

## **Business Model of DMart- A Brief Review**

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### **Abstract**

The retail sector in India has witnessed an unprecedented growth with a CAGR of 9-11%, making Indian one of the most desirable retail markets in the world. India's strong economic growth and demographics have been two major contributing factors. Digitisation, increasing disposable incomes, Increased awareness, Improvement in lifestyle and the large young population of India make India make a compelling case for companies to invest in the Indian retail space. The organised sector currently accounts for 12% of total market share and is expected to grow further in future. One of the largest retail companies in this organised retail space is DMART with an annual revenue of 19,916 crores(AVENUE SUPERMARTS LIMITED, 2019). This paper has tried to evaluate the business model of DMart through Michael Porter's Value Chain Analysis. Through this analysis we were able to find out how DMart creates value at each step of the value chain which ultimately contributes to the margins of the company. There exists an interdependent relationship between the primary and secondary activities of the value chain and any action taken has a lingering effect on other activities. DMart, through its unconventional strategies and a steady focus on the long-term growth has become one of the most successful companies today. This paper elaborates on these strategies and tries to study their impact on the company's profitability. The paper also includes a SWOT analysis to find out how DMart interacts with its internal and external environment.

Keywords: Retail Industry, Organised Retail, DMart, Business Model, Value Chain

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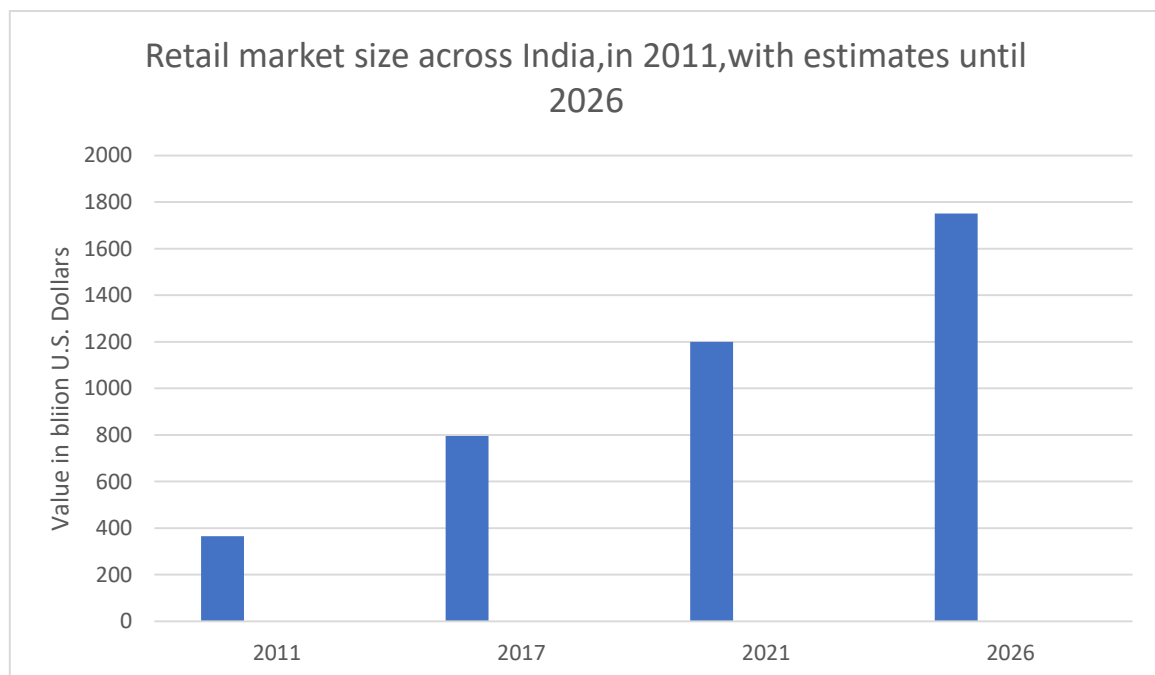
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## Introduction

Retail is India's largest industry, currently accounting for over 10% of the country's GDP and 8% of total employment. India is considered to be one of the best countries to invest in retail market and ranked second in Global Retail Development Index (GRDI) in 2019.

Chart 1.1



Source: Deloitte, India Brand Equity Foundation, Retailers Association of India, @ Statista 2020

The Retail market in India has undergone a significant transformation and has witnessed enormous growth in the last 10 years.

The Retail market size is expected to amount to 1.7 trillion U.S. Dollars by 2026, growing at a CAGR of 9-11%, employing over 50 million people (Deloitte, 2019).

This tremendous growth of the Retail sector can be attributed to the following growth drivers:

- Growing disposable income

The average household income is expected to reach \$18,448 in 2020, from \$6,393 in 2010 (Chandra, n.d.)

- E- Commerce

Online buyers are expected to reach 350 million by 2025 from existing 90 million, with digital spending expected to increase more than tenfold to \$550 bn & account for 35% of all retail sales by 2025 (Chandra, n.d.)

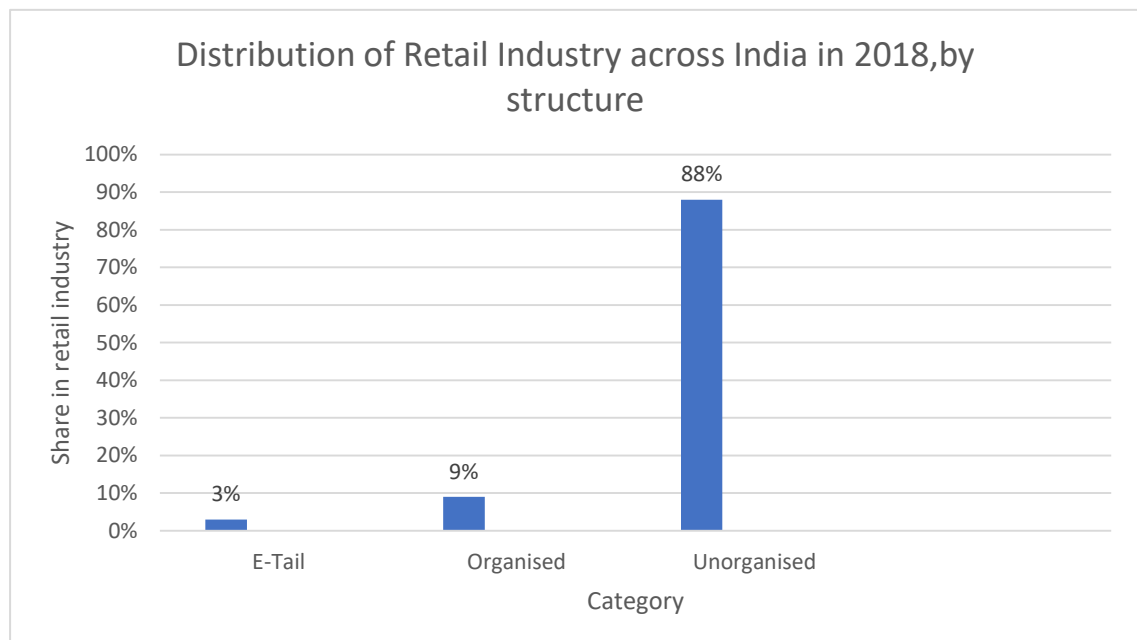
- Increase in rural consumption

Rural per capita consumption will grow 4.3 times by 2030, compared to 3.5 times in urban areas (Chandra, n.d.)

The retail industry is broadly classified into two categories:

- Organized: Organized retailers are licensed by the government and are required to pay taxes. This category of retail requires huge investments in terms of infrastructure, inventory and personnel ( Sabnavis , Kansara, & Mishra, 2017)
- Unorganized: This is the traditional category of retail which includes local kirana shops, mom-and-pop stores, paan-beedi shops and other small retail outlets located near residential areas. These aim to provide convenience to the consumer and are characterised by limited variety and small infrastructure ( Sabnavis , Kansara, & Mishra, 2017)

Chart 1.2



Source: India Brand Equity Foundation, CARE Ratings, @Statista 2019

India is pre-dominantly an unorganized retail market, contributing 88% to the total retail sector in India. The organized retail market is currently valued at \$60 billion and is projected to reach to \$140-160 billion with a 22-25% increase in market share by 2021, thereby reducing the unorganized retail market's share to 77%(Chandra, n.d.).

The Government of India has approved 100 per cent Foreign Direct Investment (FDI) in the cash and carry segment and in single-brand retail along with 51 per cent FDI in multi-brand retail giving a boost to the organised retail sector (India Brand Equity Foundation, 2020)

The Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy with Household and Personal Care accounting for 50 per cent of FMCG sales in India(India Brand Equity Foundation, 2020).

The urban segment is the largest contributor (55%) to the total revenue generated by the FMCG sector. However, semi-urban and rural segments are also growing at a rapid pace where FMCG products account for 50 per cent of total rural spending (India Brand Equity Foundation, 2020).

Table 1.1: Top Retail companies of India

S.No.	Company	Revenue (in crores)	No. of Stores
1	Reliance Retail Ltd.	1,30,566	10,415
2	Future Retail Ltd.	22,225	1511
3	Avenue Supermarkets Ltd	21,137	176
4	Aditya Birla Fashion & Retail Ltd	8,270	2714
5	Shoppers Stop	3,487	210

Source: [www.indiancompanies.in](http://www.indiancompanies.in)

Avenue Supermarts Limited (ASL) owns and operates hypermarkets and supermarkets by the store name DMart. It was founded in 2000 by Radhakrishnan Damani, and has become one of the most well established, efficient and profitable retail chains in India. The company has grown steadily over the years and currently operates 176 stores in 11 States and 1 Union Territory of India.

Table1.2: Key Product Categories of DMart

S.No.	Category	Products	Revenue Contribution
1	Foods	Dairy, staples, groceries, snacks, frozen products, processed foods, beverages & confectionery and fruits & vegetables	51.25%
2	Non -Foods (FMCG)	Home care products, personal care products, toiletries and other over-the-counter products	20.46%
3	General Merchandise and Apparel	Bed & bath, toys & games, crockery, plastic goods, garments, footwear, utensils and home appliances	28.29%

Source: Annual Report, Avenue Supermarts Limited, 2018-19

The company follows the strategy of Everyday Low Cost (ELDC) /Everyday Low Price (ELDP) and aims to provide good quality products at great value to its customers. DMart has

been focussed at providing everyday items to its customers at a price lower than all its competitors.

## 2.Literature Review

According to (Pattanaik & Mishra, 2016) India is quickly emerging as an attractive retail market. However, the retail industry is still at a nascent or fragmented stage as the market is still dominated by pop-and -mom stores and the local kerana stores and the organised retail sector has only 5-6% market share. The Indian retail industry shows huge potential in the future but faces certain challenges which include lack of proper infrastructure, strict FDI regulations, and unavailability of real estate.

(Geojit, 2018) has predicted India to rank among top 5 economies by FY20 in terms of consumption. The growing GDP of the country will translate into growth in the retail industry with Food and Groceries driving the organised retail sector. The paper has discussed the category shares of various categories in the organised retail space and the pattern of retail spending in different states if India due to geographic diversity. The paper has also studied the various store formats currently present in the country and suggested an optimal store size for each format. The paper in terms of their category mix, sales per sq. Ft and gross margins. The paper has also discussed the impact of E- commerce and GST on the retail market. The paper has studied DMart's various strategies. The paper cites daily discount strategy, leased stores and high operational efficiency as the key factors for the company's continued growth. According to the report, DMart has shown a strong track record of growth and profitability. The company's financials look optimistic, and the report expects the company's EBITDA margins to improve in the future with a 30% CAGR in revenue.

(Gandhi & Chinnadorai , 2017) have talked about the current scenario and the future of the Indian retail sector in their paper. Indian retail has emerged as one of the fastest growing industries in India and account for 10% of the country's GDP and 8% of the employment. The paper provides detailed information about the two main categories of retail and about their opportunities and challenges. The first category is the organised sector which constitutes 8% of the retail market as of 2017. The second category is the traditional or the unorganised sector which forms the backbone of the Indian retail industry and contributes to over 95% of the total retail revenues.

(Zamora, 2016) has done a brief review on the Porter's value chain analysis and the factors that influence the performance of a company's value chain. The concept of value chain, introduced by Porter in 1985, describes a range of activities that are performed by a business to acquire a product offering and deliver it to the ultimate consumer. This analysis has been used to study industry clusters, entire industries, businesses and even specific systems within a business. The paper does a value configuration analysis of Porter's business model where it disaggregates the chain into strategic components to study the value added by each activity in the value chain. The paper also studies the various dimensions of the value chain including its scope and limitations. It also talks about the difference between a supply chain and a value chain. The focus of a supply chain is on reducing costs and increasing profit margins but a value chain focusses on adding value at each step to create a differentiated product offering and increase profitability of a business at each stage.

According to (Vattikoti & Razak, 2018) Value chain Analysis is an important tool in assessing a firm's competitive advantage. It aids in long term strategic planning by looking at value creation across all the activities involved in delivering an offering to the consumer. The paper has used the Value chain analysis to assess the viability of the E- Tailing Industry.

(Sirajuddin & Kumar, 2018) have studied the innovative marketing strategies adopted by retail giants like Big Bazaar and DMart. The paper talks about the four Ps of Marketing namely product, price, place and promotion in the context of Big Bazaar and DMart. The comparative analysis done on the basis of the four Ps of marketing reveal that the core strategy of both the retail giants are more or less similar with affordable pricing as their USP. The paper also contains a comparative analysis of the revenue generated by the two companies. The revenue of Big Bazaar is more than DMart but DMart has shown an impressive growth rate i.e., 26.3%, which is 18.8% more than the growth rate of Big Bazaar.

(Pawar & Sangvikar, 2019) in their paper have done an in-depth study on DMart's strategies. The paper has tracked the growth milestones of the company from the point of its inception and studied the various strategic elements of the company and their impact on the company's revenue and profit. The paper has talked about the USP of DMart, i.e., Everyday Low Pricing (ELDP) in detail. The paper has also cited various ways in which the company is able to minimise its cost such as a tactical operational style, basic and economic store layouts, prompt credit payments and inexpensive advertising budgets. The paper considers Customers, Vendors and Employees to be the three pillars of DMart and has discussed the kind of



relationship DMart shares with each of them. The paper has mentioned 17 strategies which have led to DMart's success, with a stringent distribution system, emphasis on fast moving products, Low cost promotional methods and diligent cost control being a few of them. The paper has done a trend analysis on the various key financial ratios, stock prices, EBIT and PAT of the company with an upward and positive trend in each category.

This report (JM Financial Institutional Securities Limited , 2018) contains a detailed analysis of the store economics of a representative DMart Outlet where the average IRR of a representative DMart outlet is 25%. The paper also studies the impact of DMart's store ownership model on the company's profitability and compares the results with the profit that would be generated on a rent-based model. The paper concludes that Operating stores on a rental model would yield lower absolute profit but a significantly higher Return on Invested Capital (ROIC). New stores not being able to generate enough sales, a slow-paced expansion, Competitors adopting the ELDP strategy and taking away DMart's USP and disruption caused by E-commerce are some of the key risks to DMart's growth, as mentioned in the paper.

(Edelweiss Securities Limited , 2019) has done a comparative study of DMart's margins and other domestic and global retailers and has also evaluated store level economics for DMart Ready. The paper also contains a quarter-wise trend analysis of the key metrics such as Revenue, EBITDA, PAT etc. Almost all the metrics have shown an upward trend indicating company's successful growth over the past years. However, DMart's expansion may be hindered due to the unavailability of real estate at favourable prices thus, putting a burden on the company's finances. The sustenance of the Everyday Low Pricing Policy (ELDP) will also become difficult due to increased competition.

( GÜREL & TAT, 2017) have done a brief review of the SWOT Analysis. It is a strategic planning tool to develop an organisation's strategy and assess competitive advantage. The paper talks about two business environments that a business interacts with, i.e., internal and external. The SWOT analysis of an organisation should be developed based on a firm's interactions with these two environments.

### **3.Research Objectives**

3.1 To evaluate DMart's business model using Porter's value chain analysis.

3.2 To perform a SWOT Analysis on DMart.

### 4. Research Methodology

This paper has adopted a descriptive research design to describe and study the business model of DMart. The Data has been collected entirely through secondary sources such as journal articles, company reports and business articles available online.

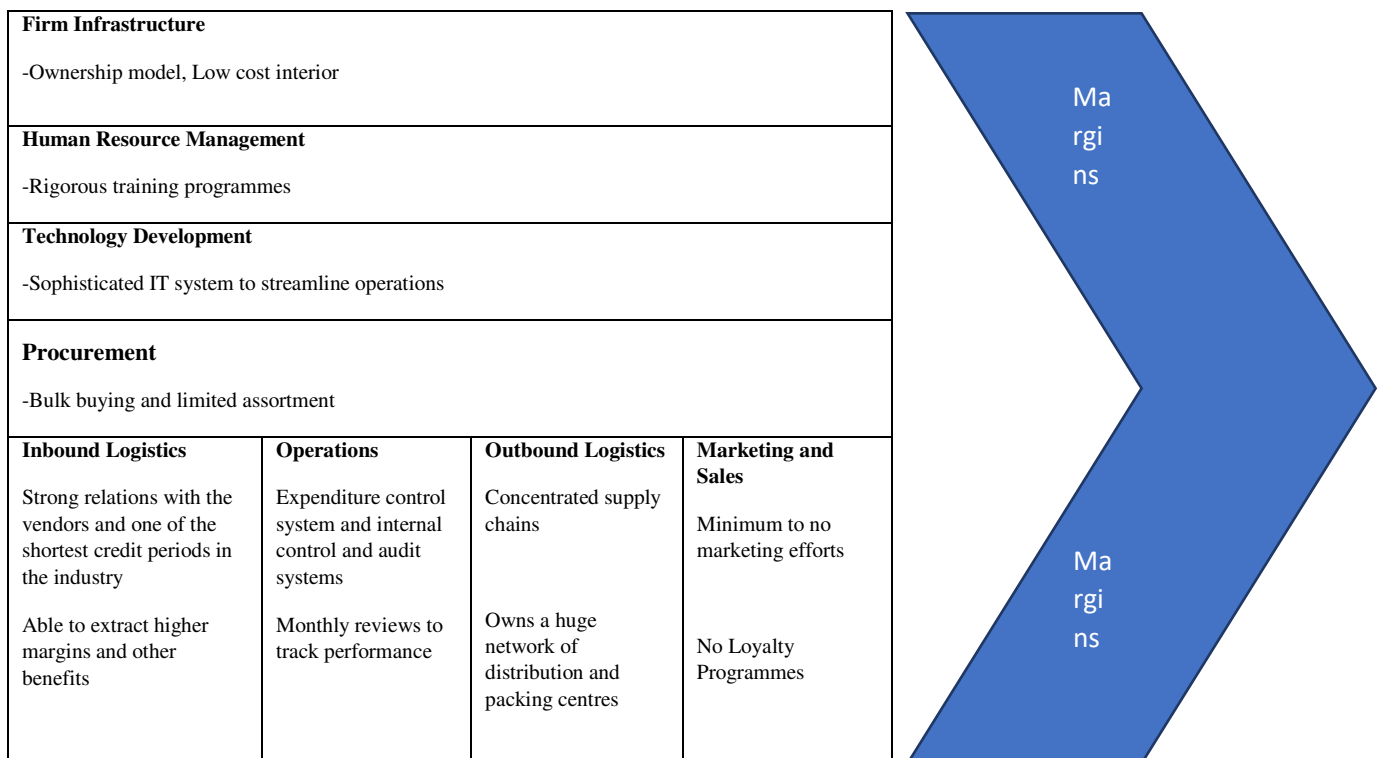
### 5. Findings

This paper has used porter’s value chain analysis to evaluate the business model of DMart.

The value chain analysis breaks down a business into a collection of activities, primary and secondary, to identify the value created by each activity for the business vis-à-vis the cost incurred to conduct those activities. The model is instrumental in identifying the sources of competitive advantage of the business, and also highlights the areas of improvement.

By studying the value chain of a business, we can identify the dynamic relationship between the most crucial activities of a business and how one affects the other, giving a clear picture about the working of the entire business model of the company.

Figure 5.1: Value Chain of DMart



Source: Author’s creation

## Inbound Logistics

It is one of the primary activities of the porter's value chain analysis and involves the different processes involved in receiving and managing the basic product or service of the business. It also studies the business' relationships with different suppliers for efficient product procurement.

DMart's USP is selling everyday products to consumers at highly competitive prices, and to be able to do so, it is imperative to have an inbound logistics system that can support such low prices, by reducing the cost of product procurement.

DMart reduces this cost through diligent cost control. Some of their cost control strategies are given below:

- **Relationship with Vendors:** For a retail organization, the relationship with the vendors is one of the most crucial aspects. It helps a business to procure goods at comparatively higher margins than its competitors, whose benefit can ultimately be passed onto the consumers in the forms of additional discounts and schemes.
- **Bulk Buying:** DMart purchases products for its distribution centres, which are then transported to its various stores. A PurchaseOrder(PO) of this magnitude gives a strong negotiating power to DMart.
- **Timely Payment to Suppliers:** In spite of holding huge negotiating power due to bulk buying, DMart does not ask for an extended credit period from its suppliers, Rather it pays its creditors before any of its competitors within 15 days thus having one of the shortest credit periods in the industry, where the average credit period is 60 days. This prompt payment strategy, not only leads to a bias from the suppliers towards DMart, but also helps in extracting extra margins from them. This strategy has helped DMart to avoid stockouts and maintain a high inventory turnover ratio ( Pawar & Sangvikar, 2019).

## Procurement

Procurement can be considered a support activity to Inbound logistics. Procurement is viewed as a strategic function by many, as it is crucial in determining an organization's profitability.

By working on the procurement function, the organization can identify competitive sources of supply, thus reducing overall business costs and improving the bottom line (why-procurement-important, 2020)

1. Slotting Fees: It is a payment made by the manufactures to a retail store to display its product on its shelf. Since DMart attracts high volume of customers on a daily basis, it is an attractive place for manufactures. DMart charges a slotting fee from the manufacturers, which in turn reduces the cost of procuring the product.

2. Buy in bulk and Elimination of intermediaries: DMart because of its huge volume can directly negotiate with the manufacturers of the top selling brands, thus eliminating Distributors. This reduces the cost of procurement and helps them get quantity discounts ( Pawar & Sangvikar, 2019).

3. Limited assortment: DMart carries limited variety and that too of top selling products, the idea behind this is to stock only fast-moving goods to maintain a higher inventory turnover ratio. The focus is not on providing variety but on selling cheap ( Pawar & Sangvikar, 2019).

4. Local purchasing: The company's procurement team conducts ongoing research to locate the best sources of supplies in relation to products and prices. DMart has, over the years, established an extensive network of suppliers and endeavours to source products from regions where they are widely available to minimise procurement costs (JM Financial Institutional Securities Limited , 2018).

5. Customization: DMart's bargaining power with suppliers is reputed as unparalleled and not just for common terms of trade (ToT), but also in terms of SKU sizing. DMart has collaborated with major suppliers to provide them with SKUs of products having a different size/volume, depending on what the requirements of their customer base are.

Some of these SKUs are available exclusively at DMart, which facilitates in building brand and a loyal customer base (Edelweiss Securities Limited , 2019).

6. Regional Goods: India is a diverse country and has various regional specific goods. DMart was able to cater to these diverse needs of their customers by stocking its stores with area-specific products. People across different states have unique lifestyles and which lead to varied habits and consumption patterns. DMart made sure that it was providing its customers all the popular local brands of a particular region in one place, making it convenient for buyers to visit DMart stores for all their needs rather

than visiting kirana stores for those popular local brands (Mundra, n.d.). This strategy has been used to extract market share from the general kirana stores and increase market penetration.

## Operations

To make effective and efficient use of a business' resources such as labor, capital, technology etc. and improve the overall productivity of an organization, it is imperative that the management focusses on operations. An efficient operations management system streamlines the day to day activities of a business and ensures smooth functioning of the business.

According to (AVENUE SUPERMARTS LIMITED, 2019) DMart has put various internal control systems and internal audit processes to ensure accuracy and reliability in their functioning, which is supported by audit department reports prepared by the Audit Committee. To ensure smooth running of operations, the company conducts monthly reviews where performance of each unit is reviewed and corrected action is taken against any discrepancy found.

The company also has a capital expenditure control system in place to authorise new projects and assets. The company places accountability on the concerned people of management to implement projects within the approved budget and time frame. The Top management is regularly updated about the findings of the internal audit reports and the action taken thereof. They also continuously update their Standard Operating Procedures (SOPs) to keep pace with the business requirements (AVENUE SUPERMARTS LIMITED, 2019).

The company needs its secondary activities, firm infrastructure, Human Resource management and technology development to be able to support its primary activities and ensure smooth running of all the operations of the business. A successful operation management entails efficient use of Infrastructure, Technology and Human Resource Management.

## Firm Infrastructure

DMart has used a different approach than most of its peers in building its infrastructure.

Most of the retail brands such as Star Bazaar, Big Bazaar, shoppers Stop etc, have stores in various malls and other rented locations due to high footfall and low initial investment.

However, such spaces have huge rental costs which become a fixed operating cost for these retail outlets and are a burden on a company's profits ( Pawar & Sangvikar, 2019).

However, most of DMART's stores are either owned or leased for a long period. Since the company does not have to pay any rent, it has been able to reduce its operating expenses significantly and manage their working capital efficiently leading to higher profit margins.

DMart has built a low-cost interior for all its stores to further reduce operating expenses. The stores have a very low maintenance and basic interior. The store is planned to effectively utilise space by reducing the number of billing counters, keeping more products in less space to accommodate as many products as possible (Mundra, n.d.).

## **Technology**

Technology is pivotal in an FMCG company such as DMart, to continuously monitor stock levels, generate timely Purchase Orders, inform about products nearing expiry to prevent shortages and other disruptions in operations.

DMart has sophisticated IT systems across its stores that cater to the specific demands of the business. These systems are used to streamline functions such as procurement, sales, supply chain and inventory management and provide real time updates about the business operations. These IT systems have various specific data management tools to support every key aspect of their business. DMart uses technology for their cash management, in-store management systems, logistics, human resource management, maintenance, projects management and other administrative processes. It helps to minimise shortages, pilferage, out of stock situations etc. and ensure cohesive procurement and distribution and thus leading to an efficient inventory management system. Their technology has helped DMart to gain an in-depth understanding of the local needs and respond quickly to the changing preferences and needs of consumers by adjusting their product assortment, stock levels, pricing etc.

## **Human Resource Management**

The effective management of the human resource of a company is crucial for the success of any organisation. It maximises an employee's performance and drives the organisation towards efficiency and growth.

The Company had a total of 7,713 permanent employees and 33,597 employees hired on contractual basis as of 31st March, 2019.

DMart top management considers their employees to be one of the most important pillars in their business model and a bedrock of their success. They prefer hiring raw talent, sometimes even 10<sup>th</sup> standard dropouts if they possess the right attitude and commitment towards their work, because they can be moulded as per the values and requirements of the business. DMart offers a flexible and relaxed work culture to its employees and strongly believes in empowering them. They are only instructed once about the company's system and policies and are then given freedom to operate, without constant supervision by someone else. To ensure that the employees are able to do justice to this level of freedom, they are subjected to a rigorous training programme. Their strong internal competency framework provides ample opportunities to employees to continuously upskill themselves and foster a culture of honesty, integrity and hard work.

DMart's experienced management team has developed training programmes for their employees with the aim of establishing a customer oriented corporate culture by improving their operational efficiency as well as their customer service standards.

Their programmes focus on:

- Providing customers with the right products
- Improve their skills to serve the customer better
- Establish and enhance loyalty
- Reduce attrition rates
- Increase employee productivity

DMart follows a transparent management policy and encourages its employees to take up challenges roles and responsibilities to facilitate their growth which will ultimately drive organisational growth.

## Outbound Logistics

Outbound logistics is mainly concerned with the storage, transportation and distribution of goods till the time they reach the consumer.

Location is one of the most expensive and crucial aspects in retail and DMart has tried to adopt a conservative approach in terms of expansion by developing a compact supply chain avoiding rental shops in malls with expensive rents. They have a concentrated supply chain and avoid far and wide expansion with presence in only 4 states till 2014. DMart has a policy of first increasing market share in an already existing territory. It follows the policy of opening 75% of its new stores in the existing markets with restricting to only two size formats, which are chosen based on location and shopper density.

DMart operates its own distribution centres and packing centres, which form the backbone of their supply chain to support their retail store network. As of 31st March, 2019, they had 35 distribution centres and 7 packing centres in Maharashtra, Gujarat, Telangana, Karnataka and Madhya Pradesh (AVENUE SUPERMARTS LIMITED, 2019).

According to (JM Financial Institutional Securities Limited , 2018) DMart's supply chain is one of its biggest strengths which has been developed using a Cluster-based expansion approach to drives higher efficiencies. The company has always focussed on penetrating deeper in already existing regions by opening new stores within the proximity of its already existing stores and distribution centres. This approach has yielded many benefits to the company due to economies of scale in the supply chain and efficient inventory management. Owing to such an extensive supply chain in an area, DMart has been able to gain an in-depth understanding of the local customer. They have been able to customise their product offering according to the needs and preferences of the customer and eliminate stock outs and wastages. This cluster-based expansion approach has aided brand visibility of DMart in an area and streamlined the marketing and advertising initiatives.

## Marketing and Sales

Almost all the companies in the retail space spend heavily on marketing and sales to differentiate themselves. But since DMart follows the strategy of diligent cost control, it has steered clear of fancy marketing and advertising budgets ( Pawar & Sangvikar, 2019).



The company has adopted an undifferentiating targeting strategy or mass retailing in order to target the retail market and uses low cost promotional methods to advertise mainly about its store openings and prices. The company believes that its Everyday Low Pricing (ELDP) strategy and customised product lines will build habitual visits, even with limited promotion. The company also, unlike its peers does not offer any loyalty programmes to its customers ( Pawar & Sangvikar, 2019).

### SWOT Analysis

The business environment is dynamic and therefore a business must continuously evaluate its strategic position in the market to get the first mover advantage. A SWOT analysis is done on the basis of how a firm interacts with its internal and external environment and consists of four components. The first two components are Strengths and Weaknesses of the business which are studies in the context of the business itself, which is the internal environment. The other two components are Opportunities and Threats, which are studied based the firm’s interaction with its external environment( GÜREL & TAT, 2017).

Figure5.2: SWOT Analysis of DMart

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Everyday Low Price Policy(ELDP)</li> <li>• Vendor relations</li> <li>• Low cost business model</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Conservative expansion approach</li> <li>• Low cost promotional methods</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Cost advantage against online platforms</li> <li>• Develop an online store</li> <li>• Private labels</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Increased competition from E-Retailers</li> <li>• Competitors adopting the ELDC and EDLP</li> <li>• Saturation point of Stores</li> <li>• Rising Real Estate prices</li> </ul>

Source: Author’s creation

## Strengths

- **Everyday Low Price (ELDP):** DMart rather than giving discounts on certain occasions such as Diwali or Holi, has adopted the ELDP policy where products are almost always offered at prices lower than that of its competitors. Due to this, it has been able to attract a huge customer base and position itself as the go to place for buying groceries without any aggressive marketing efforts.
- **Vendor Relations:** DMart shares a strong relationship with its suppliers due to prompt payment and shorter credit periods. Due to this, the company is able to extract higher margins, avoid stock outs and demand customization of certain products.
- **High negotiating power:** DMart operates its own distribution centres and purchases the products in huge quantities. This bulk buying gives huge negotiating power to DMart which enables them to negotiate higher margins and increase profitability.
- **Low cost business model:** Keeping the costs to a minimum is crucial to any company's bottom line. DMart has been successful in operating a low-cost model due to its efficient and compact supply chain, simple store infrastructure, ownership model for its stores and low-cost promotional methods.

## Weaknesses

- **Conservative expansion approach:** DMart was founded 20 years ago and was one of the first big players in the retail space. It however has only expanded to 11 states until now and has only 176 stores, a number much lower than its competitors. Companies like Reliance Retail Ltd and Future Retail Ltd have 10,415 and 1,511 stores respectively.
- **Low cost promotional methods:** DMart has always believed that its ELDP Policy and customized products will eventually attract repeated customers without any marketing because it offers better prices to its customers than anyone else. The company also does not offer any loyalty programs to its

customers, unlike most of its peers. The customers are attracted towards DMart due to its competitive prices and not the brand. This price sensitivity of the customers is dangerous for the company, if it ever fails to sustain its ELDP Policy and the company must engage with its customers to develop loyalty towards the brand and not the prices offered if it wants to protect its consumer base.

## Opportunities

- Cost advantage against online platforms: When products like Electronics or Apparels are shipped, the delivery cost is a small percentage of the revenue generated from that delivery. However, in the case of everyday groceries, where the value of the product itself is not very high the delivery cost is huge. Therefore the brick and mortar stores have a cost advantage in this category and for this very reason, the disruption caused by E-commerce in this area has been relatively less than other industries like ordering food or buying books (Thomas, 2018).
- Develop an online store: As consumers increasingly start relying on online platforms to meet their grocery needs due to the higher convenience offered, it becomes imperative for DMart to prepare for the future. DMart already has various distribution centers and stores in place which can aid the launch of an online store to deliver the products to the customer's doorstep. DMart has the infrastructure and funds to take such a step and compete against e-tailers like Big Basket and protect their market share.
- Private labels: As the acceptance for private labels increase DMart can explore this opportunity, since it does have the resources to do so. Private labels usually have much higher margins than branded products and can create customer loyalty, differentiated product offering and higher negotiating power with suppliers.

## Threats

- Increased competition from E-Retailers: E Retailers have disrupted the retail industry. Due to the convenience offered by these E-Retailers through their

doorstep deliveries to customers, their market share is increasing quickly. This is one of the biggest threats to the brick and mortar stores.

- Competitors adopting the ELDC and EDLP: This Everyday Low Cost and Everyday Low-Price strategy is the biggest USP of DMart. DMart has positioned itself as a store where products will always be available at cheaper prices than its competitors. This strategy has enabled DMart to acquire a loyal customer base without any fancy marketing or advertising budgets. However, if competitors also switch to this strategy, DMart will lose its edge, which might drive customers away.
- Saturation point of Stores: After being into existence for a specific period, every store reaches a saturation point after which it can no longer increase its revenue and profits. The company has to open new stores to take growth to the next level which might not be viable considering the rising prices of real estate and the huge initial cashflow required to set up a new store.
- Rising real estate prices: It is becoming increasingly difficult to find real estate at favorable prices. Since DMart operates on an ownership model, the investment required to open new stores is enormous which might not be feasible for the company.

## Conclusion

By analysing the value chain of DMart we can track the interdependency of activities. DMart has tried to add value at each step, at each activity, which has had a lingering effect on all other activities, and ultimately on the company's margins and profits. DMart has adopted a steady growth pattern and believes in penetrating deeper into an already existing market before expanding to new territories. The company currently operates 176 stores in 11 states and 1 Union Territory, mainly in the western and southern regions of India.

DMart has been so successful in the retail space and has been able to sustain its Everyday Low-Price Policy, despite rising costs due to its unconventional and long-term strategies. The company adopted an ownership model for its stores, where it either owned its stores or took them on long term leases instead of renting out. This strategy, though requires huge capital investments in the beginning, has provided many benefits to the company in the long term. DMart has been able to save on huge rental costs, which are a burden on most retail

companies and keep its costs low, while developing an infrastructure that has proved to be one of its biggest assets. The company follows a cluster-based approach while expanding. It opens new stores in close proximity with its already existing stores to keep the supply chain compact, acquire greater market share and increase brand visibility. The company holds a very strong relationship with its vendors which enables it to procure products at higher margins, avoid stockouts and get customised products. The company has one of the shortest credit periods in the industry and one of the highest inventory turnover ratios. The company follows an undifferentiated targeting strategy and uses low cost promotional methods. It has not yet engaged in any aggressive marketing, unlike other retail giants. The company has also started home deliveries to customers to compete with E-tailers. As the E-tailers continue to grow and increase their market share, it will be interesting to see how DMart competes with its brick and mortar stores, sustains its market share and continues to grow.

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