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FUTURE RETAIL: acquisition Spree and BeyonD[[1]](#endnote-1)

Rakhi Thakur wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Upscale hypermarket chain HyperCity was the latest addition in the portfolio of Future Retail Limited (Future Retail), the largest retail group in India. The company, which owned large retail chains including Big Bazaar and Food Bazaar, had been expanding its footprint across the country by acquiring several regional and national chains. Most of the acquisitions by Future Retail were in small-format stores with value positioning in locations where Future Retail had limited presence. HyperCity, however, was an upscale hypermarket chain with a strong presence in geographies where Future Retail’s flagship Big Bazaar was already present.[[2]](#endnote-2) While this acquisition was likely to help Future Retail expand its retail network and gain more economies of scale for its back-end operations, it remained to be determined how HyperCity fit into its existing portfolio remained to be determined. Also, HyperCity was suffering losses, and turning around a loss-making company would be another challenge for Future Retail.

In 2017, Future Retail was expanding its network of stores to more locations, offering the convenience of proximity to its customers.[[3]](#endnote-3) However, customers in urban India were shifting to e-commerce for better pricing and the comfort of shopping from home. Pure-play food and grocery e-commerce players such as bigbasket were becoming increasingly popular and efficient. Global lifestyle e-commerce player Amazon.com Inc. had also entered the online food retailing business. At one end, customers were shifting to e-commerce for their medium to large planned purchases, while small neighbourhood stores (popularly known as *kirana* stores) and cart vendors remained the popular choice for small, quick purchases.[[4]](#endnote-4) By expanding its network of stores across different formats, would Future Retail be able to attract more customers moving to online retailers? Would the company be able to match the convenience of home delivery offered by small neighbourhood stores? How could Future Retail attract customers to its stores given the strong competition from small neighbourhood stores and online retailers?

Retailing in India

In 2017, India was the second most populous country in the world. Growing at a compound annual growth rate (CAGR) of 12 per cent from 2012 to 2016, retail was one of the largest industries of the Indian economy. The size of the Indian retail industry was ₹39 trillion[[5]](#endnote-5) in the fiscal year (FY) 2015–16[[6]](#endnote-6) and was expected to reach ₹97 trillion by FY 2021–22.[[7]](#endnote-7) The industry, however, was fragmented, with a large unorganized sector made up of small mom-and-pop stores. Organized retail was relatively new in India and included corporate-owned shopping malls, department stores, supermarkets, and hypermarkets concentrated in urban areas (see Exhibit 1). The key drivers of growth in India’s organized retail sector were growth in the economy, a rising middle class, increasing disposable incomes, evolving consumer trends, changing lifestyles, and increasing levels of urbanization.[[8]](#endnote-8)

Food Retailing in India

Food and grocery retailing included cereals, packaged foods, fresh produce, dairy products, poultry, seafood, and other household goods. The Indian food-retailing sector generated ₹22 trillion in revenue in FY 2016–17 and was growing at a CAGR of 10 per cent.[[9]](#endnote-9) Despite its large size, general trade (GT), or the unorganized sector, including kirana stores, cart vendors, and *mandis* (markets that sold fresh meat and produce), dominated the industry. Unorganized players had lower overheads and competed fiercely with organized players by offering the convenience of free home delivery, credit purchases, and favourable locations. Modern trade (MT), or the organized sector, accounted for less than 3 per cent of the sector, with concentration predominantly in urban centres.[[10]](#endnote-10) MT, however, was forecasted to grow by 25 per cent in FY 2017–18.[[11]](#endnote-11)

The dominance of GT was a consequence of the shopping and consumption practices in India. Indian customers had a strong preference for fresh produce, which led to frequent food and grocery purchases. On average, customers purchased fresh produce from cart vendors as frequently as three times a week. Shopping for staples and household products was done weekly rather than monthly. Less than 10 per cent of the population owned a vehicle, so very few used a car for shopping. Approximately 95 per cent of customers visited a store within a three- to five-kilometre radius of their homes.[[12]](#endnote-12) As a result of these shopping patterns, neighbourhood stores that offered free home delivery became the preferred shopping choice for Indian customers. [[13]](#endnote-13)

However, MT was quickly gaining acceptance among customers, especially in urban areas. Only about 30 per cent of the Indian population of 1.21 billion people lived in urban areas but they accounted for nearly 70 per cent of Indian gross domestic product. The growing Indian food and grocery retail market had attracted several players, some of which were owned by large corporate houses that had diverse interests (see Exhibit 2). This growth was driven mainly by the increasing numbers of metropolitan consumers who wanted to shop for all of their grocery requirements under one roof. The large assortment offered by these retailers, including global merchandise, also attracted urban customers.[[14]](#endnote-14) Private label was another differentiator for many organized retailers. Private label products priced 5 to 15 per cent lower than the national brands attracted value-conscious customers.[[15]](#endnote-15) Some retailers had also introduced exclusive private label products in categories where national brands did not have a strong offering. Private label products were able to offer higher profitability and competitive distinction to retailers. While the phenomenon of private labels in the food and grocery segment was very prominent in developed countries, it was a relatively novel concept in India. As customers in India had a strong preference toward fresh produce, many organized retailers tried to address this preference by acquiring produce directly from farms, thereby shortening the supply chain. Many retailers offered value-added products such as cut vegetables and freshly made batter to attract busy, health-conscious customers. As customers preferred stores located close to their homes, many organized players had started small supermarkets conveniently located near residential areas. Some of the retailers had also started home delivery at select locations to address the challenge of transportation.[[16]](#endnote-16)

India was arguably a subcontinent and not just a country with varied cultures, diverse cuisine, and food preferences. Even within a state, there were wide variations in tastes, eating habits, and the use of ingredients. Most food brands and retail chains were, therefore, regional rather than national.[[17]](#endnote-17) To meet the diverse needs of customers, stores across the country varied their merchandise mix, making local stores and local chains more successful than national chains. Despite these differences, Indian customers were similar to customers in others parts of the world in that they valued the concept of value for money. This shared characteristic prevailed across all socio-economic segments and was a benchmark of customer satisfaction.[[18]](#endnote-18)

Future Retail Limited

Future Retail Limited, the retail arm of Future Group, was the largest retailing organization in India.[[19]](#endnote-19) By 2017, the company had operations in several retail formats, including departmental stores, hypermarkets, supermarkets, and specialty stores for electronics as well as home furnishing and decor. The company operated several national chains including Big Bazaar (hypermarkets), Food Bazaar (supermarkets), Foodhall (premium supermarkets), Easyday (neighbourhood supermarkets), Ezone (electronics specialty store), and Fashion at Big Bazaar (abbreviated fbb), a department store.[[20]](#endnote-20)

Pantaloons

Future Retail Limited, formerly known as Pantaloon Retail India Limited (PRIL), started its operations as Manz Wear Private Limited in 1987, dealing with fabric for men’s clothing. Subsequently, the company launched the formal-trousers brand Pantaloon, followed by a chain of menswear stores called Pantaloon Shoppe, aiming to convert customers accustomed to purchasing stitched clothing to purchasing ready-to-wear garments. In 1997, the company expanded its offerings to the whole family and launched an 8,000-square-foot high-fashion family department store in Kolkata called Pantaloons.[[21]](#endnote-21)

The Pantaloons store offered affordable yet aspirational products for Indian middle- and upper-class customers. The store sold apparel and lifestyle brands for the whole family under one roof, which was a novelty for Indian customers at that time. Starting with inspiration from global departmental stores, Pantaloons customized its stores for the Indian custom of families shopping together. Pantaloons changed the stores’ global aisles layouts to L- and U-shaped counters to make the space comfortable for families to stand around.[[22]](#endnote-22) Pantaloons also introduced the brands John Miller, Lombard, and Annabelle under its private label program. Pantaloons was one of the most successful department stores in the country, and by 2012, it was present in 35 cities, with 65 stores and 21 factory outlets covering a total retail space of more than 2 million square feet, with annual sales of about ₹17 billion.[[23]](#endnote-23)

During this period, PRIL aggressively expanded its operations into several other retail formats, including food, consumer packaged goods (CPG), and electronics and several novel industries, including insurance and financial services. However, the flagship chain Pantaloons bore the burden of increasing debt to fund the company’s expansion. To reduce its debt and maintain the company’s increasing focus on food and the CPG retailing business, PRIL sold a controlling stake in Pantaloons to Aditya Birla Nuvo Ltd. Following the spinoff of Pantaloons from the broader business, PRIL changed its name to Future Retail Limited.[[24]](#endnote-24)

**Big Bazaar and Food Bazaar**

In 2001, Future Retail (then PRIL) entered into food and grocery retailing by launching a chain of hypermarket discount stores called Big Bazaar in three cities—Kolkata, Bangalore, and Hyderabad. Each of the stores had a floor space of approximately 50,000 square feet, a cold storage area, and, sometimes, a pharmacy. Big Bazaar stores offered a wide range of products, including apparel, electronics, kitchenware, sporting goods, luggage, and jewellery, in a modern retailing environment. Although Big Bazaar offered services such as easy parking, fixed prices, and merchandise return privileges similar to a Western hypermarket, the stores had a non-linear layout similar to traditional Indian markets. Based on insights on the shopping styles of Indian customers gleamed from extensive visits to neighbourhood markets, the store design had a certain level of built-in chaos to give the feel of the local market.[[25]](#endnote-25)

Globally, food and grocery accounted for about 70 per cent of a large hypermarket’s merchandise mix, where customers bought food and other household products during their monthly shopping trips. Customers in India, however, frequently bought food products for daily use from small neighbourhood stores, rather than stocking up during visits to large-format stores. Also, for Indian shoppers, a visit to a large-format store was an outing for the family. Further, as Indian customers had a low inclination toward packaged food and bought more staples and fresh produce, food and grocery were low-margin categories. Big Bazaar therefore kept food and grocery to just 30 per cent of the merchandise, with high-margin apparel and home products making up the remainder. Many Indian customers preferred to touch and feel the products before buying them; Big Bazaar stores, therefore, offered loose, self-serve grains that consumers could inspect, in addition to prepackaged grains. For fresh produce, Big Bazaar enabled customers to see, touch, choose, and weigh fruits and vegetables.[[26]](#endnote-26)

Future Retail opened its first supermarket, Food Bazaar, in 2002, soon after launching Big Bazaar. Food Bazaar stores were located either within Big Bazaar stores or at independent locations. Expanding rapidly, in the first six months, Future Retail opened 42 Food Bazaar outlets, including 18 stand-alone stores ranging in size from 5,000 to 14,000 square feet. Each Food Bazaar store stocked an average of 7,000 products and sold fresh produce, CPGs, staples, and ready-to-cook products.[[27]](#endnote-27)

Although the stores had a strong emphasis on customer service and shopping ambiance, the company ensured customers did not associate the store with high prices. Big Bazaar marketed on the promises of “more for less” and “our products at your price” to attract price-sensitive customers. The Big Bazaar team observed that in many affluent Indian households, the house help did the routine grocery shopping. As the group promoter, Kishore Biyani, founder and chief executive officer of Future Retail, said, “Big Bazaar is a classless store that caters to all sections of society. You will often find the driver and the car owner shopping side by side at Big Bazaar.” It was, therefore, important to make the store comfortable not only for homemakers but also for housemaids. Big Bazaar came up with several campaigns such as Isse sasta aur acchha kahin nahin (You will not find it better and cheaper than this anywhere) and Umeed se dugna (Twice your expectations) to position itself as a value-price store. Big Bazaar also ran promotions where customers could recycle old products for store credit, which was similar to the GT practice in the country.[[28]](#endnote-28)

To deliver strong value for customers and higher margins for the company, Future Retail developed a strong portfolio of private label brands, including Sunkist, Tasty Treat, Golden Harvest, Premium Harvest, Sach, Ektaa, CleanMate, and CareMate.[[29]](#endnote-29) The company aggressively promoted its private label brands in Big Bazaar and Food Bazaar stores, with competitive pricing and side-by-side placements with national-brand products. A strong private label portfolio also helped the company to negotiate with national-brand manufacturers for better margins. There were times when Big Bazaar temporarily discontinued stocking prominent national brands such as Kellogg’s, Lay’s, Kurkure, and Cheetos for more favourable margins and trade terms.[[30]](#endnote-30)

Big Bazaar stores were large, and the number of stock-keeping units was high. As the value-based pricing business model required the company to be lean on salespeople, the company invested heavily in posters and cut-outs and put them up in every section. Big Bazaar invested approximately ₹3 million to ₹4 million in visual aids at each new store, with a recurring investment of approximately 5 per cent of sales, thereby providing a comfortable shopping experience to customers in its stores.[[31]](#endnote-31)

Future Retail expanded aggressively over the next few years. Biyani, said, “Retail is like riding a bicycle. If you stop pedaling, you'll fall.” By 2017, Future Retail had 235 Big Bazaar stores across 124 cities in India, totalling over 10 million square feet of space.[[32]](#endnote-32)

**KB’s Fairprice**

Customers in India shopped for food and grocery items at small neighbourhood stores (kiranas), which accounted for 97 per cent of the market. Future Retail launched KB’s Fairprice, a neighbourhood convenience store concept, in 2007 in Delhi to cater to frequent small purchases.[[33]](#endnote-33) These stores were 600- to 900-square-foot modern self-service stores that stocked all of the essential household products.[[34]](#endnote-34) These no-frill stores had no air-conditioning or fancy displays and were located near residential areas to provide shopping convenience. By 2011, India had 200 such stores across the country.[[35]](#endnote-35)

**Ezone**

Future Retail started an electronics specialty store called Ezone in 2002. Ezone stores were set up both in the form of stand-alone stores as well as within Big Bazaar stores. The store sold national and international electronics brands for a range of product categories, including audio, accessories, communication, computing, home entertainment, home and kitchen appliances, imaging, personal entertainment, and gaming.[[36]](#endnote-36)

**Central**

Future Retail launched Central, a novel concept of a seamless shopping mall, in 2004.[[37]](#endnote-37) Future Retail leased out space in the mall to different national and global brands for a fixed rent and proportion of the sales from the leased space. Mall stores housed over 300 brands across lifestyle categories such as apparel, footwear, and accessories as well as music, books, coffee shops, food courts, supermarkets, and discotheques. Additionally, Central housed Central Square, a dedicated space for product launches, impromptu events, and art exhibitions. By 2017, the company had 35 Central stores.[[38]](#endnote-38)

**Fbb**

Fashion merchandise was always a significant part of Big Bazaar, considering the higher margins it brought and Future Retail’s business strategy. With a focus on affordable fashion, the company launched fbb, a chain of apparel stores, in 2008.[[39]](#endnote-39) These stores offered an assortment of youth-focused office wear, daily wear, and sportswear, under its private label brands. The stores were either located within Big Bazaar or stand-alone stores in malls. By 2017, fbb had 54 independent stores across 32 cities, in addition to its presence in 235 Big Bazaar stores.[[40]](#endnote-40)

Acquisitions

Future Retail was aggressive in its expansion right from its inception, and acquisition of regional and national players was at the core of its expansion strategy (see Exhibit 3).

**Big Apple**

Big Apple, a convenience store chain in the National Capital Region, had 65 outlets that sold food and groceries.[[41]](#endnote-41) Future Retail acquired Big Apple in 2012, thereby expanding its reach in Delhi and the National Capital Region to supplement its 100 KB’s Fairprice small-format stores.[[42]](#endnote-42)

**Nilgiris 1905 (Nilgiris)**

Nilgiris was a supermarket chain with 140 outlets in the southern states of Karnataka, Kerala, Andhra Pradesh, and Tamil Nadu. Nilgiris operated its stores through a network of franchisees. Nilgiris Dairy Farm Ltd. was an iconic brand established in 1905, with a strong portfolio of dairy, bakery, chocolates, and staples. Nilgiris had manufacturing facilities, strong back-end operations, distribution centres, and a fleet of vehicles to service its outlets. Future Retail acquired Nilgiris in November 2014 for ₹3 billion, thereby expanding its network in South India and gaining expertise in running a successful franchise network.[[43]](#endnote-43)

**Easyday**

Easyday was a national retail chain owned by Bharti Retail Limited, with stores in hypermarkets, supermarkets, and neighbourhood stores.[[44]](#endnote-44) The company had over 200 stores in 144 cities across the country, with revenues of approximately₹20 billion in 2015. Future Retail acquired Easyday through the merger route in 2015 and expanded its reach into 77 new cities.[[45]](#endnote-45) Easyday was a strong retail brand, especially in small-format stores. With the acquisition of Easyday, Future Retail became India’s largest retailer. To streamline formats and have a homogeneous brand portfolio, Easyday hypermarket stores were rebranded as Big Bazaar outlets, while Future Retail’s neighbourhood convenience stores and small supermarkets—KB’s Fair Price and KB’s Conveniently Yours—were rebranded as Easyday neighbourhood stores or supermarkets.[[46]](#endnote-46) With a focus on small format, Future Retail expanded the Easyday network, and by 2017, the company had 538 Easyday stores across 137 cities in the country.[[47]](#endnote-47)

**Heritage Fresh**

Heritage Fresh was a chain of 124 supermarket stores in South India, with store sizes ranging from 2,000 to 8,000 square feet.[[48]](#endnote-48) Heritage Fresh stores sold household products, fast-moving consumer goods, staples, and fresh produce. Future Retail acquired the Heritage Fresh chain, along with its bakery and agricultural-sourcing division, in November 2016.[[49]](#endnote-49)

**HyperCity**

HyperCity was a chain of upscale hypermarket stores owned by Shoppers Stop, a leading department store chain in Mumbai.[[50]](#endnote-50) Shoppers Stop entered into the food and grocery segment by launching HyperCity in 2006. HyperCity offered a range of products across categories such as food and grocery, fashion, electronics, home furnishings, home needs, sports, toys, and stationery. HyperCity was positioned as an upscale hypermarket to provide an international shopping experience with a large, modern, and exciting environment. It sourced its merchandise from both local and international markets. HyperCity had an exclusive supply agreement with Waitrose & Partners, a top supermarket chain in the United Kingdom, for sourcing global merchandise.[[51]](#endnote-51) HyperCity etched a strong presence in urban centres, with 19 large stores across the country by 2017. However, the company was posting losses year on year and had reported a loss of ₹839.9 million on revenue of ₹11 billion in FY 2017. Future Retail acquired HyperCity in October 2017 for ₹6.55 billion.[[52]](#endnote-52) HyperCity was Future Retail’s first acquisition of a hypermarket chain; it had previously focused mainly on acquiring small-store formats to expand its reach.[[53]](#endnote-53)

MOVING FORWARD

Through the inorganic route of expansion, Future Retail had addressed the heterogeneous market and secured a strong local presence and a deep acceptance among customers.[[54]](#endnote-54) However, there was a strong emergence of online retailers making swift inroads into the market by offering large assortments, deep discounts, and the convenience of home delivery. Customers were quickly switching to e-commerce for planned food and grocery purchases, while kirana stores and local mandis remained the preferred choice for unplanned and fresh-produce purchases.[[55]](#endnote-55)

With changing customer lifestyles, would Future Retail be able to maintain its leadership position? As it looked for a larger share of the retail pie, how would it deal with an increasing customer preference toward the convenience of online ordering? How would it handle the competition from omnipresent neighbourhood stores and cart vendors?

EXHIBIT 1: KEY Organized-retailing Formats IN INDIA

|  |  |  |
| --- | --- | --- |
| Format | Description | Example |
| Department Store | A store with various departments across numerous product lines (mostly non-food) and generally across multiple floors. The cleanliness, lighting, layout, and customer service offered a relatively lavish shopping experience. A wide variety of apparel, home goods, linens, furniture, and baby goods neatly lined the shelves. The staff was trained to answer questions and help customers learn about the different products. Department stores were located either in shopping malls, as the anchor store (i.e., the largest tenant), or as stand-alone stores. | Global Examples: Macy’s, Selfridges  Indian Players: Shoppers Stop, Westside, Pantaloons |
| Supermarket | A self-service store with merchandise that fell into the categories of packaged and fresh foods, household items, and personal care items, sold under one roof. Some stores also sold an international selection of foods. The stores had a spacious layout and were air-conditioned, as compared with traditional mom-and-pop stores. | Global Examples: Sainsbury’s Local, Whole Foods Market  Indian Players: Reliance Fresh |
| Convenience Store | Small store that sold mostly food items and confections, open 24 hours in some places. Acted as supplementary stores for quick trips. While a well-established phenomenon globally, it was a relatively new concept in organized retailing in India. | Global Examples: 7-Eleven, Wawa  Indian Players: Twenty Four Seven, Big Apple, In & Out |
| Hypermarket | Hybrids of the department stores, supermarkets, and convenience stores, hypermarkets sold a wide variety of items—from fresh and processed foods to apparel and consumer durables. While globally such formats may have been located outside the cities and offered deep discounts, Indian hypermarkets were located well within the cities, and customers would go to hypermarkets for convenience. Shoppers could go in for food and come out with a television. | Global Examples: Tesco, Walmart  Indian Players: Big Bazaar, Star Bazaar, HyperCity |
| Specialty Store | Stores that sold products within specific categories such as books, electronics, and kitchenware. | Global Examples: Barnes & Noble  Indian Players: Crossword Bookstores, Ezone |

Source: Compiled by case author from [Michael R. Pearce](https://www.iveycases.com/ProductView.aspx?id=32089), [Kyle Murray](https://www.iveycases.com/ProductView.aspx?id=32089), and [Krista Morrison](https://www.iveycases.com/ProductView.aspx?id=32089)*, Note on Retail Formats*, (London, ON: Ivey Publishing, 2005), 8. Available from Ivey Publishing, product no. 9B05A034; Swapna Pradhan, “Theories of Retail Development & Business Models in Retail,” chapter 3 in *Retailing Management: Text and Cases*, 3rd ed. (New Delhi, Tata McGraw Hill Education Private Limited, 2009), 61–98.

EXHIBIT 2: KEY Food-Retail PLAYERS IN INDIA, 2016

|  |  |  |
| --- | --- | --- |
| **Retail Chain** | **Number of Outlets** | **Selling Space (thousand square feet)** |
| More (Aditya Birla Group) | 508 | 2,432 |
| Reliance Retail (Reliance Industries Limited) | 450 | 1,572 |
| Big Bazaar (Future Group) | 220 | 11,313 |
| Spencer’s Retail (RPG Group) | 129 | 947 |
| DMart (Avenue Supermarkets) | 110 | 3,854 |
| HyperCity (Shoppers Stop) | 19 | 1,340 |
| Star (Trent Hypermarket) | 26 | Not Available |

Source: Adapted by the case author from “Grocery Retailers in India,” Euromonitor International, February 2017, www.euromonitor.com/grocery-retailers-in-india/report.

EXHIBIT 3: KEY acquisitions by future retail

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Retail Chain** | **Format** | **Number of Stores** | **Acquisition Size**  **(in ₹ million)** | **Locations** |
| 2012 | Big Apple | Convenience Store | 65 | 610 | National Capital Region |
| 2014 | Nilgiris | Supermarket | 140 | 3,000 | South Indian States |
| 2015 | Bharti Retail Limited (Easyday) | Supermarket and Hypermarket | 212 | Not Available | North Indian States, Bangalore |
| 2016 | Sangam Direct | Convenience Stores | 35 | \*\* | Delhi, Bangalore |
| 2016 | Heritage Fresh | Supermarket | 124 | 2,630 | South Indian States |
| 2017 | HyperCity | Hypermarket | 19 | 6,550 | Pan India |

Note: ₹ = INR = Indian rupee; US$1 = ₹67.95 on January 1, 2017; \*\*FRL acquired Sangam’s stores through a lease transfer instead of paying in cash.

Source: Adapted by the case author from Krishna Gopolan, “What Biyani’s Future Looks Like,” Outlook Business, December 4, 2017, accessed March 14, 2018, www.outlookbusiness.com/the-big-story/lead-story/what-biyanis-future-looks-like-4015; Debjyoti Roy, “Future Group Acquires Retail Chain Sangam Direct,” VCCircle, September 22, 2016, accessed June 28, 2018, www.vccircle.com/future-group-acquires-retail-chain-sangam-direct/.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Future Retail Limited or any of its employees. [↑](#endnote-ref-1)
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