



# A concession to diversity

By Nishi Roy

ONE OF THE RETAIL IDEAS THAT HAS BECOME POPULAR AND INCREASINGLY VISIBLE IN RECENT YEARS IN THE INDIAN RETAIL SPACE IS THE DEVELOPMENT OF THE SHOP-IN-SHOP (SIS)/ SUBLEASING CONCEPT. WHILE THERE IS NO ONE-SIZE-FITS-ALL FORMULA FOR A SUCCESSFUL CONCESSION FORMAT, SOME LESSONS ARE COMMON FOR ALL RETAILERS.

→ As the name suggests, SIS/ subleasing is where a retailer or brand holder takes an allotted space in a different retailer's store, which offers selling space exclusively to that secondary company's products. Even though numerous retailers and brands – Levi's, HP, Adidas, Reebok Titan, among others – have dedicated mono-brand stores, which exclusively retail their range of products, these brands are often

also seen in other multiple-brand outlets where they occupy an allotted space.

Concessionaires (shops-within-shops) have long been a feature of the department store and more recently of the "superstore". Pooled-in costs, demand generation and shared marketing are some of the multiple benefits that both the retailer and the SIS operator derive in such a partnership.



### SIS AS REVENUE GENERATOR

The SIS is usually seen as an incremental revenue generator as well as a differentiator. When major Indian retailers were asked what they thought would be the ideal relationship between the retailer and a concessionaire (SIS operator) to make the SIS format mutually beneficial, different aspects of the business emerged.

Sharing his views, Sadashiv Nayak, president, Food Bazaar and Big

Bazaar, says, “As a hypermarket, Big Bazaar offers a wide range of products, categories and services under one roof. In these outlets, we continuously collaborate with our business partners to introduce new concepts through shop-in-shop models – primarily to further widen our range of offerings. With over 500 SIS spread across Big Bazaaars, we find this format as critical and insightful extensions of our hypermarket’s offerings to the neighbourhood catchments of the store. Our SIS partners are familiar with the local markets and choice of people, thus bringing local flavour to Big Bazaar stores and connect strongly with the communities.”

To make the alliance work, however, it is critical for both, retailer and the SIS, to develop a Joint Category Plan, Nayak points out. “The plan is necessary to drive consumption, responsibly execute the plan and keep customer interests on top priority. While it is critical to have a commercial agreement on revenue-cost model, shrinkage etc, we see them as disciplinary tools to ensure that Big Bazaar and SIS partners stay focused on increasing consumption across the respective categories, and not just as a short-term revenue model.”

As per Ambeek Khemka, group president, Vishal Retail Ltd., identifying the target audience correctly, type of merchandise (for instance, high-end diamond jewellery will not sell in Vishal Retail) and synergy of business ideas between the retailer and the SIS operator are some of the essential prerequisites for a successful SIS relationship.

Regarding basic requirements to set up a successful SIS setup in Vishal Retail outlets, Khemka notes, “It is not necessary for the SIS operator to be a known national player, but the operator should at least be a popular local brand. We are even open to a start-up SIS operator, provided, of course, that the product is appealing

and unique and most importantly the operator is serious about the business. After all, we cannot suddenly have a SIS operator setting up shop one day in our premises and then calling it quits after a few days. At the end of the day, shoppers come to Vishal Retail because they identify with the brand and have faith in our products and services. Eventually, we are accountable to our customers and we cannot let the brand image of Vishal Retail be diluted in any way.”

“It is important for SIS operators and products to be in sync with our shopper profile. Apart from retailing, the operator should also be able to offer basic customer support services, like after sales services etc,” he adds.

According to Robert Stoker, VP–development, Wal-Mart International (India), sub-leasing helps to provide additional services to customers by increasing profitability for the anchor store. “For retailers it helps to leverage the rents and increase profitability. The consumption basket is huge and consumer needs are diverse,” he says.

Sub-leasing helps retailers to provide additional opportunities and services and all-in-one shopping experiences to customers.

**ALL RETAILERS LOOK FOR A POSITIVE GMROF. THIS BENCHMARK HELPS IN DETERMINATION OF OPTIMUM SPACE ALLOCATION, AND ARRIVE AT THE SWEET SPOT WHERE THE RETAILER'S 'SWING', WHILE POSITIVE, ALSO LEAVES ENOUGH ON THE TABLE FOR THE SIS.**

Concessions play a particularly instrumental role in categories that are yet to acquire critical mass but form an important part of community needs.

“A supermarket or a store cannot fulfill all their demands or wallets on its own. Sub-leasing helps retailers to provide additional opportunities and services and all-in-one shopping experiences to customers. Examples could include florists and confectionery, bill payments, entertainment and fun activities, self indulgence options such as salons, or a QSR to offer a quick dining out opportunity to the customer.”

Further extolling the pluses of SIS arrangements, Stoker comments, “Benefits include driving additional traffic, customer convenience, contributing as a strong shopping destination for the anchor store, improved finances, and opportunity to cross-sell products and services.”



Aditya Birla Retail Limited CEO Thomas Varghese is of the opinion that an SIS serves mainly two purposes. “The first and most important being that it tries to serve a latent need of the local customer and helps the retailer service a wider basket in the catchment area. Secondly, it helps in generating extra revenue for the retailer,” he outlines.

“However, the spirit of the relationship has to be customer-

centric. Any relationship based on only the second objective might not work.”

K Radhakrishnan, CEO, Reliance Retail, says, “How to make the SIS into a win-win proposition is the tricky part. One cannot expect the concessionaire to make huge margins, and expect the returns from SIS. Minimum guarantee has no use unless the SIS itself wins. The income model that one sets for the SIS has to be well thought through; it should not be a means of passing on your problems of economic structure to a concessionaire. One needs to be flexible from tenant-to-tenant. The SIS also comes in handy when a retailer has large spaces and cannot change the structure of the store. One must treat the SIS as a source of marginal

income. That is the only way you can make them succeed.”

Elucidating his point further, he outlines, “The basic approach of all retailers is always to own all categories. Retailers appoint SIS as an outsourcing of those categories and services that the retailer is unable to do on his own. There are sales and services that SIS are better at doing and this varies from retailer to retailer. The benefit is that the retailer – by



**IT IS IMPERATIVE TO HAVE SEVERAL PARTNERSHIP MODELS; IN NASCENT MARKETS, IT MAKES MORE SENSE TO COLLABORATE OR PARTNER AND PROVIDE AS GOOD A SERVICE TO THE CUSTOMERS.**

setting up a successful SIS – makes more goods and services available to the consumer – since the consumer is agnostic about who runs/manages the category/services.”

According to Vineet Kapila, CEO, Spencer’s Retail, sub-leasing is not to be confused with rent arbitrage. “We do not touch categories where there is a fast pace of renewal or fast pace of innovation happening because it lacks predictability and requires a great deal of local entrepreneurship,” he notes.

“To make the SIS a success both the retailer and the concessionaire have to understand the full value chain and then share it in an equitable manner. For instance, let us say a footwear specialist wants to come in as an SIS. The retailer then has to evaluate how much a swing he gets on his Gross Margin Return per Square Foot (GMROF) by replacing his shoe merchandise with that of SIS.”

“If the costs of the vertical on a square feet basis are more than revenues, the GMROF is negative. All retailers have to work towards a positive GMROF. This benchmark then helps us to determine optimum space allocation, and then arrive at the sweet spot where his swing, while positive, also leaves enough on the table for the SIS. It has to be realised that the concession has to be win-win and built on trust and transparency,” he adds.

“In addition to that, we have a commercial validation process where we determine that our arrangement with the SIS covers our basic costs of

operations. There could be, however, instances where a retailer decides to set up an SIS even with some costs uncovered – if the belief is that the partnership will generate new footfalls or increase stickiness,” he observes.

Viney Singh, managing director, Max Hypermarket India Pvt Ltd says, “At SPAR, the key criteria for choosing an SIS is the fitment of the concessionaire’s merchandise with our store offering and customer expectations. Revenue considerations are secondary.”

Agreeing that the SIS format does have its benefits, Seshu Kumar Tirumala, business head, ITC Chaupal Sagar, notes, “In rural markets where the penetration of brands is really low, it is important to collaborate with like-minded people and target the consumption in these regions. It is imperative to have several partnership models; in nascent markets, it makes

more sense to collaborate or partner and provide as good a service to the customers.”

Elaborating on the essential requirements for a successful SIS, Inder Dev Singh Musafir, director, M&B Footwear Pvt Ltd. explains: “An SIS model is best suited to the retailer fraternity, be it a chain of large format department stores or independents.”

“The retailer and the SIS operator can have a win-win scenario as the model assures a healthy return on investments and remains growth oriented at all times. Much of it can be attributed to the presence of brands at SIS locations, which ensures better walk-ins and higher conversions,” he adds.

Emphasising the importance of location, Vikas Bagga, VP-Marketing & Corporate Affairs at M&B Footwear says, “The choice of location – as in the nodal geographical store location and the space earmarked for the

brand in question – within a mall or department store, as well as the space utilisation plan for product display, VM and back-end storage are equally decisive factors in garnering success for the establishment’s SIS outfit. Typically, customers should be able to approach a convenient SIS location with ease, duly optimising the time and money at their disposal.”

“The SIS outfit should be consistent in its approach, so that the formats across all operative locations look cohesive in terms of registering positioning in the customer’s mind. In addition, the concessionaire should assume a leadership stance within the operative category to reap a long-term advantage, consequently seek a higher ROI on one end and have the benefit of retaining a hugely satisfied, ideally burgeoning clientele to fuel future growth, location on location,” he adds.



### WHICH CATEGORIES DOES THE SIS WORK BEST IN?

Stoker opines, “Challenges to sub-leasing include choosing the categories that go well with the product assortment at the anchor store, as well as selecting the brands that contribute to the anchor stores’ brands. Business challenges in terms of vacancies, delinquencies and rentals need to be effectively managed. Traffic flow has to be convenient and exciting for the customer.”

Referring to successful categories, Kapila notes, “Categories such as accessories do extremely well when they come in as concessionaires. Electronics as a category, on the other hand, is innovation-based and requires superior inventory management. An SIS is typically either planned much ahead of a store opening or if there is some unutilised space left once a store is open. The assortment at SIS has to be locally relevant.”

Explaining further, Kapila says, “Typically, strong local merchandise specialists, high innovation, high-fashion, perishable merchandise etc

work best in SIS formats. Product categories complementary with those of the retailer also work as strong shop-in-shops. For instance, every modern food retailer has a section for fruits and vegetables – products that are by definition highly perishable. Here, an SIS is a good answer. Or in an apparel store, a strong regional saree brand could work as a good SIS.”



**WITHIN FOOD AND GROCERY, RETAILERS CAN ADD VALUE IN CATEGORIES SUCH AS INDIAN SWEETS, SAVOURIES, SWEETS, PICKLES, TEA/COFFEE, READY-TO-EAT, TAKE-AWAYS, BAKERY ETC., WHILE IN NON-FOODS THE POTENTIAL AREAS INCLUDE MOBILE PHONES, CAMERAS, COMPUTER ACCESSORIES, PRINTING SOLUTIONS, BEAUTY ACCESSORIES, SPECIALISED HEALTH AND BEAUTY CONCEPTS.**

Lifestyle products, footwear, accessories, apparel, eyewear, even jewellery are some of the categories, according to Bagga, which are particularly amenable to an SIS alliance.

Varghese believes that the shop-in-shop can blend well into any retail format – from a neighbourhood supermarket to a high-end department store. “The difference would be only in the kind of SIS, depending on the core target group and positioning of the store.”

According to Khemka, the SIS works best in large-format stores. He says, “Categories that the SIS are more popularly seen in include mobile counters, OTC pharmacy, lifestyle products, liquor, bakery, fresh and frozen foods. In the Indian retail setup, successful SIS operators are few and far between. Guardian pharmacy, however, has been relatively successful in their SIS operations.”

Radhakrishnan agrees that concessionaires align better with large format retail outlets, those above 20,000 square feet in size. “When the area of the store is small, the retailer will fill that with the



## CASE STUDY: M&B FOOTWEAR



Footwear is an important product category in large format department stores. M&B Footwear Pvt. Ltd. – through relationships with several chains – has forayed into the concept of shop-in-shops inside department stores.

M&B has an SOR (Sale or Return) arrangement with large format retailers such as Central, Pantaloons and Shoppers Stop to set-up Walk-in-M&B shop-in-shop formats. M&B takes space within these and other upcoming large format department and independent retail stores, even in tier II and III towns, against an interest bearing collateral (refundable) payable to M&B. The retailers provide pre-defined retail spaces to M&B, which opts to provide optimal stocks and manpower to trigger the business. M&B has also introduced Management Agents (MAs) to operate at store level, who are placed to push the sales and front-end operations for the company. They are expected to boost sales to their rightful potential, remunerate (incentives) their duly appointed sales staff and regularly provide

the pertinent inventory reports to the company for timely action. This MA pays an interest bearing collateral (refundable) to the company and gets an attractive margin on sales realisation; with the profits increasing on target-linked sales achievement. This concept was initiated by M&B in 2005; since then the company has set-up 90-plus shop-in-shop units, with many of these operating through the above-mentioned MA arrangement. The space requirement for a typical M&B shop-in-shop is 225 sq.ft.

The system, as devised by M&B, is highly inductive and attracting a variety of entrepreneurs. Agreement with the retailer could be formalised for a period of one year, but could even range upto 3-5 years and can be renewed on mutually acceptable terms.

### PROMOTION STRATEGY

M&B and the large format department stores deploy separate budgets to carry out their core marketing activities, yet scout for opportunities to promote footfall and conversions in conjunction with each other. M&B has a defined budget for activations at prime department stores

hosting its shop-in-shop formats, and often ropes in all such formats for unique promotions as and when the same are underway at the flagship retail outfits (the Walk-in-M&B shoe stores).

In the past, M&B has collaborated well with these large department stores, wherein the power of gifting to the end consumer is used to the hilt, which entices customers of all ends. All such gifting propositions are well researched, effectively sourced and placed / displayed at participating retail points, promoted through ATL and BTL activations. On their part, the department stores offer captive SOH options to M&B to install catchy visuals for effective communication.

Footwear Fiesta, ID and LC watch promotions, KID watch promotion, and Geox laptop bag promotions are some of the successful promotions undertaken by the company. According to Vikas Bagga, VP-Marketing & Corporate Affairs, M&B Footwear, these promos serve multifold benefits, be it in terms of offtake, market share, brand positioning, consumer recall, brand equity or enhanced corporate image.

### OPERATIONAL M&B SHOP-IN-SHOPS

**Central:** Bangalore, Hyderabad, Pune, Vadodara, Gurgaon, Indore, Hajiali-Mumbai, Goregaon-Mumbai and Vashi

**Pantaloons:** Mumbai, Vadodara, Ahmedabad, Kolkata, Delhi, Siliguri, Nagpur, Bhubaneswar, Guwahati, Kanpur, Zirakpur

**Regional Retailers:** Paul Garments – Delhi and Ghaziabad, Style Plus – Thiruvananthapuram, Hues – Khanna and Hoshiarpur, and Total Mall – Bangalore

goods and services he is good at doing and has significant supply chain advantages in. In grocery retail, where the mindset of retailer is mass merchandise, over a period of time, the retailer loses interest in categories that require assisted selling – pharmacy or potted plants, for instance. The complexity is that the category that you choose should be complementary to the mindset with which the customer is entering your store.”

Nayak is of the opinion that concessionaires play a particularly instrumental role in categories that are yet to acquire critical mass but form an important part of community needs. “For instance, regional sweets, bakery & mukhwaas in Food Bazaars cater to the local palate of store catchments. These operators have custom offerings for the neighbouring communities, for instance, Jalebi for Marwaris, Kulfi in UP and Sweet Dhokla for Gujaratis. We have also partnered with many SIS operators in select stores to build categories of the future – Wine & Beer, and Organic Foods. Collectively, we treat these new concepts as ‘Innovation Labs’, featuring a high degree of experimentation and to develop a successful category business model for scaling up.”

Singh says, “I believe that SIS formats suit many categories. Within food and grocery, retailers can add value in categories such as Indian sweets, savouries, sweets, pickles, tea/coffee, ready-to-eat, take-away food offerings, bakery etc., while in non-foods the potential areas include mobile phones, cameras, computer accessories, printing solutions, beauty accessories, specialised health and beauty concepts etc. While SPAR is a recent entrant, we have established excellent SIS partnerships in most of the areas mentioned above.”

#### BASIC INVESTMENT

Regarding the basic investment requirements and ROI from SIS units, the general consensus was that there is no cookie-cutter approach to it. Khemka says that factors such as conversion rate and type of

merchandise play a very pivotal role in investment and ROI calculations, and these would vary across stores.

“The point is it needs to match – or exceed – the normal ROI for the SIS operator in his standalone business; similarly, it needs to match or exceed the current returns on floor space that

the retailer is generating,” Varghese points out.

Kapila is of the opinion that the return each one should look at in the business should exceed the cost of capital.

Radhakrishnan says, “Returns vary from retailer to retailer and category

## CASE STUDY: DEBENHAMS, UK



Earlier this year, British department store chain Debenhams announced that it would significantly reduce its concession space as sales from own-bought ranges drive performance. Designers at Debenhams made a strong contribution to sales during 2009 of some £432 million, an increase of 11.4 per cent over the prior year. Overall, own bought sales increased by 3.4 per cent. The weakest category, however, was concessions, which saw sales decline by 16.5 per cent, the retailer said.

Announcing the full year results for year ended 29 August 2009, Rob Templeman, chief executive of Debenhams, said: “The store space moves have now been completed and early indications are that customers are finding favour with the new ranges and departments. We look forward to further developments in our own bought ranges in 2010 and will continue to focus on

improving the design, quality and value of our entire customer offer.

Towards the end of financial year 2009, a major programme of space moves commenced. In total, 530,000 sq.ft of trading space was converted from concessions to ‘own bought’. This included the loss of 215,000 sq.ft from womenswear concessions (including Principles), 200,000 sq.ft from home concessions and 120,000 sq.ft from women’s accessories concessions. The largest increases in own bought space were womenswear (165,000 sq.ft), sports and leisure (140,000 sq.ft), women’s accessories (120,000 sq.ft) and childrenswear (60,000 sq.ft). The programme was completed in September 2009.

The company has, however, admitted that the “loss of a number of important concession partners may have an adverse effect on gross transaction value”.

to category. But financial prudence suggests that the minimum returns must be the recovery of various factors including cost – rentals, air-conditioning and labour.”

According to Singh, the revenue/return criteria is secondary and these vary significantly.

“In a typical SIS model, the retailer ensures minimum assured returns on SIS allocated space, basis per square feet real estate and store operating costs,” Nayak notes. “The SIS partner saves investments on space and leverages store walk-ins and store promotions to grow his business. Typically, the concessionaire manages the allocated space, merchandise rotation and control shrinkage by deputing dedicated staff.”

#### A WIN-WIN SITUATION?

Varghese says that there are very few instances in India where domestic SIS players have been successful. According to him it is a different scenario in matured markets, as most major hypermarket and supermarket chains in the west run successful



### IN INDIA, SUCCESSFUL SIS FORMATS ARE FEW AND FAR BETWEEN, ANALYSTS REMARK. A ‘CHATWALLA’ HERE AND THERE IS NOT A GOOD EXAMPLE OF AN EFFECTIVE, SUSTAINABLE SIS/ CONCESSIONAIRE, RELIANCE RETAIL’S RADHAKRISHNAN POINTS OUT.

SIS businesses, which range from pharmacies, to photo studios, to dry cleaning services.

Kapila says that some retailers have been successful with F&M, fresh produce and apparel SIS. He says, “We are currently testing an SIS with LG. The brand has been given exclusivity in a new Spencer’s store; the initial results are superb.”

Endorsing Varghese’s views, Radhakrishnan says, “In India, successful SIS formats are few and far between. A ‘chatwalla’ here and there

is not a good example of an effective, sustainable SIS/concessionaire.”

“At Big Bazaar, we have seen numerous instances of successful SIS in categories like jewellery, sweets & farsaans, batter, loose pickles and bakery, to name a few,” Nayak counters, presenting the view that some SIS success stories are in evidence.

Bagga is of the opinion that the department stores and the independent retailers stand to gain immensely by looking at a shop-in-shop format with a brand like M&B. The advantages that accrue on seeking an alliance justify the space allocation and per square feet realisation.

“This gets actualised as M&B offers a bouquet of distinctive footwear brands, all of them being category leaders in their respective operative niche,” he says. “The offerings in terms of formals, semi formals, dress casuals, smart casuals, fashion formals, outdoor, technology-led comfort wear, name it and M&B has a brand that would reach out to customers effectively through a shop-in-shop format within a large department store or an independent-but-large retailer. Considering that M&B brands cater to men, women and kids round the year, a shop-in-shop proposition from M&B can be hugely remunerative for associate retail destinations.”

Adding further, he says, “The footfall generated at a captive department store – owing to the locational advantages and sheer magnitude of the offerings under one roof – is a high point for the consumer when he or she comes scouting for best propositions, besides encashing the perennially available, and exclusive offers at all such retail points.”

In conclusion it can be said that shop-in-shops, apart from generating revenues and footfalls, help to build the brand image and awareness levels of the merchandise being retailed in the SIS format and also add an aura of newness and differentiation to the shopping experience. ❏

