



**Experimental learning:** Aditya Birla Retail's Thomas Varghese says the firm has enough private labels to take on leading consumer goods firms.

## PROFIT MOTIVE

# Aditya Birla Retail bets on private labels to push sales

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MUMBAI

As part of a new strategy, Aditya Birla Retail Ltd (ABRL), which operates the More chain of stores, is betting on its 350 private labels to nudge the firm to profitability by the end of fiscal 2010.

The firm is also experimenting with at least two pilot projects in different markets to figure out the quickest way to reach a positive operating profit or Ebitda (earnings before interest, tax, depreciation and amortization), besides looking to greater consolidation.

ABRL almost doubled its turnover from Rs500 crore to Rs1,150 crore at the end of March. Its revenue target for this fiscal is Rs1,700 crore.

"We at ABRL now believe in experimental learning," said Thomas Varghese, who took over as chief executive officer eight months ago.

Varghese said the firm has enough private labels in products ranging from noodles to home care, to take on leading consumer goods players.

The labels are priced 10-15% lower than competing brands with comparable, if not better, quality, he claimed, adding that the firm has 70 employees to track quality standards.

On 3 March, the company launched an experiment across 30 stores in Visakhapatnam in Andhra Pradesh. Titled Project Vizag, after the colloquial name of the port city, the strategy places private labels in 25-30% of a store's shelf space, against a mere 4-5% earlier, Varghese said.

The difference is a fourfold increase in sales, he claimed, and that sales numbers have held up for April, too.

The move to stock stores with private labels might also work, said Arvind Singhal, chairman of KSA Technopak Advisors Pvt. Ltd, a management consultancy firm, because private labels provide significantly higher margins, and make sense in India because the penetration of brands per se is very low.

However, ABRL's project is not new, or unique. Private labels typically account for about 20% of sales for organized retailers.

According to Raghav Sehgal, a research analyst at Angel Broking Ltd, Shoppers Stop gets 20% of its sales from private labels while Future Group gets about 24-25%. "India is still an under-branded country and in each category there is still a lot of scope for growth, this is where the private label comes in."

Globally, private labels con-

tribute 17% of retail sales with a growth of 5% per annum, said a recent KPMG study, titled *Indian Retail: Time to change lanes*. "International retailers like Wal-Mart of USA and Tesco of UK have 40% and 55% own label brands representation in their stores, respectively."

Meanwhile, ABRL is trying out other projects, even while it consolidates its stores through the current fiscal. It has Project 2000 under way at Hyderabad and Pune, which aims to improve sales using smaller size stores.

"We study small store formats such as Ratandeeep and Heritage and try to replicate some of the workable concepts. The move will enable a quicker turnaround time, as more consumer choices are made available within a 2,000 sq. ft store, which earlier needed at least 4,000 sq. ft space," Varghese said.

ABRL currently has 645 stores in the supermarket and hypermarket category, after shutting down at least 70 unviable stores. The size of a supermarket varies between 1,000 sq. ft and 4,000 sq. ft and that of a hypermarket between 50,000 sq. ft and 200,000 sq. ft.

Earlier, the group had hired services of global management consultancy firms such as McKinsey and Co., KSA Technopak and AT Kearney but the company is now moving to a learning-by-experience model, Varghese said, arguing that the Indian consumer is unique.

"ABRL has very good packaging and their product quality is as good as anybody else's and the pricing is also lower compared to the brands. Customers will take it straight away because they get the reliability of the Birla name," said Singhal of KSA Technopak. "It (private labelling) is not something retailers are focusing on due to the slowdown in economy but as they hit a certain scale, all retailers tend to focus on private labels."

The trouble, however, is in the conflict between retailers and brand owners on sharing of shelf space. While brands bring in customers, they also know they need retailers.

Singhal noted that customers come to the stores mainly for brands but will pick up a private label at lower price point if it's as good as the brand.

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