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KC5 – Corporate Strategy and Contemporary Issues
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Pre-seen

Industry overview

The emergence of supermarkets has led to a decline in the number of small scale retailers around the world. In most economies the supermarket industry is operated under an oligopoly economic model. In the recent years the retail industry, at a global level, showed an upward trend in terms of growth as depicted in Figure 1 below.

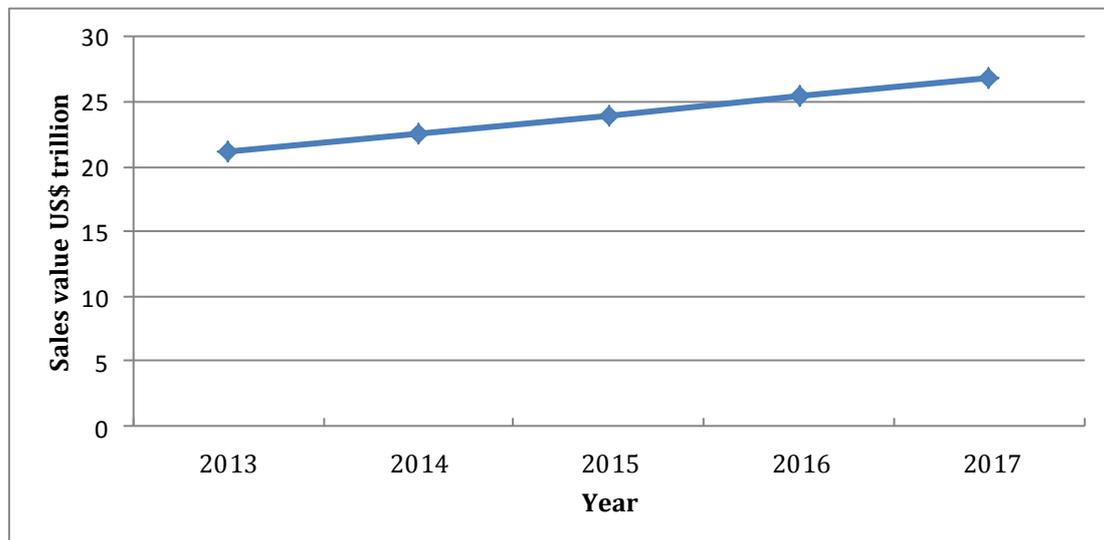


Figure 1: Global retail sales

(Source: EMarketer.com)

Global retail trade is expected to reach US\$ 28.3 trillion by 2018 compared to 2017, thus showing a 6.9% growth. This growth is dominated by global economic giants like China and USA. Retail sales account for 31% of global GDP and the retail industry employs millions of people around the world. Per the A. T. Kearney *Global Retail Development Index*, retail trade growth in developing economies of the world has ranged from 1% to 12% during the recent past.

Despite the fact that retail stores can be grouped in many ways depending on their purpose, in general they could be mainly categorised into three types; namely hypermarkets, supermarkets and convenience stores.

A hypermarket is a large store with an extended range of goods along with large parking spaces. This type of store is usually situated beyond city limits to accommodate the size of the store. The concept of hypermarkets is increasingly becoming popular around the world.

A supermarket could be identified as a self-serving establishment, which offers a wide variety of food and household products. It has a larger selection of goods compared to a grocery store, and is usually large in size.

A convenience store could be identified as a small retail shop that stocks a range of everyday items such as milk, snacks, newspapers etc. Convenience stores are usually situated in small corners of towns or as a part of petrol stations.

A summary of the average size and major types of products offered by each of these establishments is given in Table 1 below.

Type of establishment	Average size	Major types of products
Hypermarket	170,000 square feet	Food items, furniture, clothes and various other non-food items.
Supermarket	45,000 square feet	Grocery items, drugs, vegetables etc.
Convenience store	4,700 square feet	Grocery items, snacks, newspapers etc.

Table 1: Size and major types of products

Retailing and economic conditions in Sri Lanka

According to a recent ranking in the A. T. Kearney, *Global Retail Development Index* Sri Lanka was placed twelfth (12). It was interesting to see that countries like South Africa, Russia and the Philippines were placed below Sri Lanka.

GDP per capita in Sri Lanka has been continuously increasing in the recent past and reached US\$ 3,835 in 2016. This figure was greater than that of India and Bangladesh in the region. A recent World Bank report revealed that an average Sri Lankan spends 47.58% of his/her income on food and beverages.

Consumer buying behaviour

Despite the fact that the retail industry has been developing in Sri Lanka with the emergence of supermarkets and other retail establishments, the frequency of customer visits has declined over time. Retail consumers show a pattern of buying in large quantities at the time of visiting a supermarket and storing them, thus avoiding frequent visits. Further, it has been found that the customers who visit shopping malls are mainly the younger crowd and families with children.

It has also been revealed that the proportion of consumer income allocated for essential goods and services has reduced to 39% from 46% over the last few years. Consumer spending on discretionary items such as housing, transportation, telecommunication, healthcare, and motor vehicles is on the rise. Some research studies have predicted that Sri Lankan consumer spending on communication, housing, furnishing and durables would further expand in the next few years similar to Malaysia and Thailand.

Online sales and price wars

E-commerce is another emerging trend and it is expected to grow at a very high pace in the world economy in the future as shown in Figure 2. It shows that the global sales volume resulting from e-commerce would grow by 14% up to US\$ 4 trillion by 2020.

Many analysts have forecasted that within another 5 years there will be a substantial drop in customers who physically visit supermarkets, mainly due to online buying. Hence, many supermarkets now tend to provide a new customer experience by having restaurants and salons, making the store appealing to customers and providing them the opportunity to loiter around during shopping.

Modern day thinking of supermarket chains is to keep the consumer inside the premises as long as possible, keeping the consumer stimulated and offering consumer-friendly buying. These are expected to build brand loyalty, which can increase profits. Supermarkets are also aiming to provide a range of services in addition to the usual products they offer. At the same time, small scale distribution centers that offer online trading have created a big challenge for traditional supermarkets.

There are various methods that online retailers use to accept payments. Listed below are some of these methods.

- Debit/credit card payments
- Cash on delivery
- Online payments websites (e.g. PayPal)
- Mobile cash services (e.g. eCash, mCash)
- Direct bank transfers

According to the global research website ystats.com, most e-commerce sites offer at least two or three of the above payment options.



Figure 2: Global retail sales from E-commerce

(Source: EMarketer.com)

Retailers try to counter price wars in the industry using several methods. Price bundling is one of those techniques where they bundle different goods and offer the entire bundle at a single price. Promotions are also offered with different kinds of bundles especially during different seasons.

Retailers focus on enhancing customer experience to induce customers to visit the establishments more frequently, which can in turn increase sales. Staff is normally trained for this purpose of developing good relationships with customers.

Presence of Glenn PLC

Glenn PLC is a leading retail chain in Sri Lanka incorporated in 1956 as “Store of Glenn”, a private limited company that operated as a wholesale business. Ama Sri Dias was appointed as the CEO of the company in 1990. The company established its first supermarket under the name “Meal Town Super” (MTS) in Ratmalana in 1991. In the same year the company was listed on the Colombo Stock Exchange.

Glenn is the first organisation in Sri Lanka to introduce the state-of-the-art layout in the supermarket industry. The design and placing of goods on shelves are done in a way to stimulate the shopping atmosphere. The stores are embedded with appealing interior, signs that make self-service more convenient, and upgraded storing facilities to ensure efficient operations. Glenn currently operates 354 outlets across the country accounting for 45% of the market.

By considering the global trend, Glenn has expanded its operations into extended operating hours including 24 hours of operation in a substantial number of outlets across the country. The outlets that operate 24 hours can be seen in fuel stations and airports. These outlets are operated under the name “Meal Town Handy”.

“Meal Town Centre” is a shopping mall located in three major cities in Sri Lanka, Colombo, Kandy and Galle, where customers can get multiple tasks done in one place. Each Meal Town Centre has a 93,000 sq.ft space comprising MTS and a range of other services including a food court, cinema and banks so that customers have an extensive space to do their shopping as well as dine, watch movies and do their banking. Glenn has been looking at a few options of improving the existing structure of its retail establishments, which will make the customer experience better. A summary of retail establishments under Glenn is given in Table 2 below.

Category	Meal Town Super	Meal Town Centre	Meal Town Handy
Number of outlets	290	11	53
Location	Towns, cities	Key locations in cities	Fuel stations, airports

Table 2: Summary of Glenn retail establishments

Past research has shown that retail outlets are mainly visited by families. Therefore, the marketing manager suggested that the goal should be to cater to them and make the shopping experience enjoyable to each and every member of the family.

Prabath, the current CEO of the company, in a management discussion proposed to expand the shopping experience of customers by providing a separate section within the premises where children and teenagers could play whilst their parents shop. He is confident that it would be a totally different experience for them and a motivation for customers to visit the premises often. Prabath considers this as a separate project, where they offer a range of children’s activities from shooting hoops to arcade games, to explore opportunities in the changes in buying behaviour. He wanted senior managers to come out with their ideas about this proposal before taking a final decision about the investment.

Interface between IT and company operations

Shamil Akbar, the IT and marketing director, is keen on investing in IT and integrating it with business operations. He stressed the need for setting an appropriate information system, which will be key to the successful implementation of selling products online, as there is an increasing tendency for online buying. The following four major areas of IT have been identified as important aspects of an efficient information system.

1. Network system
2. Online payment system
3. Integration of information system with courier services
4. Establishing a proper user-friendly online interface

Akbar further said that initial work must be carried out fast but with caution, as the hurriedness could result in mistakes and incur huge costs. He has been empowered to engage in such work and make the necessary arrangements to assure the process will be sufficiently speedy.

Human resources management

Glenn has a policy of giving priority to local citizens (those who live in the same area), when employees are recruited for establishments located island-wide, subject to the basic and required qualifications for each post. The total number of shop employees for the districts in the Western Province and other districts in aggregate are given in Table 3 below.

District	Number of shop employees
Colombo	1,360
Gampaha	688
Kaluthara	590
Other	1,610

Table 3: Number of employees

In the recent past one of the staff members in the Gampaha district met with an accident. The regional manager subsequently misled the accounts officer to not pay one of the allowances the staff member was eligible for. In addition the Gampaha district performance of the retail segment of Glenn has been declining for some time while competitors have been performing well. The regional managers of the Gampaha district are rightfully under pressure to improve their performance.

Composition of the board of directors (BOD) of Glenn PLC

The BOD of Glenn PLC comprises nine directors, including four non-executive directors as listed below.

- Chairman – Mr. Roger Glenn Jr.
- Finance director – Mr. Jason Hettiarachchi
- Human resource director – Mr. Dino Glenn
- Legal and compliance director – Mrs. Ineesha Gamage
- IT & marketing director – Mr. Shamil Akbar
- Non-executive director – Mr. Dominic Glenn
- Non-executive director – Mr. George De Alwis
- Non-executive director – Mr. Gregory Vaas
- Non-executive director – Mr. Anuranga Fernando

Chief Executive Officer (CEO) – Prabath Wijewardhane

Prabath has held many senior management positions in the fast moving consumer goods (FMCG) sector and has over 15 years of experience. He joined Glenn only 3 years ago and since then he has been instrumental in working on the own-brand products that Glenn has been selling.

Own-brand products

Own-brands are products that are sold with a trademark or a label of the supermarket itself. They are either produced or packed within the company, and are normally cheaper than other popular brands bought from outside. They have now become a common trend in Sri Lanka, and Glenn has also adopted these similar to competitors.

Some own-brand products are produced in-house at low cost as they are less labour intensive when it comes to production. However, Glenn has entered an agreement with a specialised producer to make them for Glenn in most cases. Own-brand products with the Meal Town (MT) trademark are tagged later before displaying the products for sale. The specialised producer with whom Glenn has entered a contract is Dorson PLC.

At the moment Glenn is focused on selling water bottles, spices, jams and sweets under its own brand. Glenn was maintaining significant margins and profits from own-brand products than competitors. The feasibility of extending the product portfolio of own-brands is currently being investigated.

However, it was revealed in a recent sales analysis that the demand for some own-brand products has taken a slump in the past few months. A summary of the sales breakdown of own-brands sold by Glenn for the last three quarters are given in Table 4 below.

Quarter	Water bottles (units)	Jams (units)	Spices (units)	Other (units)
Q3 2017	1,870,000	141,000	72,000	91,100
Q4 2017	1,710,000	139,000	60,000	88,700
Q1 2018	1,700,000	151,000	110,000	57,250

Table 4: A summary of sales of own-brands

Profit margins for the last three quarters are given in Table 5 below.

Quarter	Water bottles	Jams	Spices	Other
Q3 2017	33%	24%	39%	30%
Q4 2017	20%	26%	30%	20%
Q1 2018	11%	20%	44%	19%

Table 5: Profit margins of own-brand products

Competition

Adams PLC is the closest competitor of Glenn who operates “Food World” in the retail sector. There is a tendency amongst the Sri Lankan middle class and lower class consumers to search for the lowest priced items in the market. Food World has exploited this effectively and has done extensive publicity on its brand. The recent trend in Sri Lanka is to buy the lowest priced product. This is backed up by the fact that more than 50% of Sri Lankan households earn less than Rs. 50,000 per month.

Table 6 below provides a brief comparison of some information between the retail segment of Glenn and Food World.

	Retail segment of Glenn	Food World
<i>Financial information for the year ended 31 March 2018</i>		
Revenue (Rs. billion)	73.63	47.45
Profit after tax (Rs. billion)	2.31	1.10
<i>Market share</i>		
Relative market share	45%	29%
Change from last year	-0.40%	1.10%
<i>Operational</i>		
Number of outlets	354	198

Table 6: Comparison of retail segment of Glenn and Food World

Research and development (R&D) at Glenn PLC

MTS was the first to apply an innovative layout at its premises in order to give a better customer experience. This was a result of adequate allocation of funds for research to be carried out. However, there is no major R&D section operating at Glenn at present. Employees dedicated for R&D are overlooked by the IT & marketing director, due to the fact that the developments of MTS are mainly IT focused. An overview of the general layout at MTS is depicted in Figure 3 below.



Figure 3: Supermarket layout at MTS

A market survey carried out by Glenn, found that the tendency for online buying is mostly skewed in the Colombo and Kandy areas. Therefore, Glenn suggests to consider these areas for initial implementation of online sales. One aspect that Glenn is yet to look into and finalise is the delivery mode of products to households. Usually the cost of delivery is incurred at the customer's end, and Glenn is looking at the possibility of integrating a few courier services to the online purchasing system and giving the discretion to the customer to pick the courier services company they prefer.

Social media marketing

It is a well-known fact that at present, above the line (ATL) advertising has been completely reinvented by the advent of social media. People spend more time with their mobile phones rather than listening to the radio or watching television. The use of digital devices in everyday life has become essential and is very prominent at present. Digital statistics pertaining to the use of social media in Sri Lanka is given in Table 7 below.

Digital statistical indicators in Sri Lanka (January 2017)		
	Absolute value	Indicator
Total population	20.86 million	Urbanisation 18%
Internet users	6.26 million	30% out of the total population
Active social media users	4.90 million	23% out of the total population
Mobile subscriptions	26.36 million	126% of the population
Active mobile social media users	4.20 million	Penetration 20%

Table 7: Digital statistical indicators in Sri Lanka

(Source: Daily mirror)

Social media is largely a cost-effective method to do marketing. The initial cost is next to nothing and the operational costs are very low as well compared to television, radio and other print media advertising. Therefore, the retail segment of Glenn is currently looking at maximising on the opportunity as its competitors are yet to utilise social media effectively.

The retail segment of Glenn believes that social media will be an effective platform not only to improve on the share of voice, but also to build an ongoing conversation with the consumers. This will lead to a build up of crowd-sourced content.

However, social media marketing could expose even a company's small mistakes thus creating a huge risk of creating a bad image in no time. Since news spreads very fast through this channel, it could be a detrimental effect on the brand. Tracking negative and misleading statements about the company is a difficult task. Social media channels have the risk of leaking confidential information and only a very few remedies will be available in such an instance as the Sri Lankan legal system for the use of digital information is limited.

Financial information

The primary segments of Glenn PLC comprise retailing and running restaurants. Table 8 below provides the segmental information.

	Rs. billion		
	Revenue	Profit after tax	Segmental assets
Retail	73.63	2.31	22.03
Restaurants	3.90	0.47	4.11

Table 8: Segmental information

The share price of Glenn PLC has been more or less constant over the past year with just a few fluctuations. The last traded price was Rs. 49.30 per share. The 54-week summary is shown in Figure 4 below.

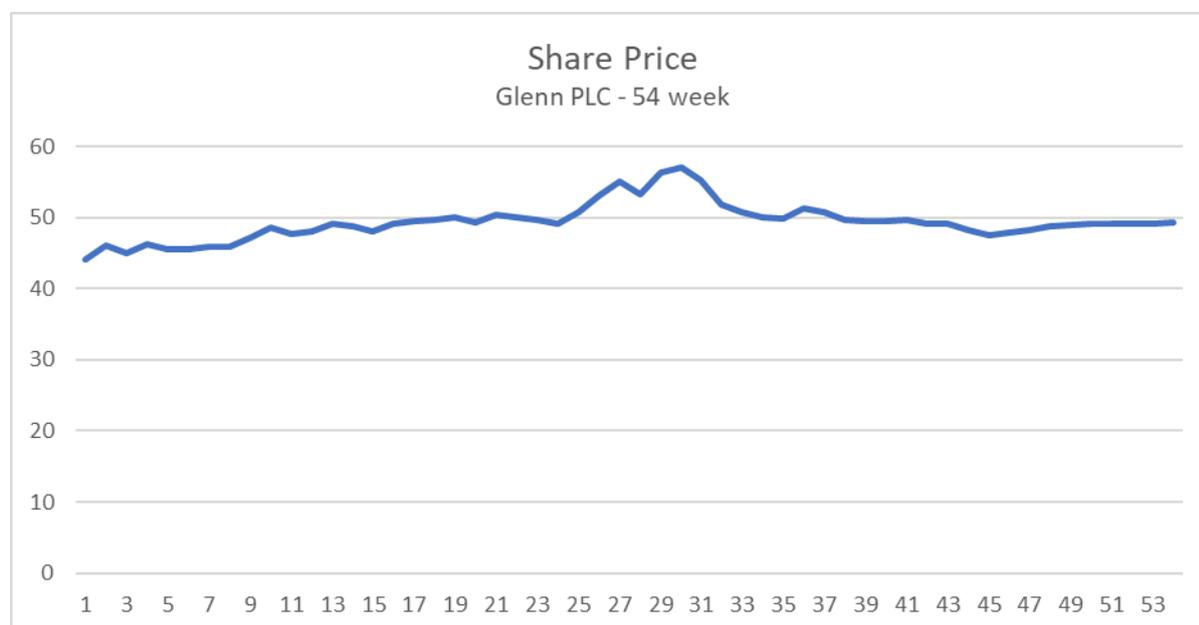


Figure 4: Share price movement of Glenn PLC

Suppliers for Glenn

Vegetables and some of the other produce are usually purchased from suppliers who are close to each retail establishment. The suppliers are registered at first, and then the quality inspection staff carries out necessary quality checks to assess whether the products meet the quality requirement of Glenn and whether the suppliers have the ability to supply continuously.

Other products that come in packages, cans and boxes are sourced from different manufacturers with different brand names to give customers better options to choose from. The shelf space is apportioned accordingly.

Glenn has entered MOUs with most of the multinational FMCG companies operating in Sri Lanka. They have shown high interest in supplying goods to Glenn as it has been the favourite for customers in Sri Lanka. A few other products like beverages and sanitary items are often supplied by small and medium sized local manufacturers.

Soft drinks are predominantly provided by one of the middle level players who operate in the soft drinks industry selling drinks under the brand name 'Fizzy'. The company is owned and controlled by Jason Hettiarachchi's brother-in-law. The share of voice in media is very high for Fizzy, but it has been a concern that the product ratings are not up to the exact quality specifications as some of the other top level players in the industry.