

Name:
Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
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Course: Brand Management
Program: BBA (EPRCC)
Course Code: MKTG1005

Semester: I
Time: 03 hrs.
Marks: 100

SECTION A
(30 marks)

- 1. There are MCQs in this section. All are compulsory.**
2. Instruction: Choose the correct answer.

Q.No	Question	Marks	CO
1	Marketers need to position their brands undoubtedly in target customers' minds. The strongest brands go beyond characteristics or benefit positioning. They are put based on which of the following? a. Desirable benefit b. Good packaging c. Strong beliefs and values d. Service inseparability	5	CO-1
2	_____ are experienced by brands because of failures and uncertain trade practices that may increase costs and liabilities. a. Brand assets b. Brand liabilities c. Brand equities d. Market failures	5	CO-2
3	Choosing an appropriate international brand name is an important, but often challenging, part of the process that creates a strong and distinctive brand. Which of the following statements about choosing a name for new software is UNTRUE? a. The name should be memorable and easy to pronounce b. The name must be checked by experts to ensure it doesn't infringe on another company's brand name c. The name should have positive associations with the benefits and features of the product d. The brand name must be modern and contemporary	5	CO-3
4	An FMCG marketer is scheduled to launch an existing brand name into a new product category. Which brand development strategy is being applied? a. Line extension b. Multi-brand c. Brand extension d. Rebranding	5	CO-3

5	<p>While determining stages of preferences of consumers concerning the criterion, most consumers give importance to the brand due to its:</p> <ol style="list-style-type: none"> a. Customer service b. Consistent performance c. Price value relationship d. Accessibility 	5	CO-2
6	<p>Which tactic should a brand manager implement to see the position of a brand stands in terms of consumer perceptions?</p> <ol style="list-style-type: none"> a. Compare two or three brands b. Analyze the market segmentation c. Select the potential target markets d. Understanding customer's needs 	5	CO-1

SECTION B
(70 Marks)

In this section, there is ONE Case Study. It is compulsory.

Q.No	Discuss the given Case Study by giving the answers to all the questions (a-e)	CO	
7.	<p>(a) By giving a brief introduction of the case, describe the occurrences taking place in it. Also, recognize the key personnel who are facing the challenges in the operation of the organization.</p>	10 marks	CO-3
	<p>(b) Define the business problems being-faced by the key officials in the case. Also, discuss the short-term and long-term problems.</p>	15 marks	CO-3
	<p>(c) Illustrate the reasons of the problem. Also, explain, in detail, the identified problems as well as apply relevant theories and models, if applicable, from the text and/or readings.</p>	15 marks	CO-4
	<p>(d) Calculate the identified decision criteria against which you evaluate alternative solutions. In addition, compare the possible alternative solutions along with the appropriate pros and cons of each alternative.</p>	15 marks	CO-4
	<p>(e) Apply the solution and implementation for the problems and causes identified in the case. Also, discuss why this recommended plan of action is the best and why it would work. Remember the “who”, “what”, “when”, and “how” in your recommended plan of action.</p>	15 marks	CO-4

CASE STUDY

FUTURE GROUP - BRANDING PRIVATE LABELS

R.Chandrasekhar wrote this case under the supervision of Professor Niraj Dawar solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In July 2010, Santosh Desai, brand advisor, Future Group, an INR99.1 billion¹ Indian retail conglomerate based in Mumbai, India, was thinking of the next steps in the development of the group's private labels. The four principal retail businesses of the group's flagship retail company, Pantaloon Retail India Ltd. (PRIL) were fashion, foods, general merchandise and home improvement. Private labels accounted for 75 per cent of the total revenues of PRIL, which stood at INR60.2 billion for the year ending June 2010 (see Exhibit 1).

The fashion business, consisting of ready-made garments, generated 80 per cent of its revenues from private labels; the foods business, 30 per cent of its revenues from private labels; and general merchandise and home improvement businesses, 10 and 15 per cent respectively.

Desai's immediate focus was on the foods business, which, in his plan, was to become a testing ground for a new strategic initiative in private labels. The group had set a target of securing revenues of INR100 billion from private labels alone, from all businesses together, by 2015.

Said Desai:

The model of private-label growth in our fashion business has been to position the store on low price, and leverage this equity across various categories. It is an operations-driven model in which we pass on our reduced costs. It is, typically, a tightrope walk. But as long as you are getting cheaper sourcing and fast throughput, you are managing the store brand and the private labels well. You are on track.

But what we are now planning with the foods business is to delink private labels from the store brand. We will make our private-label brands available to the consumer through other retailers. We call this approach "private brands." It opens up a new source of business and increases our economies of scale. Obviously, it raises questions within the

¹ INR46.34 equaled US\$1 in July 2010.

company. What is the effect on consumer loyalty to our stores? Will it build traffic or cannibalize it? Is it sustainable? Will it pan out as we see it? Instead of simplifying the way we do business, are we adding to the prevailing complexity in retail? Is Future Group biting off more than it can chew?²

The objective of the initiative was to move the Future Group from the value proposition “Buy our private labels because we are cheap” to that of “Buy our private brands because they are the best.” By using this strategy, a store brand would no longer need to deploy the only weapon it had known to date—its low price. The store brand would, however, need to carve out its own market space, on the basis of its own positioning.

PANTALOON RETAIL INDIA LTD.

The forays of Pantaloon Retail India Ltd. (PRIL) into private labels in the foods business had gathered momentum in mid-2007, when the company conflicted with the Indian operations of PepsiCo Inc. (PepsiCo), an American beverages and foods company, regarding the commercial terms of PepsiCo’s Frito-Lay range of snack foods. PRIL decided to hold off stocking Frito-Lay products on its shelves, replacing them with Bingo products, an equivalent snack-food line from ITC Ltd., an Indian consumer packaged goods (CPG) company. Simultaneously, PRIL forged supply relationships with local manufacturers to develop a private-label alternative in the ready-to-eat snack category. Called “Tasty Treat,” the private label caught on with consumers within weeks of launch.

During the next two years, PRIL extended Tasty Treat into 19 food categories, including cookies, wafers, soups, pickles and soft drinks. Zeroing in on “indulgence” as the brand’s core attribute, these categories aimed to fulfill the cravings of modern consumers for “unabashed pleasure pursuits.” The products in each category had been carefully selected to meet the needs of the modern shopper looking for value deals across products. No other national brand served so many different categories under one brand. The wide portfolio of Tasty Treat enabled bundling options and cross-promotions, enhancing PRIL’s retail value proposition for the shopper. PRIL recognized that it had uncovered a powerful market lever.

The idea of a private brand had begun to evolve by early 2010, by which time Tasty Treat had become a winner for the retail chain, by growing 50 per cent, in revenues, year on year. With a finely tuned private-labels strategy in place, PRIL began seriously considering the launch of a series of private brands. Four new private brands were initiated: Fresh and Pure, Golden Harvest, Punya and Ektaa, each covering a distinct range of product categories. Fresh and Pure was to be the first line launched. The other three were scheduled for launch before the end of the year.

Unlike its branded competitors, the primary advertising vehicle for Tasty Treat was in-store media. The marketing initiatives included free sampling (particularly for dry foods), food counters (where snacks unique to each store location were served), one-to-ones (where the sales staff would speak to customers about the luxury element of Tasty Treat categories) and bundling (where a Tasty Treat snack would be offered with a premium beverage which was sold at a discount). In-store promotions were as strategic to PRIL as TV advertising was to other manufacturers’ brands.

The rationale for Fresh and Pure, which was launched across 16 categories, was that most food items bought by consumers were far removed from their original sources. Products such as food grains were

² Based on an interview with the case anchor in New Delhi on June 7, 2010.

replete with external fortifications, including flavoring, coloring agents, polishing, genetic modifications and preservatives. Fresh and Pure categories were built on the premise of restoring the origins of the source by offering them in their original “uneven, coarse and grainy” form. Their appeal was in connecting with “nature unhusked” (see Exhibit 2).

In the near term, Desai had aimed to launch one new private brand every quarter. Each brand would span several categories. Each product in a category would be available to consumers at the company’s stores in multiple formats and multiple price points and, crucially, in stores that purchased their food supply from PRIL. The private brands were to be owned and managed by Future Brands, which had been set up as a subsidiary of PRIL.

INDIAN RETAILING

The Indian retail market was worth approximately US\$450 billion in 2009, according to estimates made by Northbridge Capital (see Exhibit 3), and was growing at 30 per cent a year. The retail trade was fragmented: India had the highest number of retail outlets per capita in the world, at approximately 12 million serving a total population of 1.3 billion. The vast majority of these outlets were small mom-and-pop establishments. Most did not have access to institutional financing. Driven by entrepreneurial zeal, they leveraged personal relationships with vendors and customers to maintain working capital and stay in business.

“Organized” retail, at 14 per cent of the total Indian retail market in 2009, was valued at approximately US\$63 billion. This category consisted of Indian enterprises, large and small, and foreign retailers, such as Adidas in footwear, Louis Vuitton in fashion, MacDonal’s in fast foods and Starbucks in coffee. The organized retailers monitored the retail metrics of footfalls, sales per square foot and average ticket size.

The government of India had allowed 100 per cent foreign ownership in the wholesale cash-and-carry business, but not in the consumer-facing retail market. Wal-Mart Inc. of the United States, Carrefour of France, Metro AG of Germany and Tesco plc of the United Kingdom had set up wholesale operations, in anticipation of the loosening of the foreign ownership rules in the Indian retail market.

The Indian retail landscape was being transformed as rapidly as the broader economy. Shopping malls, single-brand stores, fast-food restaurants and standalone hypermarkets were mushrooming. Formats that had taken several decades to evolve in the retail environment of the United States and Europe were appearing simultaneously in India, in a compressed time frame, driven by three forces: changing demographics, upward migration of income and easy credit.

Changing Demographics

As a country, India had the second highest population in the world; but, against the backdrop of an ageing world, it had a largely young population. Just over half the Indian population was under age 25 in 2005 (see Exhibit 4). Young customers had a high propensity to consume. They had little time to prepare food because their daily priorities were different. They preferred to purchase ready-to-cook or ready-to-eat packaged foods.

Upward Migration of Income

India had 207 million households, of which 22 million were considered “rich” with annual incomes of more than INR180,000. Fifty million households were in the consuming class with earnings between INR90,000 and 180,000. The middle income class, or the real consumers, comprised 30 per cent of the Indian population. In addition to having progressively higher incomes, this large, and growing, consumer class was also witnessing a shift in attitude from saving to spending.

Easy Credit

Indian consumers had been under-leveraged for decades, financing many of their purchases through cash payments. During the mid-1990s, banks, led by Citibank, began promoting credit cards, car loans and home loans. Because interest rates were stabilizing, consumer credit was expected to grow, providing an impetus to both consumer spending and the growth of organized retail. Penetration of credit cards was still low, at 18 to 20 cards per 1,000, pointing to a major opportunity for expansion.

The Indian retail sector remained fragmented. PRIL, the largest (based on revenues) among retailers listed on the country’s stock exchange, had a national market share of only 0.3 per cent in 2009.

FOODS RETAILING

Relative to other segments of retailing, food retailing was not severely affected by business cycles, but it was a highly competitive arena. Competing for consumers were millions of mom-and-pop shops and more than 1,800 organized grocery chains of varying size. The number of organized chains was forecast to increase to 3,000 by 2011, before any consolidation could be foreseen. Even so, considerable churn was evident among players in the food retail category. Many stores had closed after having opened with great fanfare, due mostly to overly optimistic projections, lack of scale and high fixed costs (such as rental expenses and interest payments).

The most recent closure was that of Wadhwan Food Retail’s 45-store food and grocery chain, called Spinach. Even Reliance Industries Ltd. had closed 25 of its Reliance Fresh stores soon after launching them as part of the company’s restructuring. Foodland Fresh, a Mumbai-based neighborhood food and grocery retail chain, had closed 42 stores in early 2009. Indiabulls, an investment firm that had acquired convenience-grocery stores called Trumart from Pyramid Retail in December 2007, was switching to a wholesale model. The largest closure was in early 2009, Subhiksha’s 1,600 stores that had sold fast-moving consumer goods and fresh products.

PRIVATE LABELS

PRIL was launching private brands in India’s foods and beverages market space, which had been valued at US\$12.5 billion in 2009 (see Exhibit 3). PRIL had to contend with seven major players with deep pockets (see Exhibit 5), both local and overseas.

Worldwide

By 2005, global retailers had consolidated, and each of the top five companies was bigger than any of its suppliers, the branded goods manufacturers. For example, Nestlé, the largest CPG manufacturer, had revenues of US\$75 billion in 2005.³ Wal-Mart's revenues amounted to US\$316 billion that year.⁴ Size and global scale had provided retailers with negotiating power when dealing with brand manufacturers. Size had also provided them the scale to establish their own private labels. Scale was crucial because developing a private-label brand involved large fixed costs, mostly in brand building, which could be recouped only through large-volume sales. In 2008, Wal-Mart generated US\$153 million in sales from its private labels, equivalent to 40 per cent of its total sales.⁵

During the 1980s, private labels were beginning to catch on with consumers in the United States and in Europe. At that time, private labels were synonymous with discount and price brands and were prevalent in mature product categories characterized by little product innovation. More recently, private labels had begun to penetrate fast-churn categories such as books, music and financial services. Some retailers offered only private labels: Gap, H&M, Toys R Us, Zara and IKEA.

Now, with slow growth in the developed markets, the battleground between private labels and manufacturer brands was shifting to the emerging economies, such as India and China. Tesco was planning to launch 500 private-label value products through its joint venture operation in China, including introducing its own brand of noodles to Chinese consumers.⁶

India

Scale was beginning to have an influence among the largest retailers, even in India's fragmented market. For example, the revenues of Marico Ltd., a leading brand manufacturer based in Mumbai, were INR22,510 million for the year ending March 2009. The revenues of PRIL for the same year were twice as much, at INR50,527 million. PRIL carried clout in negotiating trade terms with manufacturers, and some of that clout came from its private labels.

Private labels in Indian retail were following one of two common models: either the store brand as an umbrella private label, covering many product categories, or the store brand as distinct from in-store brands in each category.⁷ With the former model, the store brand — and not the brands within the store — drove consumers to the store. Wal-Mart of the United States and Loblaws of Canada were examples of the power of store brand. Most consumers could neither articulate the value of the brands in the store, nor even remember them. But they identified with the store as a brand. PRIL fell into this category.

Trent, a retail establishment belonging to the house of Tatas, had the maximum penetration of 90 per cent into private labels among Indian retailers (see exhibit 10).

³ www.nestle.com 2005 Financial Statements for 2005, p. 5 (91.075 Swiss francs converted to US\$ @1.21CHF to a \$

⁴ www.walmart.com. annual report for year ending January 2006, p. 20.

⁵ "Global Analysis," *Private Label*, November/December 2009, available at <http://www.privatelabelmag.com/issues/pl-nov-2009/global-analysis.cfm>, accessed December 14, 2010.

⁶ Keith Lincoln and Lars Thomassen, *How to Succeed at Retail: Winning Case Studies and Strategies for Retailers and Brands*, Kogan Page, London and Philadelphia, 2007, pages 16–17.

⁷ "Can Private Labels Become Real Brands?" *Outlook Business*, February 8–21, 2009.

FUTURE GROUP – BACKGROUND

Future Group was one of India's leading enterprises, with multiple businesses covering what it called the "consumption space." Retail was the core activity of the group, which also had subsidiaries focused on related businesses, including consumer finance, insurance, entertainment, real estate, brand development, media and logistics (see Exhibit 6).

The group's flagship enterprise, PRIL, employed approximately 30,000 people nationwide. PRIL was listed on the Mumbai Stock Exchange. The company followed a multi-format retail strategy by straddling the entire spectrum of Indian consumption. It was present in both the value and lifestyle segments, touching the lives of more than 200 million Indian consumers every day.

PRIL had revenues of INR59.34 billion and net profit of INR1.79 billion for the year ending June 2010. The profit ratio of 3.02 per cent compared with that of 3.51 per cent for Wal-Mart, which had revenues of US\$408.21 billion and net profit of US\$14.33 billion for the year ending January 2010.⁸

History

The Future Group was founded in 1986 by Kishore Biyani, a freshly minted university graduate with entrepreneurial ambitions, when he set up a yarn-manufacturing plant, at Tarapur, 90 km (55 miles) north of Mumbai. The product was targeted at garment exporters, but, within a year, the company had diversified into manufacturing apparel for the domestic market. The common Indian practice of having clothes stitched by a tailor house was giving way to buying ready-made clothing. Fabric was moving into the realm of fashion, bringing with it new growth opportunities. The apparel segment was highly fragmented, which left room to build a brand.

Biyani set up a new facility at Tarapur to manufacture trousers for sale through various multi-brand retail outlets in Mumbai. He called the trouser brand Pantaloons. In a departure from convention, he spent half of the business's first-year revenues on advertising the brand.

As production was ramped up, Biyani adopted a franchising model for distribution, to achieve a brand presence at the retail level. He secured exclusive distribution arrangements with 72 stores in 40 cities. Renamed Pantaloon Shoppe, each store was positioned as a one-stop destination for men's apparel and accessories. Each store developed its own direct-selling model, hiring students to work part-time, selling the products in apartment blocks and office buildings. This retail model helped to increase not only revenues but also brand awareness. In yet another departure, Pantaloon Shoppe capitalized its brand-building advertising expenses, enabling the company to leverage its assets to mobilize additional finance. In May 1992, the company listed on the Mumbai Stock Exchange to raise INR22.5 million.

Department Stores

By 1996, the franchising model had developed cracks. The franchisees were independent shop owners working on a commission basis. They owned and managed the store, while PRIL, as the listed company was known, owned the inventory. Franchisees were keen to improve their short-term revenues and less interested in investing in the Pantaloon brand or building long-term relationships with customers under the

⁸ Wal-Mart Annual Report 2010, page 30, available at <http://investors.walmartstores.com/phoenix.zhtml?c=112761&p=irol-irhome>, accessed December 14, 2010.

Pantaloons name. The stores also lacked standardization in terms of their merchandising and customer service practices. In a decisive move that would redefine the company, the company dispensed with the franchising model and opened its own department store. At the time, Indian department stores averaged 4,000 square feet. The company's first Pantaloons department store was an 8,000-square-foot store in the eastern Indian city of Kolkatta, opened in August 1997. It was the first department store in India targeting the Indian middle- and upper-class customers across age and gender. The store offered apparel and accessories for men, Western and traditional wear for women and children's clothes.

The store had budgeted for sales revenue of INR70 million in the first year, but achieved INR100 million in less than a year. Over the next two years, 13 Pantaloons stores were opened in eight cities. Recognizing that the Indian market was under-retailed, the founder set out to capture a larger role in Indian retailing.⁹

Unlike other retail chains, Pantaloons offered mostly its own brands. It quickly saw three competitive advantages with private labels. Pantaloons could spot fashion trends and reorient its offerings faster than its peers. It could control the fashion cycle better because the company was in direct touch with its customers. It could keep prices lower because manufacturing at its own facility helped reduce costs.

Pantaloons initially carried the tagline "Where India Shops for Value," but to better target young and upwardly mobile customers, it soon changed its tag line to "Fast Fashion." The objective was to appeal to customers on two winsome retail propositions — being contemporary and offering value.

Hypermarkets

In September 2001, the Future Group launched Big Bazaar, a hypermarket store, in three cities: Bangalore, Hyderabad and Kolkatta. The store offered general merchandise, including apparel. Its tagline — the local equivalent of "Cheaper and better than this? Nowhere else!" — caught the imagination of Indian consumers.

Big Bazaar sold approximately 200,000 items at discounts ranging from 6 per cent to 60 per cent of market prices. The products sold included groceries and packaged foods, some of which were also made available in a stand-alone format called Food Bazaar. Food Bazaar (and Big Bazaar) turned several traditional norms of Indian retail upside down. Historically, Indians would not buy grocery items at the same store as they would buy, say, footwear; nor would they buy them during the same visit. Big Bazaar's attractive prices and one-stop convenience eliminated those long-standing inhibitions. In addition, by attracting customers from several socio-economic strata to the same shopping destination, Big Bazaar set a new trend: it became a social leveler.

The Big Bazaar format also accommodated unique Indian shopping habits.

- A typical Indian shopper would enter and exit a store several times during a single visit. Big Bazaar, therefore, had a provision to seal the shopping bags at checkout counters to allow multiple in-and-out trips.
- Indians shopped as a family. Long and narrow aisles, characterized by linear movements of customers, were not suited to Indian shopping habits. To accommodate Indian families, Big Bazaar displayed its merchandise in clusters. Its U-shaped sections, which facilitated seamless, rather than linear, movements across categories, increased the footfalls.

⁹ www.businessworld.in/magazine/archives/ M. Rajshkhar, "Kishore Biyani: The Man They Wrote Off," *BusinessWorld*, June 14, 2004.

- Indians liked to touch products, particularly loose, unpacked food grain, to assess quality before deciding to buy it. Big Bazaar stores were designed to offer, together with packaged goods fare, loose, self-serve grains that consumer could touch.
- Indians were prone to preserve products even those that outlived their utility. Big Bazaar offered a trade-in program whereby customers could bring anything in, have it weighed and exchange it for coupons redeemable at the store. Big Bazaar, in turn, sold the collected materials to the scavengers that made up part of a recycling chain. But the real value of exchanges was that they translated into higher spending at the store by customers.
- The typical Big Bazaar consisted of multiple floors and multiple clusters on each floor. It was different from a conventional hypermarket, which was designed on the big-box format, on a single floor, with merchandise stacked on high racks.
- Big Bazaar was also situated within a city rather than outside a city. It was located close to a transportation hub, such as a bus terminus, which was an important factor in a country where a majority of customers did not own cars.
- Traditionally, Indian households would buy a month's supply of wheat grain, have it ground in designated centers (known in local parlance as *chakkis*) and use fresh wheat flour to make unleavened flatbreads (known as *chapatis*). Food Bazaar created a one-stop experience with a designated station in each store to grind the wheat purchased in the store. The salesperson at the station would also educate the customer about the merits of the packaged wheat flour available in the store.

As of July 2010, PRIL operated a total of 190 Food Bazaar stores, of which 26 had been opened in the 2009 financial year alone.

Strategy

PRIL, having recognized that Indian retailing was set to balloon, enlisted the help of McKinsey & Co. in 2007 to map out the size of the opportunity and the addressable market in each category. The study identified the value of what it called the "consumption economy" of India at US\$350 billion in 2008, adding that it would grow at approximately 12 per cent per year. That was an under-estimate. The consumption economy grew at 30 per cent per annum and reached US\$450 billion in 2009. PRIL set a target of having 30 million square feet of retail space by 2011, aiming to capture value in each segment of the consumption economy (see Exhibits 7, 8 and 9) and, wherever possible, to be the first to do so.

PRIL's vision was to "provide everything, everywhere, every time to the Indian consumer." In practice, this vision meant that the group would address all segments of the Indian retail market, while remaining flexible on the format.

To focus its resources, PRIL followed what it called its "eight-city strategy." Sixty per cent of its stores were located in the eight cities where the largest share of addressable consumption markets resided: Ahmedabad, Bangalore, Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune. Of the remaining 40 per cent of its stores, 25 per cent were located in Tier II cities and the remaining 15 per cent in Tier III cities and smaller towns. PRIL was also focused, in a similar way, on four core categories: fashion, food, general merchandise and home improvement because these categories comprised 70 per cent share of the consumer wallet.¹⁰

¹⁰ Pantaloon Retail India Limited, "Annual Results Conference Call for the Full Year Ended June 30, 2009," September 26, 2009, available at http://www.pantaloonretail.in/Transcript_Annual_Results_Conference_Call_26th_September_2009.pdf, accessed May 25, 2010.

The company's strategic intent on private labels, as outlined in an initial public offering (IPO) document in May 1992, was as follows:

We continuously focus on enhancing the depth and width of our merchandise offering. Our Private Label and brands initiative is part of such focus and offers us a differentiating factor as compared to our competition and at the same time helps us enhance margins. Our brands help us offer better value propositions to the customers as well opportunity to buy aspirational products. We intend to make our private labels mass product brands.¹¹

Customer Segmentation

The most widely used consumer classification system in India was the household-level Socio-Economic Classification (SEC) developed by the Market Research Society of India. Urban households were classified according to occupation and education of the head of the household, known as the chief wage earner (see Exhibit 11).

PRIL's target customers were those in SEC A1, A2 and B2 categories.

The Future Group had its own interpretation of customer segmentation.¹²

We divide India into three sets — India One, India Two and India Three. These groups can be understood as the consuming class, the serving class and the struggling class. Our studies show that India One, or the consuming class, constitutes only 14 per cent of the country's population. Until recently, all modern retail formats, including Big Bazaar, were attracting customers mostly from this segment. Most of these customers have a substantial disposable income and form part of what are usually called the upper middle class and the lower middle class.

India Two, or the serving class, includes people like drivers, household help, office peons, liftmen, washermen and others. They are the people who make life easier and more comfortable for the consuming class. For every person in India One, there are at least three people in India Two, making up almost 55 per cent of the population. But India One does not pay India Two too well. While their numbers are huge, people in India Two still have very little disposable income to spend on aspirational products and services.

Then there is the struggling class, or India Three, which lives a hand-to-mouth existence and cannot even aspire to a better living standard. Unfortunately, this segment will continue to be on the periphery of the consumption cycle in India for quite a few years to come. Their needs cannot be addressed by the existing business models.

Even though India Two may be buying some of the same products that India One consumes, albeit in smaller quantities, they rarely visit the modern retail chains or malls. For them, the clean and shiny environment of modern retail stores creates the perception that such stores are too expensive and exclusive and are, therefore, not meant for them.

¹¹ *Pantaloon Retail IPO document.*

¹² *Kishore Biyani, "It Happened in India — The Story of Pantaloons, Big Bazaar, Central and the Great Indian Consumer," Rupa & Co., New Delhi, 2007.*

India Two feels alienated in environments frequented by India One. It is probably a unique Indian phenomenon.

Competitive Advantages

Kishore Biyani, the founder of Future Group was a hands-on entrepreneur who had developed a team of results-oriented managers at various levels. In a break from retail tradition, not only in India but globally, the company had hired some of its store managers from among chartered accountants. With an eye for numbers, these managers could monitor and deal effectively with critical retail metrics, such as inventory turnaround.

PRIL's logistics were capable of delivering goods to any of its stores within 24 hours of an auto-replenishment order. Eighty per cent of the stock keeping units (SKUs) were covered by the auto replenishment system (ARS). The company had 21 distribution centers, covering 700,000 square feet, handling more than 250,000 SKUs. These distribution centers were designed to be able to scale up to meet growth requirements as the number of stores grew.

The company's loyalty program was called Green Card. As of June 2010, this program consisted of a community of 1.8 million frequent shoppers, who were generating more than 55 per cent of the retail chain's revenues.¹³ The members of the program were eligible for discounts, invitations to special events, updates on promotions, extended exchange periods and exclusive checkouts.

Said Desai:

I think our single largest area of expertise, our core competence, if you will, is our understanding of the Indian consumer. This understanding is both intuitive and data-driven. We develop insights and build them into our offerings regularly. Consider the new private brand in the staples category, which we will be launching soon, called Ektaa. The idea came out of our community mapping exercise. Each of the eight major communities in the country, like the Punjabis, for example, consumes foods which are unique to it. We found that for every store, no more than three communities account for 75 per cent of its regular customers. Mumbai is the only exception because it is a cosmopolitan city. Each community is a niche market individually, but overall it is big for us. Ektaa is packaged and designed to attract specific communities and is tailored to particular eating habits. It will cover 35 products at launch, going up to 100 soon.¹⁴

PRIL had a designated market research and customer insight group that tracked local customs, festivals, habits and consumption patterns in order to develop customized products. The company was tracking several performance parameters (see Exhibit 12).

¹³ <http://www.pantaloonretail.in/aryr10.asp> Pantaloon Retail India Ltd., *Annual Report 2009/10*, p. 18, accessed May 17, 2010.

¹⁴ Based on an interview with the case anchor in New Delhi on June 7, 2010.

Supply Chain

The company had a well-established manufacturing base for apparel, both its own and captive units, whose capacities were dedicated to its requirements. The supply-chain management comprised teams looking after vendor management, factory outlets, warehousing, transport and central procurement.

The company's sourcing for all other categories was dependent entirely on what it called "consolidators." The consolidators knew the intricacies of a category, having grown with the particular trade for years, often decades. PRIL gave the consolidators a broad matrix of the products it wanted, the targeted cost price for each and the margins it expected. Based on these data, the consolidators purchased goods on PRIL's behalf and earned commission on the supplies. In addition to procurement, the consolidators were responsible for warehousing and transportation. The entire back end was handled by them, enabling PRIL to focus on the front end. It was not involved in any of the supply side intricacies.

For small-ticket categories that the company needed to offer in order to complete its assortment (e.g., optical, pharmacy, books, tailoring and crockery), PRIL set up a relationship with strong local retailers and offered them space within the stores for a fee.

Said Desai:

The supply side of the equation is in place. We only need to scale up. We can do so without making major financial investments of our own. The challenge is to ensure that our suppliers grow as fast as we grow. There is value we can keep mining there. The costs of operations are lower for us than for manufacturer brands because we are not involved with the back end. Supply chain issues, which are big for manufacturer brands, are relatively downstream issues for us. Our costs continue to decline as we launch new brands, giving us a competitive advantage.

The costs at even the front end are lower for us because we have the stores, we have the footfalls, and we have a live testing environment where our finger is always on the pulse of the market. We are close to the customer. We can take quick decisions about brand launches and make mid-course corrections. It is a big advantage.¹⁵

According to Atulit Saxena, chief operations officer, Brands, Future Brands, the approach to private brands at PRIL was based on two premises:

Borrowing from the well known Rule of Three, our private brands should be in top three brands in each category along with leading national brand. By design, private labels need not lead the category share but gain a dominant share along with the category leader. We see ourselves as a specialist player on a national scale in the Indian foods category. That differentiates us from both brand manufacturers and regional players. The second is the concept of Culture Codes where a consumer's taste buds of a lifetime are known to be shaped by the experiences during the first seven years of childhood. Once we crack what we call the local Taste Codes, which are unique to each community and each region where it is located, it becomes easier to build products around them. It also becomes easier to build consumer loyalty to the brand, irrespective of where it is sold. Brand manufacturers will not get into these categories because the scale may be too small for

¹⁵ Based on an interview with the case anchor in New Delhi on June 7, 2010.

them and they cannot handle the segmentation. Regional players may not get into them because the scale is too high for them and they cannot handle the logistics.¹⁶

The foods market in India had several brand manufacturers that dominated various categories. These included both local and global manufacturers, such as Nestlé, Britannia, Hindustan Unilever, ITC and Parle Agro. PRIL was aiming for an upper-middle place in the pecking order, rather than leadership of the category. PRIL retailed many national brands at its various stores and thus had insights into those brands' margins, which would give it an advantage in determining the prices of its own private brands.

The company was clear that it would not proliferate private brands. It would limit its portfolio to a few master brands, as it would call them. For example, *Punya* would be a master brand encompassing seemingly disparate categories related to a health proposition. *Fresh and Pure* would be a master brand connecting categories whose common factor would be evoking nostalgia for a life that was less manufactured in a world that was becoming increasingly synthetic. *Tasty Treat* would cater to the craving for the pleasure of the palate.

ISSUES IN JULY 2010

Desai reviewed the reasons why PRIL should take the private-branding approach.

- India was a developing market. It offered scope for retailers to build new categories of consumption. Retailing was a fertile ground for launching new brands regularly. The best way to develop a category was through brands offering value propositions that consumers could relate to.
- Store brands provided better margins than manufactured brands. But private brands enabled premium pricing, increasing margins further. Private brands provided an opportunity for PRIL to move beyond the value-for-money proposition, in which it had been strongly rooted since inception, and to create a new source of value creation for the company.
- Retail in India was not at a steady state, as it was in the developed world (as seen from India). The current churn was likely to prevail for some time to come. A market leader such as PRIL was at the forefront of retail and vulnerable to competitive moves from newcomers. Its defensive stance would be to occupy niches and lock in customers with its private brands.
- PRIL was well positioned to proliferate brands. The relative costs of both the back end and front end were low. The company had a good supply chain in place with which to establish product prototypes without large investments. It had good retail processes with which to experiment with new brand concepts in a live laboratory, start a pilot, pull back if necessary or launch it enterprise-wide, without additional investments.

Said Desai:

We are well set with store brands in apparel, our traditional business, where the private-label contribution to revenue is about 80 per cent. Foods and groceries, where it is about 30 per cent, will be the focus area at PRIL during the next level of growth with private brands. There is also the much wider fast-moving consumer goods (FMCG)¹⁷ business. Unlike apparel and foods, there are sharply differentiated segments in FMCG making it amenable to new brand launches. Cosmetics, skin care, personal care are examples of businesses we could get into with private brands.¹⁸

¹⁶ Based on a personal interview on December 14, 2010.

¹⁷ The FMCG segment was known as the consumer packaged goods (CPG) business in North America.

¹⁸ Based on an interview with the case anchor in New Delhi on June 7, 2010.

Exhibit 1

FUTURE GROUP'S FINANCIAL INFORMATION, 2005–2010

Year ending June (in INR million)	2005	2006	2007	2008	2009	2010
CONSOLIDATED FINANCIALS						
Sales		19,337	34,685	58,405	76,690	97,869
Other Income		37	969	259	958	1,260
Total Income		19,374	35,654	58,664	77,648	99,129
Less:						
- Cost of goods sold		12,772	23,651	39,093	51,272	66,828
- Others		5,169	9,727	16,001	20,286	22,779
- Interest		390	1,001	2,235	4,185	4,934
- Depreciation		230	482	1,182	2,066	2,783
Profit before tax		813	793	(153)	(161)	1,805
Profit after tax		528	194	(615)	(75)	763
PANTALOON RETAIL INDIA LTD.						
Sales	10,528	18,690	32,367	50,489	63,420	59,344
Other income	30	30	920	38	61	846
Total income	10,558	18,720	33,287	50,527	63,481	60,190
Less:						
- Cost of goods sold	7,003	12,434	22,450	35,122	44,299	40,625
- Others	2,616	4,788	7,761	10,761	12,438	12,798
- Interest	274	369	897	1,853	3,182	2,882
- Depreciation	133	208	369	834	1,400	1,619
Profit before tax	532	921	1,810	1,957	2,162	2,266
Profit after tax	385	642	1,200	1,260	1,406	1,796

Source: Company annual reports. 2005 consolidated data not archived

Exhibit 2

FUTURE GROUP'S INITIAL LAUNCH OF PRIVATE BRANDS TASTY TREAT AND FRESH AND PURE

	Tasty Treat	Fresh and Pure
Launch Date	Mid-2007	March 2010
No of categories	19	16
Categories	<ul style="list-style-type: none"> • Carbonated soft drinks • Chinese noodles • Cookies • Corn flakes • Fruit juices • Instant noodles • Jams • Loose pickles • Macaroni • Namkeens • Papads • Pickles • Potato wafers • Powder concentrates • Ready mixes • Sauces • Vegetable soups • Vermicelli • Wafer biscuits 	<ul style="list-style-type: none"> • Atta • Butter • Cheese • CTC tea • Edible oils • Fruit-based juices • Ghee • Honey • Loose tea • Jaggery • Kharis • Soyabean oil • Packaged water • Mustard oil • Sunflower oil • Whole spices
Key categories	<ul style="list-style-type: none"> • Sauces (19.3%) • Fruit juices (14.6%) • Namkeens (13.1%) 	<ul style="list-style-type: none"> • Ghee (69%) • Loose tea (14%) • Juices (9.8%)
Brand Rationale	<ul style="list-style-type: none"> • Consumers should experience their sensory pleasures in a free and unfettered manner and without any feeling of guilt • Senses should precede logic and reasoning • An unending, almost narcissistic indulgence of the tongue 	<ul style="list-style-type: none"> • Most items of consumption are far removed from their original source • Their fortification has led to an artificial world that is polished, standardized and seemingly perfect • Restore life, which is less perfect, by offering nature's bounty in its pristine form
Brand Proposition	<ul style="list-style-type: none"> • Pursue pleasures unabashed 	<ul style="list-style-type: none"> • Re-acquaint with nature
Packaging	<ul style="list-style-type: none"> • Provide wide variety of snacking options • Address the needs of regional differences in taste • Avoid conflict with national brands by selling only larger family SKUs • Meet the need of modern shoppers looking for family-sized products 	<ul style="list-style-type: none"> • Encourage interactivity with products • Facilitate a sense of touch • Make products experiential • Provide transparent and porous packs • Display amid open samples • Use packaging to build a premium image for the brand

Note: CTC = Crush, Tear and Curl; SKUs = stock keeping units
Source: Company records

Exhibit 3

INDIAN RETAIL MARKET STATISTICS, 2009

Category	(in US\$ billions)		%	%
	Total Retail Sales	Organized Retail Sales	Market Share of Organized Retail	Penetration of Organized Retail
Food and beverages	333.0	12.5	20.0	3.7
Clothing and textiles	44.0	25.0	39.0	56.8
Consumer durables	22.5	12.5	20.0	55.5
Footwear	9.0	5.5	9.0	61.1
Books and music	4.5	2.0	3.0	44.4
Others	37.0	5.5	9.0	14.9
Total	450.0	63.0	100.0	

Source: Ankita Mangla, *India Retail Research April 2010*, Northbridge Capital, Mumbai 2010, p.3 of 61.

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Exhibit 4

NET GENERATION POPULATION BY COUNTRY, 2005

Country	Population under age 25 (in 000s)	Percentage of population under age 25	Growth in < 25 population since 1980 (%)
India	593,293	52	46
China	501,558	38	(9)
USA	105,246	35	11
Brazil	87,437	47	22
Mexico	50,986	49	14
Russia	46,209	32	(15)
Japan	31,846	25	(27)
Germany	21,655	26	(20)
France	19,029	31	(7)
UK	18,676	31	(10)
Spain	11,500	27	(27)
Canada	10,004	31	(4)

Note: Some countries like the US classified their ongoing demographic pool into four broad categories. The Baby Boom Generation consisted of those born between January 1946 and December 1964. The Generation X comprised those born between January 1965 and December 1976. The Net Generation - the focus of most youth marketing initiatives - consisted of those born between January 1977 and December 1997. The most current generation, born after January 1998, was called Generation Next.¹⁹

Source: United Nations Department of Economic and Social Affairs, "Population Division World Population Prospects: the 2006 revision"; and "World Urbanization Prospects: the 2005 revision," available at <http://esa.un.org.unpp>, accessed November 6, 2010.

¹⁹ Don Tapscott, "Grown up Digital - how the net generation is changing your world" McGraw-Hill 2009.

Exhibit 5

INDIAN GROCERY RETAILING – PRIL'S MAJOR COMPETITORS

	Promoter / Country	Year Established	Format	Offerings	Private Label Share %		Number of Stores		Strategic Focus
					Current	Future	Current	Future	
DOMESTIC									
Foodworld	RPG and Dairy Farm	1996	Supermarket	Grocery and vegetables	–	–	67	200	• Bringing no-frills brands from other Asian countries
More	Aditya Birla Group	2007	Supermarket	Fruits, grocery and vegetables	17	30	570	1,500	• Centralized merchandising
Reliance Fresh	Reliance Industries	2006	Convenience store	Fruits, staples and vegetables,	30	70	590	3,000	• Owning the value chain • A store each in 2-km radius, serving 1,000–2,000 families
Star Bazaar	Trent - Tata Group	2004	Hypermarket	Staples	30	60	7	50	• Sourcing products through the wholesaling arm of Tesco in India.
FOREIGN									
Metro AG	Germany	2003	B2B	Grocery, foods	NA	NA	6	30	• A cash-and-carry store in each of the 30 metros with a population of 1 million
Carrefour SA	France	1997	B2B	Grocery, foods	NA	NA	–	–	• Sourcing farm products for exports • Becoming to the grocery industry what IKEA is to furniture industry in private labels
			Hypermarket						
Wal-Mart Inc.	USA		B2B	Grocery, foods	15	30	2	15	• Local sourcing for local markets

Note: B2B = business-to-business; NA = not applicable. Current share refers to share of private labels in 2010. Future share refers to targeted share in future.

Source: http://www.morestore.com/media_coverage.html; Vishal Krishna "He Wants More," *BusinessWorld*, May 8, 2010, available at http://www.businessworld.in/bw/2010_05_08_He_Wants_More.html, accessed May 20, 2010; M. Ananda and Sunitha Natti, "Fresh and Small," *BusinessWorld*, November 12, 2009, available at <http://www.businessworld.in/index.php/Retail-FMCG/Fresh-and-Small.html>, accessed May 20, 2010; Jharna Mazumdar, "Reliance Retail to Focus on Private Labels Business," *livemint.com*, available at <http://www.livemint.com/2009/03/31224611/Reliance-Retail-to-focus-on-pr.html>, accessed May 20, 2010; Sujata Agrawal, "Big Is Bountiful, Tata Group, December 2009, available at <http://www.tata.com/company/Articles/inside.aspx?artid=j1MR0DsK8fc=>, accessed May 20, 2010; Sonia Phainikar, "Road to Indian Market Full of Potholes for German Retailer," May 11, 2006, available at <http://www.dw-world.de/dw/article/0,,2015510,00.html>, accessed November 15, 2010; Lilac, "Carrefour — All Set to Enter India," *garlicchop.com*, January 28, 2010, available at <http://www.garlicchop.com/business-finance/carrefour-all-set-to-enter-india/>, accessed November 12, 2010; "Carrefour's Switches Strategy to Focus on Private Label," *Store Brands Decisions*, available at <http://www.storebrandsdecisions.com/news/2010/09/21/carrefours-switches-strategy-to-focus-on-private-label>, accessed November 12, 2010; <http://www.indiaretailbiz.com/blog/2009/05/05/bhartis-easy-day-to-focus-on-value-retailing-add-new-private-labels-to-double-their-share-in-3-years-plans-new-stores-in-delhi-himachal-uttarakhand/>, accessed November 10, 2010.

Exhibit 6

FUTURE GROUP – RETAIL BUSINESSES

	Line of Business	Store Brands	Year Established	Average Store Size (in square feet)	Proposition	Private Labels	Number of Stores*
1	Fashion	Pantaloons Central Big Bazaar Fashion@Big Bazaar	1997 2004 2001 2007	25,000 125,000 50,000 15,000	Lifestyle Lifestyle Value Value	Annabelle, Lombard, John Miller, Knighthood, Bare, DJ&C, UMM, RIG, Mohena, Spunk, Buffalo, Srishti	49 13 136 6
2	Food	Food Bazaar KB FairPrice Food Right	2002 2007 2010	10,000	Value Value Value	Tasty Treat, Clean Mate, Care Mate, Fresh and Pure, Ektaa, Sach, Punya	190** 134 1
3	General Merchandise Books and Music	Big Bazaar Depot	2007	50,000 1,000–6,000	Value Lifestyle and Value	Dreamline	3
4	Health, Beauty and Wellness	Star & Sitara Beauty Secret Talwalkars	2007 2007 2007	1,000–2,500	Value		9 2 6
5	Communications	Gen M M Port M Bazaar	2007 2007 2007	500–1,000 1,500–2,000 250–500	Lifestyle Lifestyle Value		2 15 9
6	Consumer Electronics and Appliances	E Zone	2007	12,500	Lifestyle	Koryo, Sensei	36
7	Furniture, Furnishings and Accents	Collection 1	2007	10,000	Lifestyle	IQIP, Dreamline	7
8	Home Improvement	Home Town	2007	125,000	Lifestyle and Value		10

Exhibit 6 (continued)

9	Leisure and Entertainment	Bowling Company	2005	30,000	Lifestyle		1
		F123-Arcade	2005	7,000–20,000	Lifestyle		14
		Sports Bar	2005	2,500	Lifestyle		4
		Sportsbar Express	2005				5
10	Footwear	Shoe Factory	2007	6,000–15,000	Value		7
11	Fashion and Sportswear	Planet Sports	2005		Lifestyle	Ajile	46
		Sports Warehouse	2006		Lifestyle	Spunk	5
		Puma	2007		Lifestyle		9
		Converse	2008		Lifestyle		3
		Adidas	2006		Lifestyle		10
12	Office Supplies & Stationery	Staples	2007		Lifestyle and Value		10
13	Other Fashion	Indus League	2005		Lifestyle and Value		80
		Celio	2008		Lifestyle		14
		Holii	2009		Lifestyle		5
14	Other Food	Aadhaar	2008		Value		50
			Total				891

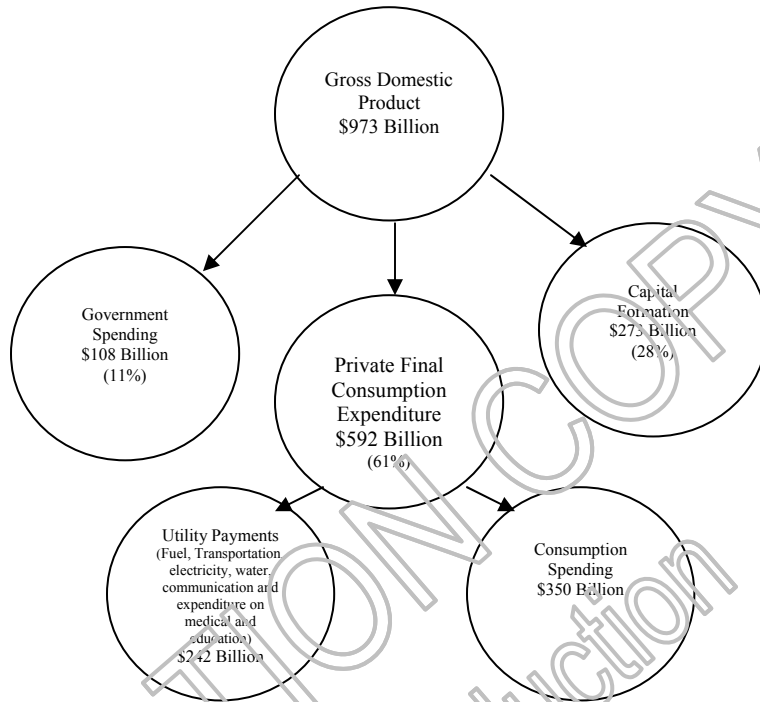
* Stand-alone stores as of October 4, 2010.

** Food Bazaar stores include stand-alone stores and stores operating inside Big Bazaar, Pantaloons, Central and Brand Factory stores.

Source: Company newsletter.

Exhibit 7

INDIA'S GROSS DOMESTIC PRODUCT PATTERN



Source: Pantaloon Retail (India) Ltd 2007/08, annual report, p. 7.

Exhibit 8

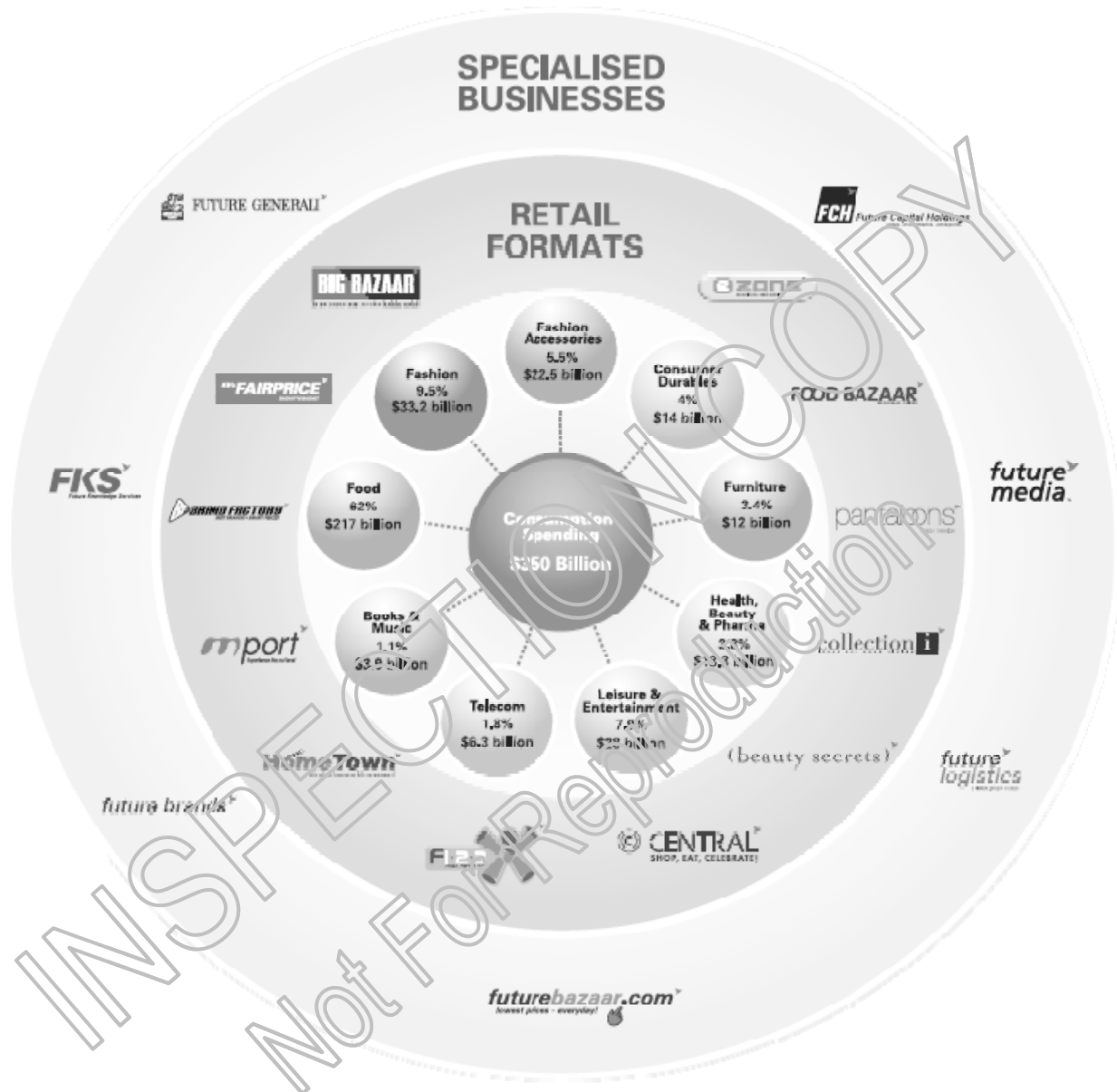
INDIA'S CONSUMPTION PATTERNS



Source: Pantaloon Retail (India) Ltd 2007/08, annual report, p. 7.

Exhibit 9

FUTURE GROUP – VERTICALS IN INDIAN CONSUMPTION SPACE



Source: Future Group 2007/08 annual report.

Exhibit 10

INDIAN RETAILERS BY PRIVATE-LABEL PENETRATION 2008

	Retailer	Private Label Sales as % of Total Sales
1	Trent	90
2	Reliance	80
3	Pantaloon	75
4	Nilgiris	38
5	India Bulls/Pyramid	30
6	Foodworld	22
7	Shoppers Stop	20
8	Subhiksha	19
9	Spencers	10
10	Ebony	10

Source: KPMG, "Indian Retail: Time to Change Lanes," *India Report 2009*, KPMG Mumbai 2009, p. 26.

Exhibit 11

INDIA'S SOCIO-ECONOMIC CLASSIFICATION (SEC) - URBAN

Education/occupation of the chief wage earner in a household	Illiterate	Up to Grade 4	Grade 5-9	Grade 10	Pre-University	Grad/PG (General)	Grad/PG (Professional)
Unskilled workers	E2	E2	E1	D	D	D	D
Skilled workers	E2	E1	D	C	C	B2	B2
Petty traders	E2	D	D	C	C	B2	B2
Shop owners	D	D	C	B2	B1	A2	A2
Entrepreneurs (Nil employees)	D	C	B2	B1	A2	A2	A1
Entrepreneurs (< 10 employees)	C	B2	B2	B1	A2	A1	A1
Entrepreneurs (> 10 employees)	B1	B1	A2	A2	A1	A1	A1
Self-employed professionals	D	D	D	B2	B1	A2	A1
Clerical/Salesmen	D	D	D	C	B2	B1	B1
Supervisory level	D	D	C	C	B2	B1	A2
Officers/Executives (Junior)	C	C	C	B2	B1	A2	A2
Officers/Executives (Mid and Senior)	B1	B1	B1	B1	A2	A1	A1

Note: Socio-economic classification (SEC) indicates the affluence level of a household to which an individual belongs. The SEC of an urban household is defined by the education and occupation of the chief wage earner of a household and has eight categories rated in descending order of affluence: A1, A2, B1, B2, C, D, E1 and E2.

Source: Market Research Society of India

Exhibit 12

PANTALOON RETAIL INDIA LTD. PERFORMANCE INDICES, 2006–2010

Year ending June		Unit	2006	2007	2008	2009	2010
Cost of goods sold/Net sales		Per cent	66.53	69.36	69.56	69.85	68.46
Manpower costs/Total income		Per cent	5.99	6.19	5.42	4.32	4.64
Advertising costs/Total income		Per cent	2.72	2.80	2.34	1.80	2.48
Interest/Total income		Per cent	1.97	2.70	3.67	5.01	4.79
EBIDTA profit		Per cent	7.99	9.24	9.19	10.63	11.24
Dividend payout		Per cent		25	25	25	40
Retail space		Square footage (millions)		5.1	7.9	9.7	13.25
Same-store growth		Per cent		14.9	10	7.4	9.5
		Value Lifestyle		21.1	10.3	6	13.6
Footfalls	Number of people entering the stores	Millions	74.0	114.9	162.7	185.3	220
Conversion ratio	Number of entrants making a buy	Per cent		43.3	41.3	43.0	43.0
Sales per square foot	Sales per square foot of built up area	INR	8,575	8,294	7,655	7,230	NA
SKUs		Millions					3.5
Sales Mix	-Value retailing	Per cent		63	60	60	59
	-Lifestyle retailing			27	24	24	25
	-Home retailing			10	16	16	15
Average selling price	Sales divided by the number of units sold	INR		85.5	92.2	105.1	111
Average Ticket Size	Sales divided by the number of invoices	INR	606.0	640.1	749.5	791.6	835
Loyalty Cardholders (Pantaloon Green Card)		Millions					1.85

Note: EBITDA = earnings before interest, taxes, depreciation and amortization; NA = not applicable

Source: Company annual reports