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Urbane Essentials

A CASE STUDY

New India Retails, operating under the brand name, Urbane Essentials, is one of the first new generation organized large format retail chains in India, with a current revenue of INR 4,900 crore in 2018-19. Started in 1996, by first-generation entrepreneur Nitin Kaushal, with just two stores, one each at Bandra East in Mumbai and South Extensions in Delhi, it has now 83 stores in India and one each in San Jose and Singapore.

The stores have been selling clothes and accessories, home products, cosmetics & personal care products, sports & fitness goods and accessories. Selected stores have added arts, crafts and ethnic accessories in the last six years.

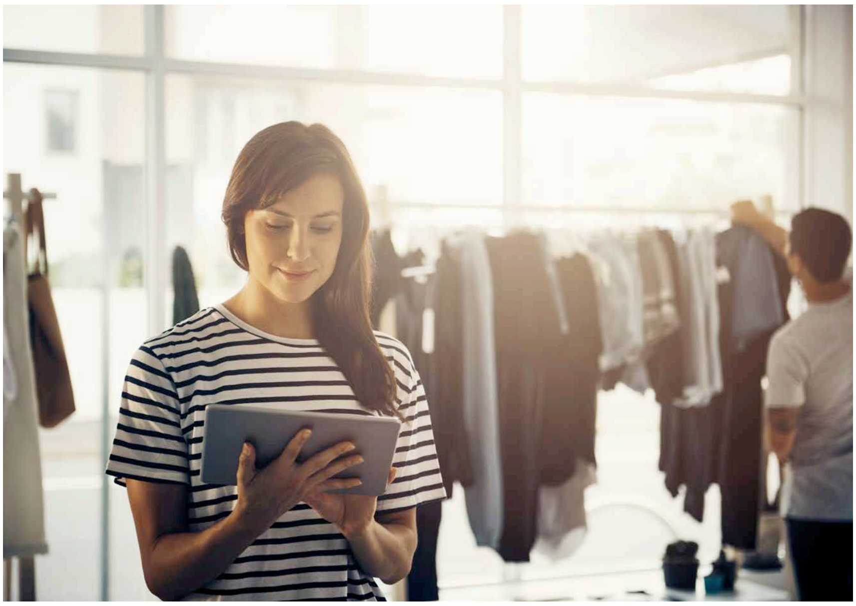
For quite some time, Urbane Essentials was synonymous with Indian organized retail, as there were few other such businesses. At that time, it launched a loyalty program, UEdge which is often referred to as India's most successful loyalty program—ahead of similar programs from airlines and hotels. Currently, there are close to 3.5 million registered customers out of which about 40% are active (buy once or more in six months).

By 2000, the chain had built a reputation for quality inventory, great customer service, right pricing and an overall great shopping experience. It had a very successful IPO in 2006. Though competition had intensified by 2010, Urbane Essentials held on to its leadership position and stood out from the crowd.

The period 2003-2010 was a period of growth, when revenue grew four-fold from INR 400 crore to INR 1950 crore. This was partially the result of physical expansion from just 14 stores to 63 stores. New India Retails also added both its overseas outlets during this period. Post IPO in 2006, the company also acquired two small companies, one of them was a small youth clothes and accessories brand, Seriously Casual, based in Bangalore, which had three outlets all in Bangalore. This helped New India Retail get into youth casuals. The second

acquisition was a garment maker, which had a small presence in market under the brand name, Your Excellency, but was a B2B supplier to many large retail brands. This acquisition led New India to introduce its private label, UX in 2008 and kidswear brand, Little Honorable in the next year.

The going was great for Urban Essentials as a brand. As India got a lot of attention, Urban Essentials was considered the bellwether of Indian organized retail.



But the wave of online retail between 2010-2013 finally started impacting its business. As more and more customers took to e-commerce—what with heavy discount and top brands being available—for the first time in 2014, the company saw its margins getting impacted because of competition from online businesses.

Urbane Essentials tried to position itself as a super exclusive store but that backfired. Revenue was hit badly. It also tried to build its digital business by launching a website, UEssentialsl.com, in 2015 but without proper planning, it failed to take off. It started again with a changed focus in 2017, this time trying to integrate the stores experience with the digital experience but that too has met with limited success.

Financials

In the last four years, the company's revenue has been hovering around INR 4600-5100 crore.

In 2018-2019, the company recorded a consolidated turnover of INR 4893 crore, up 2% from INR 4701 crore in FY 2018 revenue, and still behind the all-time highest INR 5097 crore in FY17. On a standalone basis, its revenue was INR 4416 crore, the rest attributed to its two overseas subsidiaries, NIR Singapore Pte Ltd and NIR America, Inc.

The consolidated net profit was INR 69 crore, as compared to an all-time high of INR 183 crore in FY14. To its credit, New India Retail has never posted a loss still. Cash reserves are significant, if not high.

Urbane Essentials 2.0

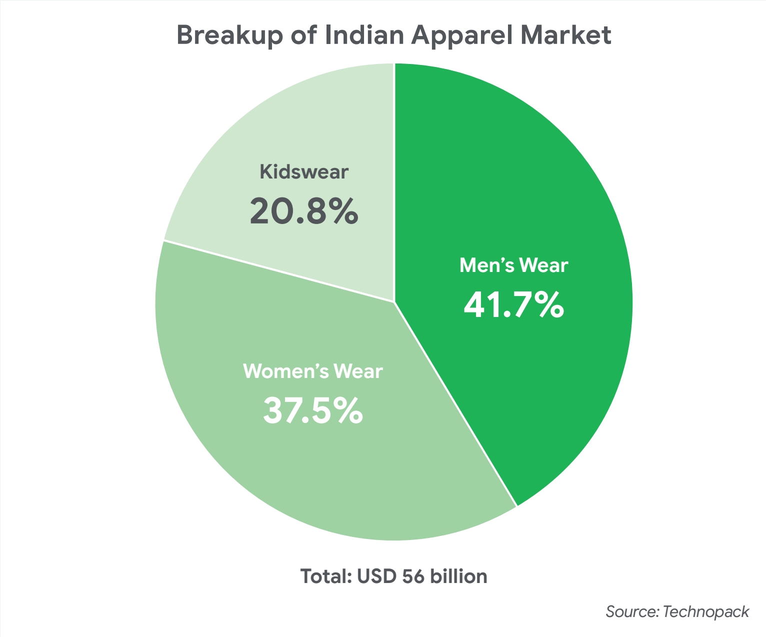
New India Retail company is now looking at reviving itself. No one has any doubt that it has to leverage digital—for selling, marketing, customer service, creating experiences...but the challenge is: it requires a broad-based change.

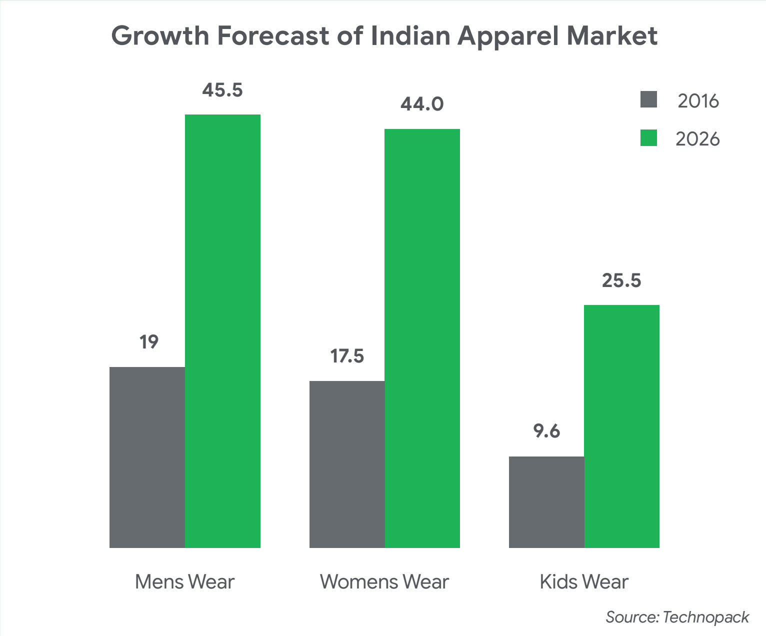
New India Retail board finally decided to take the challenge head on. The first decision was to appoint a new CEO.

The board chose S Sridharan, a 47-year old career retail executive who has worked with multiple retail chains across countries—the last two years with one of the top five Indian online retailers. He has tried his hand in entrepreneurship too by establishing a retail technology company.

Though Sridharan had long and varied experience in retail, he was told at the time of joining that his two years of entrepreneurship was the reason why he was hired. The message was not easy to miss—take risk, use tech; disrupt.

Sridharan started in an unusual way. He acquired a small data analytics company with just nine employees that had some top international clients for which they did consulting assignments; no annuity T&M based work. Then, he hired Paritosh Sen, a consultant from a top strategy firm with significant experience





Indian Apparel Retail Market

Apparels are the second largest category for retail—next only to food items. Indians spent USD 75 billion on buying clothes in 2018, almost three times of what they spent—USD 26 billion in 2010, according to CARE Ratings. The growth is a reflection of higher disposable incomes, greater migration to large cities, and brands opening up in non-metros. About 20% of these are still bought in India's top metros.

According to retail research firm, Technopack, the total apparel retail market is likely to reach USD 115 billion by 2026.

Men's apparels still account for the highest share while children wear is the fastest growing market, according to both CARE Ratings and Technopack

in consulting retail companies in APAC and Europe. And he put them together. Paritosh was designated as Chief Data Officer. His brief was to combine internal data—sales, customer and inventories—and external data to discover opportunities for Urbane Essentials.

To the outside world, it looked like an open-ended experiment. But strictly speaking, it was not. Sridharan himself sat with most of the functional heads to understand business—and provided some leads to Paritosh and his team. Only the contours were defined; there was no specific problem statement. While there were specific problems Sridharan had in mind and he knew they could be solved through analytics, he did not want to start with that. He wanted the data team to come to him with ideas.

He also hired a new CIO, Arun Rath, designating him Chief Digital Officer and CIO. Rath came from a predominantly retail background, most of it in global IT services firms based in India where he worked for top retail clients in the US and Europe. He also worked with a French retail company in Singapore and had a brief six months stint in New India Retail itself, 12 years back.

Most of Sridharan's time was spent on charting out a technology and data strategy, for which he had got a more than emphatic mandate from the board.

He outlined some business tactics he believed would put New India Retail back in the growth path. The board was initially a bit skeptical about his growth-first approach (at the cost of margin). This, they thought could be detrimental for the stock of the company as shareholders would not like that. But founder chairman Kaushal backed the idea. He, in fact, had a more drastic idea, which he said he was contemplating for some time. He proposed that they took the company private with help of a private equity partner. After a lot of deliberation, the board approved the plan, with certain milestone conditions.

Post the board decision, a consultant was given mandate to find a partner. After a lot of discussions and negotiations, one large PE firm Zebra Equity Partners, is in advanced stages of negotiations. Founded by ex-IT industry professionals, the firm is impressed by the basic intent of New India Retail to bet on technology for its transformation.

Since technology is the main lever of transformation, Zebra Partners' partner, Rafiq Amir, in charge of this deal, wanted to get details of the technology plan. Sridharan, along with Paritosh, Arun, CFO Aneesh Dhwan, Head of Retail Operations, Revanta Arya, would make a presentation to Rafiq and his team in next two weeks.

Sridharan, along with the board, had finalized an outline of potential business outcomes that he wants to bring about to get the company back into the growth track. He reduced them to six easily comprehensible slogans, abbreviated PULLEY, that will figuratively pull the fortune of New India Retail by changing direction—as a pulley does:

- ***Personalize the high end; automate the low-end***. That extended to all areas including marketing and customer service. A small team of retail operations, warehouse, tech and data guys are already working to measure and streamline the use of IoT in which New India Retail had already invested. Only the low hanging fruit of efficiency through automation was targeted so far. He wanted more out of the investment.
- ***Use the power of data***. Analyze customer data to:
  - enhance customer loyalty
  - enhance quality of stock of merchandise
  - create potentially winner designs for its private label, UX, based on predictive analytics
- ***Leverage the loyal.*** Leverage New India Retail's successful loyalty program, UEdge, to push customized offers by studying their behavioral pattern and by creating multiple apps for engagement and selling (through storytelling, community leverage, and creating customer ambassadors)
- ***Luxury is not a luxury.*** The idea is to get into super luxury segment by creating store-in-stores for super luxury brands in selected outlets.
- ***Experiment, fail, learn, repeat.*** Rather than deliberating on strategies for months and years, his plan was to create a model—of course, leveraging technology—that will enable experimentation without the fear of losing big. The idea is to quickly experiment and grow what works and reject what does not but learn from the process for the future. "It was not possible yesterday. Technology makes it possible today," he says.

- ***Youth is the opportunity.*** While New India Retail enjoyed undisputed leadership in formal wear segment, despite its acquisition, it was still seen as lacking in the informal, youth segment. The plan includes not just targeting youth as a segment but creating completely differential experience for them—through a mix of experience centers and custom apps where users can listen to and interact with fashion experts live who will talk about latest trends and can provide advices. This will happen over both high definition video conferencing in the experience centers and apps where users can access this content. Apps will also include collaboration features among users.

The thrust on technology is evident from the above plan. Arun translated it to three tech thrusts which he translated to slogans:

1. Cloud where you can
2. Apps drive the business
3. Data is the differentiator

Zebra Capital Partner's Amir and team want to go through not just the business plans but also the detailed technology plans to execute the business plans.

Sridharan has already formed a core team of technology and business persons to work on the detailed technology plan. The tech team will work on those plans in close collaboration with the business and operations team members.

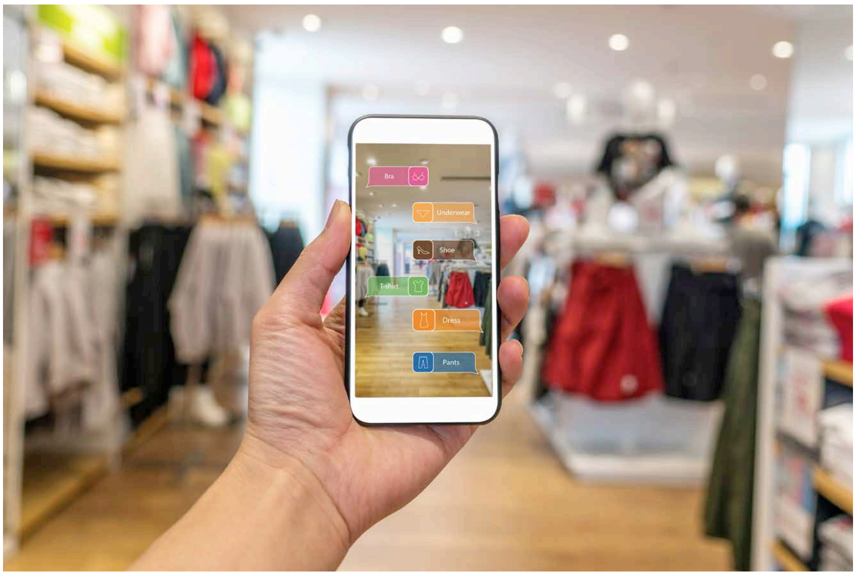
Your Tasks

In short, your task is to translate Sridharan's business plans into technology in a language that would appeal to the new potential investor.

The technology plan should have:

- A direct correlation with each of the identified business tactics of the company.
- Detailed enough to illustrate what are the components/ solutions and what technogy(ies) will each of them use.
- Remain loyal to the topline slogans. There are more specific elaborations with each slogan. You can add/delete some of them. If you add, you must convince that they can be done with the same resource and time, without diluting others. If you remove, please give sufficient reasons why you do that.
- There should be a roadmap—with timelines and priorities. Please justify your prioritization.
- It should only use the technologies presented to you today.
- Give budgets, resources, and challenges.
- Make suitable assumptions as long as they do not contradict any of the given facts.

All these exercises are supposed to lead to a big transformation story. Please create that story headline, in not more than 20 words. The story should envelope all the changes/tactics listed above and should suggest that, as a whole, it brings about a bigger change than the sum of parts.



Current IT Environment @ New India Retail

Software: Oracle Netsuite Warehouse Management System (WMS), CRM; Manthan Merchandise Analytics; Zoho Point-of-Sale System, Data Warehouse and BI Solution, CAD & Facilities Management Solution, Disaster Recovery & Business Continuity Solution, Oracle HRMS, Multiple IT Security & Identity Management Tools, Locally Developed Web Portal Solution

Infrastructure: Primary data center in Mumbai, Backup & DR in Noida (hosted at a third party center). The POS applications and WMS run on local servers at stores and distribution centers. More than 70 virtual servers are used to run various applications. Company uses bar coding for product tracking and RFID for consignment tracking.