total retail sales? Is any retailer really big or dominant in this market that is growing and changing rapidly each day? And even as they grow, will big boxes really dominate each nook and cranny without getting a fight from retailers who are more nimble and who understand their local customers better? And as a small retailer or new retailer, do you have a chance to establish and sustain your business and, with a right mix of hard work, luck and blessings, do you perhaps have the chance to become one of the big boys yourself?

A One-Point Strategy - "Differentiate or Die"

What opportunity exists for the local retailer?

Think about this. Do a keyboard and a monitor represent customer service? Are local choices dictated by cost and availability as opposed to local likes, flavours and desires? Does the person who makes the decision on what to stock actually understand the psyche of each town where the store exists?

The secret lies in a retailer's ability to differentiate itself from the rest of the competition. Other than local knowledge, the local retailer has several advantages over the big box. He can make inroads in some significant areas, which are vulnerable points for large retailers. Let us list these factors that can enhance your value to your customers.

1. Relationship Building

The only time a company says they want to build a relationship with you is when they don't have one. One of the biggest challenges that a big box faces in competing in any market is the challenge of getting to know and understand the locality in which they do business. As a local merchant, you do not have to pretend that you are a part of the community you are. You do not have to pretend that you care about the community you do. Your customers are your neighbours, and they have many of the same



Customers are the most important person to your business – it helps to make them feel that important as you deal with them. It's as simple as that.

needs and wants that you have. As a local retailer, you see customers every day and can grow a relationship with them at a level that is familiar, comfortable and mutually beneficial.

2. Outrageous Service

This isn't about good service or great service. It is about "better than you could ever imagine" service. This is the kind of service where you walk out of the store thinking, "Wow! That was amazing they really care about me!" Local retailers have an opportunity to personalise service and pamper to customers like none of the big boys can. Sometimes, it's as simple as impulsively pulling an extra sweet out of the jar for the 5-year-old accompanying the customer. Sometimes it is as unconventional as giving the coat off your back because it matches the colour and the size that the customer wanted urgently as Jack Mitchell did for one of his customers.

Think about it – how many times have processes and system-driven customer service from the big companies brought a smile to your face? In fact, quite the opposite – sometimes, customer service executives at big companies are so well-trained in reading a script, that it can be



Have system-driven customer service from big companies brought a smile to your face? Probably not – customer service executives at big companies are so well-trained in reading a script, that it can be downright irritating to hear the same spiel each time.



What is one of the most obvious things that are different about your store, when compared to a national chain? While a large retailer would have many stores, possibly in many cities, you might only have one or two. To turn that minus into a plus, think hard about why a customer would visit your store, if you have only one location.



Make sure you have a proposition strong enough for customers to identify that trait with your store. And make the trait stand out.

downright irritating to hear the same sequence of words each time without any genuine feeling behind it.

But even small retailers miss the boat.

Witness an actual incident in Delhi, where a wealthy customer comes to return a shirt to a high-profile stand-alone store citing problems with the fit. The store manager refuses to take the shirt back saying it has been worn, and he is openly rude to the customer within earshot of other shoppers. A heated argument ends in the customer tearing the shirt into half, throwing it at the store manager's face and walking out. A few months later, the store is shut.

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important as you deal with them. It's as simple as that.

3. Destination Shop

What is one of the most obvious things that are different about your retail store, when compared to a national chain? The number of locations and the geographical spread, if you are a small retailer. While a large retailer would have many stores, possibly in many cities, offering an assurance of standardisation, you might only have one or two stores.

To turn that disadvantage into an advantage, think hard about why a customer would visit your store, if you have only one location.

Possibly you are located very conveniently near a customer's home or workplace. Or you might be in a high-footfall market in a visible location. However, be aware that these are "passive" advantages, which change with on-going urban development, including the development of new residential areas, new markets and malls.

What is the advantage that you have built or can build, which will draw customers to your store? What will make them choose you over alternative shops that they may be able to go to? What proposition will make your store the chosen destination?

That proposition might be a huge width of product range. Or the fashionability of the product, where you may be the store for the trendsetters. It might be the lowest price for your range of products. It might be the mix of extra services that you offer. Or the ambience that might be far superior to any of the large competitors.

Whatever it is, make sure you and your team do it consistently enough for the customers to identify that trait with your store. And make the trait stand out so that it is distinct from the rest of the market. That's how you make yourself a destination.

In closing a mindset game

The face of retail is constantly changing; the little retailer has to change his mindset. It can no longer be about surviving.

The mindset must be about thriving in the face of big companies with big retail boxes and big pockets to spend out of. Remember, the biggest retailer in the world was also once a small retailer with one store across the street from the largest retailer in his market.



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