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Strategic Change & its Impact- A Case of D-MART

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"The goal of hypermarket chain D-Mart is simple: sell food and everyday things like soaps to customers at low costs. Because if there's one thing that all Indians adore, it's an MRP reduction! As a result, people flock to D-Mart to acquire their groceries. Increased store traffic equals increased sales. As a result, the company's inventory is turned over more quickly. It can then negotiate better pricing with its suppliers and pass the savings on to clients. Its actual star is the "Everyday Low Prices" policy. Despite the fact that D-Mart sells other high-value items like as home appliances, tableware, and apparel, the food and grocery segment has regularly provided 50% of its sales.

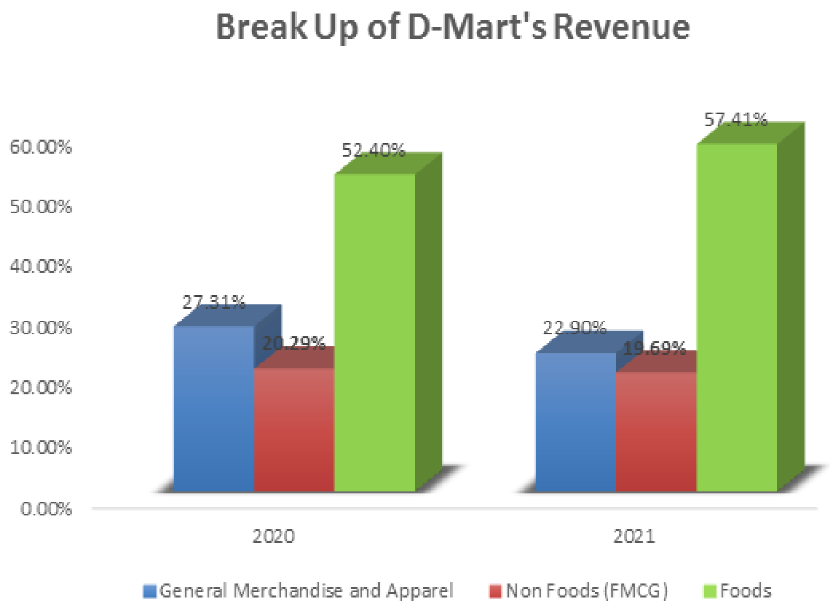

Figure 5.1: Break-Up of D-Mart's Revenue
Source: https://www.tijorifinance.com/

D-Mart now prefers its approximately 250 stores to be between 30,000 and 40,000 square feet. Customers can choose from a wider range of products because to D-Mart's relatively large store size. And, given the low pricing, folks may be enticed to buy things that aren't on their "wish list." D-Mart benefits when they spend more. D-Mart, on the other hand, is increasingly buying larger retail outlets. According to reports in the media, hypermarket company D-Mart has signed a lease for a 67,404 sq. ft. retail property in Bengaluru's central business district. For new stores, the average size is 67,000 square feet, compared to a business average of roughly 34,000 square feet. It even purchased a 94,000-square-foot space in Faridabad in September. D-Mart believes that bigger is better.

But why is that?

We all know how bad the real estate market is. So, perhaps D-Mart is taking advantage of the situation to nab some fantastic offers on larger properties? Perhaps something else is going on at the same time.

For long-term viability, margins are critical.

We've noticed that D-Mart's promise of "Everyday Low Prices" has been jeopardized. Reliance Smart and Big Bazaar, two of its competitors, have been reducing prices to reclaim market share. Things are becoming increasingly apparent, according to a recent analysis from Kotak Institutional Equities. D-Mart had the best price for 21 of the 30 products tracked by the brokerage in October 2020. However, only 12 products were cheaper at D-Mart in March 2021 when compared to competitors.

And do you know what happens when you play this bottom-feeding game? Well, it'll eat into your profit margins.

As a result, D-Mart will rely heavily on its high-margin retail and apparel industry to grow. The gross margins from this market are often around 25%, whereas FMCG margins are typically 5% or less. You'll also need more shop space if you want to sell more of this high-margin merchandise. As a result, it's possible that the corporation is making the switch in order to expand its clothes and product business.

Or is it possible that this has something to do with e-commerce, an area where D-Mart has fallen behind? D-Mart Ready, the company's online channel, provided less than 1% of the parent company's overall income a couple of years ago. A However, it is attempting to catch up. And D-Mart Ready now accounts for about 3% of the company's revenue.

"What does e-commerce have to do with larger stores?" you might be thinking. Isn't it all about logistics and technology?" Yes, it is correct. However, consider leveraging these massive stores to serve a dual purpose: stock all the things you desire while also serving as a fulfillment center for your online business. After all, the goods must move somewhere, and a massive shop might serve as the ideal "storage" as the company develops its e-commerce strategy. In reality, D-Mart's strategy may be modeled after that of Ikea, a firm that D-Mart's CEO appears to admire. Some of the furniture behemoth's products have been transformed into fulfillment centers to match its newfound enthusiasm for e-commerce.

And there you have it: higher-margin products combined with an emphasis on e-commerce may be the reason D-Mart is considering expanding its footprint.

QUESTIONS

1. Will this assist the company's stock in reaching new heights?
2. Is D-Mart preparing for a more difficult competitive challenge from online aggregators, which the company is finding difficult to enter?
3. Will it be able to retain profitability despite increasing product discounts?