



NOEL N TATA

Sold on retail

I don't think there are many more interesting businesses to be in," says **Noel N Tata** with the passion of a true believer. But it is more than just conviction that drives the managing director of Trent, one of the biggest names in India's retailing industry. "I have yet to meet somebody who tells me, 'I used to work in retail'. Once in retail, always in retail; people rarely move and the reason for this fascination is the speed of change [in this industry]."

Mr Tata has played a capital part in the evolution of Trent, which was started in 1998 with a single store in Bangalore. The Trent of today has under its umbrella more than 70 stores across a variety of retail formats: Westside, Landmark, Star Bazaar, Sisley and Fashion Yatra. The company's turnover has, consequently, jumped from Rs82.1 million in 1998-99 to Rs8,852 million in 2008-09. Additionally, Trent has cemented partnerships with proven players such as Tesco, the British retailing giant, Spain's Inditex Group and Benetton of Italy to expand its advantages.

A graduate of Sussex University, the 52-year-old Mr Tata was with Nestle in the United Kingdom and Tata Exports (now Tata International) before joining Trent. In this interview with *Christabelle Noronha*, he talks

about the company he runs, its prospects and the challenges facing the retail industry in India.

Trent has managed to buck the slowdown that has affected the retail industry? How has the company been able to ride these difficult times?

The slowdown in India was primarily caused by a reduction in purchasing power due to a slowing economy, the rapid tightening of credit, and an increase in interest rates by banks in response to inflationary pressures. After September 2008, customer confidence sank, resulting in a drop in sales.

Trent, given the relative profitability of our Westside and Landmark models, has been able to withstand the consequences of the sales slowdown. Our customers have become even more focused on better value. We recognise this and, as a result, have stepped up our promotional activity. Secondly, since we saw the warning signals of a slowdown, we kept our inventory levels extremely tight over the last 12 months.

Trent was established about the same time as Pantaloons, but the two have followed different ways to carve out space in the retail market: Pantaloons has been in an expansion overdrive while Trent has taken a more measured approach. What is the logic driving your strategy?

Trent has definitely taken a different route, though the growth of the Westside and Pantaloons stores has been generally at the same level (Westside has 41 stores to Pantaloons' 45). Over the last two years, we had gone easy on the signing of new stores as real estate price increases made it difficult to justify the rents demanded by developers. We took a decision four years

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ago to try and open stores only in shopping malls. The plan has, unfortunately, been delayed, but we expect to open 11 Westside stores in 2009-10.

Pantaloons and Westside being 'private-label' stores means that the onus of product development rests with us, as opposed to a multi-brand store, where this is done by individual brands. In this sense, private-label retail chains are more difficult to grow fast, but they are the most profitable option in the long run since they capture value from the factory to the customer.

The big difference is the hypermarket space, where Pantaloons' Big Bazaar chain had a head start, with over 100 outlets to Star Bazaar's four. We have taken a more measured approach here, preferring to perfect the model before expanding. We have been optimising our range, supply chain, pricing, marketing and our location strategy, the benefits of which have begun to be felt. Also, we have doubled the size of our Landmark business over the last three years. Our aim is to have businesses that can withstand competition when the market opens up.

Croma is also in the retail space, but it is not in the Trent stable. Why is that? Will it also follow the route taken by Star Bazaar, which started out on its own before being absorbed by Trent?

Trent had its own expansion plans for the Westside, Landmark and Star Bazaar formats. Our management team would not have been able to concurrently support a rapid expansion of the Croma format. Additionally, the competencies required to retail electrical and electronics goods are different to those required for food, books, apparel and footwear. Keeping Croma separate and independent was, I believe, the correct decision.

Are there any synergies?

There is synergy on property (after products, location is the most important factor in the success of a store). When you go to a shopping mall today, the Tatas have the best hypermarket, we have the best private label in fashion and apparel, the best books and music, the best of electronics, watches and fashion brands. That's the portfolio; even though there are

different companies operating different businesses, people realise that these are parts of the same group. There are cases where we have gone out and rented in bulk and then talked to, say, Titan and asked whether they would be interested.

How do you choose a location? Do you have specialists for this task?

We have in-house expertise. We map a city and find out where we want to be. It's quite a process and it's also opportunistic, because it depends on the availability of space. A mall can take up to three years to come up, which means the time from when you sign up to the time you actually get the keys can really stretch. And if you get it wrong, there is nothing you can do.

Have you ever got it wrong?

Obviously, yes, but rarely so, fortunately. You make corrections or you close down and move on. If you read it wrongly you have to carry the liability for 20 years.

How is the deal with Tesco panning out, especially in the area of utilising its retail expertise and technical capability to support the development of Star Bazaar?

Our association with Tesco has been extremely positive and rewarding thus far. Tesco has strong operating processes and is focused on customers. On the operations front, it has helped us grow Star Bazaar's sales at a high rate during these difficult and uncertain times.

Trent has now tied up with Inditex to promote the Zara brand of stores and it has also launched Fashion Yatra. What's the idea

behind these forays? Will they not eat into Westside's business?

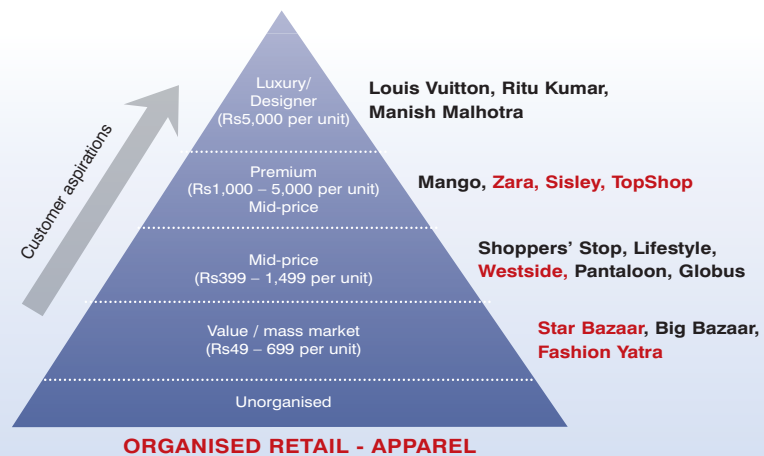
If we are to be the leader in the apparel market we need to be present across the segments that make up the market [see graphic]. This cannot be done by just one brand; it needs several fascias. I do not believe that the highest segment (luxury) is, given current demand and current rents, a viable retail business.

In the premium segment we have tied up with Sisley, Topshop and Zara, which are among the best fashion brands in the world. In the mid-market segment we have Westside and in the value segment we have two brands: the apparel department at Star Bazaar and Fashion Yatra, a format that will cater exclusively to smaller cities. Every format has its own set of customers. As urban India's wealth grows, customers will move from one segment to another and, hopefully, from one of our formats to another.

Has the Indian retail industry reached a level of maturity in its evolution? Some pundits are predicting that the industry will soon lose steam, that the time for consolidation has arrived.

Indian retail is still in its infancy. Organised retail still accounts, in aggregate terms, for less than 3 per cent of total consumption, but there are some segments and geographies in which this figure is as high as 20 per cent.

We need to understand that it will be harder to drive growth as it becomes more difficult to find profitable locations. Retailers will have to find ways of becoming even more relevant to their target customers. A lot will depend on the inflationary pressures on retail's key costs,



Trent at a glance

- ▶ Trent was established in 1998. It began operations with the acquisition of Bangalore-based fashion store, Littlewoods, which was converted into the first Westside retail store. Today, Westside has 41 stores in 23 cities across India.
- ▶ Trent entered the hypermarket business in 2004 with Star Bazaar, which now has stores in Mumbai, Bangalore and Ahmedabad. In August 2008, Trent signed an agreement with Tesco, the world's third largest retailer, to tap the latter's retail expertise and technical know-how.
- ▶ In 2005, Trent acquired Landmark, the books and music retailer, for about Rs1,300 million. Landmark now has 26 stores pan India and small formats at airports and hotels.
- ▶ In September 2007, Trent tied up with Italian apparel retailer Benetton to run and manage the fashion brand, Sisley, in India. Trent now manages six Sisley stores in Mumbai, New Delhi and Hyderabad.
- ▶ Fashion Yatra, the new apparel format for value-conscious consumers in smaller cities, opened its first store in a suburb of Mumbai in October 2008.
- ▶ In February 2009, Trent signed a joint venture with Spain's Inditex to develop and promote the Zara brand of stores in India.

such as rent, electricity and manpower; these will decide the viability of the industry.

As far as consolidation is concerned, the retailers with difficulties are, generally, those whose assets (primarily property and product) are of poor quality. This will make consolidation difficult and unattractive.

Are you in favour of the retailing sector being opened up further to foreign players? What will the impact on Indian companies be if that happens?

It is time India opens up its doors to foreign investment. Competition helps all of us improve the way we manage our businesses. However, with our domestic rents and other costs at the current levels and the economic difficulties in their home markets, not many players may be keen to enter India now even if they were allowed to do so.

What kind of challenges does retailing in India face in terms of shortage of trained people, infrastructure, high rates for commercial space, supply chain, etc?

The last three years have seen a huge increase in costs in urban India, where the majority of modern retail is located. Our big costs, such as on rent and property, managerial manpower and electricity,

have all increased by over 100 per cent in the last three years. This has eroded a lot of our profits.

The retail industry in India is only 10 years old; so that's the experience the most experienced managers available to us have. Worse, there are few of these professionals around. A third factor is India's poor infrastructure, which adds to the cost of distribution. Erratic power availability means every shop needs backup generators. All of this adds to our costs.

Ensuring customer satisfaction and winning customer trust — and retaining it — are crucial in the retail business. This is an area where most Indian companies fall short. How are the problems on this front being addressed?

The answer to this lies in creating various processes to capture customer feedback on products, service and ambience. More important is to act on the feedback quickly. It is also vital to analyse what we do, identify the mistakes we make, rectify them and ensure that we don't repeat them.

At Westside, to retain customers we have introduced an extremely successful loyalty programme (we have close to a million members). On quality our 'no questions asked' return policy for our ClubWest members is unique in the

industry. I am often asked whether we are scared that customers may abuse this policy, but evidence has shown that this is rarely the case.

How do you see the Indian retail industry changing in the short- and long-term? What about Trent and its plans for the future, particularly over the next five years?

Scale on its own does not bring you profitability; the model has to appeal to customers.

The long-term challenge for retail is not one of demand. We have a billion people, all of whom consume, and our economy is growing at a rate that is second only to China's. The challenge really is to address this market profitably. Indian retail will have to take a hard look at some of its loss-making formats. It will also have to reevaluate customer needs.

With regard to Trent, we plan to open more stores than we have ever done in a single year in the past. We hope also to launch the first Zara and Topshop stores in the first quarter of 2010. Our expansion plans should help us double our turnover in the next two years, and we expect to have twice as many satisfied customers in the next two years as we do now.

Our performance vis-à-vis current competitors in the Indian market has been creditable. Over the next five years, as far as Westside is concerned, we would really like to bring our standards up to a level where we can compete with any foreign player who may come into the Indian market and as for the next 10 years, it is about taking Westside out of India, internationally, to the Middle East, to South East Asia, to Russia...

Do you require a different kind of a mindset to be in the retail space?

You certainly need to be a detail-oriented person. In that sense, I think it's difficult to run a retail business if all you want is the helicopter view. You can't get away from retail unless you live on a desert island. Which means that one is always 'working': When I shop I'm checking out the competition, the format, the layout, the products, the display. It's an enthralling business: new shops, new products, new service standards, new people, new problems... ●