BUSINESS STRATEGIES DURING RECESSION: RETAIL SECTOR

A contraction in an economy's business cycle slows down the economic activity of a country which when persists longer than two consecutive periods, results in negative economic growth, marks a recession. The implications and consequences of a recession are not just confined to those two quarters but are extended to a larger time frame. In addition to the macroeconomic factors such as employment, GDP and interest rates, even social and behavioral repercussions come into play such as reduced spending, significant losses, job insecurities and even bankruptcies. The normal strategies implemented by organizations are not viable anymore in a recession economy and need to be catered with the present economic scenario. There can be no question that the primary objective of businesses is to protect themselves during turbulent times. It is also understood that only healthy companies with financially healthy balance sheets and resources can aspire for more than mere survival. For the majority and rest of the organizations, survival becomes the primary objective that is usually obtained through greater efficiency, lower costs and other factors. However, survival certainly does not guarantee sustainable competitive advantage (Harvard Business Review, 2015). Cost reduction which is the most sought after go to strategy during this time does not drive long term performance; thus, once the companies have taken the necessary defensive measures ensuring survival during the downturn, it becomes essential to contemplate the future by embedding competitive strategies to not only break even but rather thrive during and post the upturn in the economy.

This paper explores those strategies, segmented into two buckets- sustainable strategies (BCG Model) and competitive strategies (Michael Porter) and then further analyzes them through a case study of Big Bazaar (Indian retail company) and explains how those strategies were implemented by Big Bazaar resulting in them sailing through a recession.

McKinsey Quarterly's research points that during recession consumers spend more time on comparative search, only on the basis on price (McKinsey & Company). A recession calls for the senior managers of organizations to use strategies that stimulate consumer demand. The strategies discussed are:

Sustainable Strategies (BCG, 2009)

Sustainable strategies are micro strategies that are implemented by companies to complement their competitive strategies. They can be differentiated based on their approach into 3 buckets:

1. **Behavioral Strategies** (*adapting to the environmental changes)*

- **Modifying the Customer Offering:** each business has a primary factor that they adjust in their customer offering. Adaptively changing that through the implementation of new services, altering proposed value proposition and toggling with the features of the current product can be attractive to consumers in the downturn.
- **New Pricing Models:** during recessions, consumers change their purchasing behavior and mainly look for lower priced products. Customized pricing models and discount mechanisms can be attractive to a lot of consumers.
- **Exploring New Market Entries:** given the low-cost nature and reduced availability of resources during an economic downturn, finding new market entries with less competition, greater demand and a product niche can be rewarding.

2. **Social Strategies** (*joining forces, banding together)*

- **Partnerships (suppliers and customers):** enhanced, increased or customized partnerships with different stakeholders can lead to a reduction in costs such as inventory, transactional and systemic costs which lead to lower prices.
- **Joining forces with competitors:** merging or striking an arrangement with a competitor results in sharing of assets, resources, knowledge and skills. This leads to increased efficiency which can subsequently lower costs. Joining forces can also foster innovation leading to further growth.

3. **Reproductive Strategies**

- **Prototyping business models:** revamping current business models to cater to the economic downturn and the changing needs of the customers or the implementation of completely new business models can lead to increased sales. It would lead to differentiated and a more adaptable strategy.
- **Customized Marketing Campaign:** during turbulent times like a recession, the right marketing campaign targeted towards low cost offerings can be very effective as in an uncertain scenario, consumers are no longer loyal to their usual bases.

- **Cross Training:** training the current remaining staff after downsizing for more than one function or task can reduce man hour costs and getting the tasks completed with less work force. Even though, this would lead to higher work hours for certain employees, the high unemployment rates in the market make it unfavorable for anyone to leave till economic growth is back up.

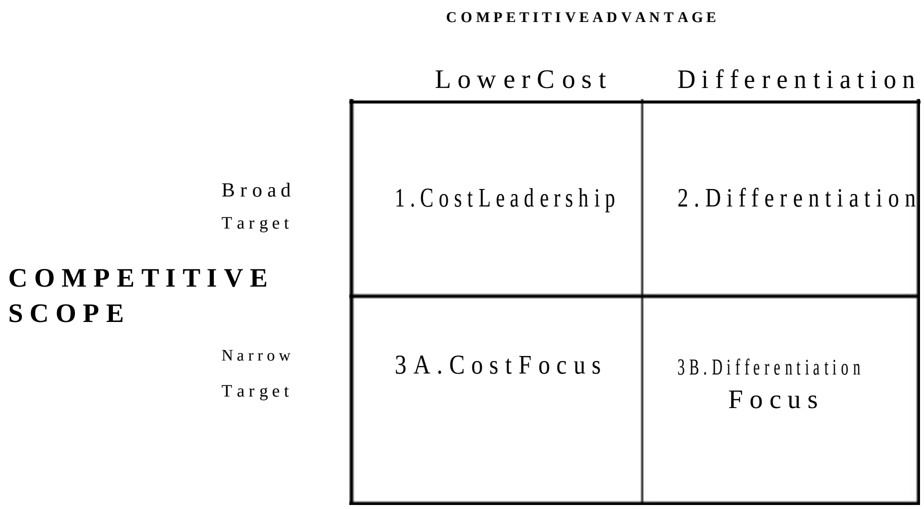
4. **Evolutionary Strategies**
   - **Innovation:** new products/services or technology can assist or be lucrative to consumers during a time of economic recession. Innovation in that sphere can lead to a maintained demand and add diversity to the current market (Strategies for Growth in Crisis, 2009).

Competitive Strategies

Porter's Generic Competitive Strategies

Harvard Business School's Michael Porter argues that a firm's strengths ultimately lie in two segments- cost advantage and differentiation. According to Porter (1985), there are three types of competitive strategies: low cost, differentiation and focus.

Cost leadership strategy calls for the firm to be a low-cost producer in an industry with a certain predetermined quality. The firm either sells its products at the industry average in order to lure customers to earn higher profits than their competitors by selling more units of product or sometimes even below the average to increase their market share by attracting more customers. It can be achieved through a low-cost strategy, where a firm sets out to become the low-cost player in the industry. Several of the sustainable strategies discussed above can be implemented to achieve those lower costs that Porter mentions. In addition to them, it be achieved by pursuing economies of scale, acquiring technology that is proprietary in nature and certain access to resources that won't be accessible to every player in the market (Porter, 1985).



Source: Porter (1985, p.12)

Figure 1: Porter's Generic Competitive Strategies

A differentiation strategy, calls for firms to position themselves in a way where they are offering unique attributes that are appealing to the customers and are perceived as higher than what the competitors offer. Firms set a premium price for the uniqueness, reaping higher revenues while covering the additional costs.

The focus strategy concentrates on a narrow segment and targets niche markets, by leveraging knowledge and understanding the local dynamics, consumer needs and demands of that particular niche. Since, they operate in a small segment; it has both a positive and a negative. The positive derived from it is that the firm develops customer loyalty but they also loose bargaining power with suppliers. However, a focus strategy usually is implemented in either one of the two variants:

(a). Cost focus: firm seeks a cost advantage in the target segment; and

(b) Differentiation focus: firm seeks its differentiation mechanism in the target segment (Porter,1985).

These strategies have been coined as generic by Porter because they are not firm or industry specific and can be implemented across. They always may not be compatible with each other and there can be scenarios where when attempted to implement all at once, none of them provide success.

Retail Sector: Case Study of Big Bazaar in India (Analysis of Strategies)

Source of Case: International Journal of Economic Issues (Roy, 2011)

The retail sector is one of the biggest industries in India and Future Group's Big Bazaar has had an established presence in the country since 2001. Headquartered in Mumbai, the company operates over 12 million sq.ft space with over 1000 scores across 71 cities in India, employing over 30,000 people. The company also operates an online portal, *futurebazaar.com* and their entry has been perceived to change the dynamics of the food retailing sector in India. They offer top quality products and fresh goods at the lowest prices possible which has resulted in them being one of the fastest growing retailers in India. Even though there were several players (retailers) in the industry, their strong efforts weren't a match to meet the low prices offered by Big Bazaar.

Thus, based on Porter's generic competitive strategies, one can notice that the **Pre-Recession Generic Strategy Implemented by Big Bazaar was the low-cost strategy.**

At the end of 2008, when the banking crisis lead to a global economy recession, the Indian economy along with other major nations were severely affected. With the recession hitting in, the Big Bazaar board realized they needed to adapt different strategies and alter its current competitive strategy. The board decided to shift from low-cost to a focus strategy which meant that their **Recession Generic Strategy was the focus (cost and differentiation) strategy.** In order to realize and successfully implement the competitive strategy, Big Bazaar launched several actions that fall under the sustainable strategies section discussed above (Roy, 2011).

One of their first actions was to implement a *behavioral strategy* because the area director of Big Bazaar strongly believed that "in a recession economy, customers change their behavior, think twice about where they are going to shop and we have always been offering the best price/ratio quality of products…"

- Big Bazaar introduced a new pricing model called <u>*Everyday low pricing product*</u> where Big Bazaar is trying to get the prices of products down each day. They kept discounting their products for long periods of time and more frequently discounted certain groups of products. These were necessity goods which are inelastic in demand and which consumers needed in their day to day lives. The strategy was to increase the footfall within the stores. While this behavioral strategy was attractive to consumers, there were several risks associated with cutting prices across the board so severely. Firstly, once the economy is out of recession, the consumers would be hesitant to pay more than the discounted prices since they would get used to lower priced discounted products. This is where Porter's focus strategy comes into play and the risk could have been mitigated if the discount was limited to certain group of products, packages and combinations while maintaining prices for other individual items.

Big Bazaar's second key step as a part of their shifted competitive strategy because of the recession was a *social strategy*.

- The firm set up an arrangement with one of the subsidiaries of their own parent group (Future Group), Home Town where they would share storage facilities, improving their logistical systems. In order to meet the uncertain demand with their everyday low pricing scheme, transportation and logistics costs were increasing so Big Bazaar had to reduce their operational expenditure. They relocated their warehouse center to Home Town's, increased technological integration in logistics management and minimized extra wasted capacity space. This helped them make their logistics more efficient leading to a cost effective yet frequent cycle of goods rotation (Roy 2011).

Their third and fourth key action fell into the bucket of a *reproductive strategy.*

- In an effort to increase efficiency and effectiveness of stores, Big Bazaar offered and mandated several training, cross training and other vocational learning programs for store managers, deputy store managers and other key personnel of the stores to reduce redundancies and increase productivity. Some ways through which this was achieved was by inculcating incentive programs, pre-set time frames for specific tasks, bonus programs etc.
- Revamping their business models, Big Bazaar's initial model was to provide and house every product in the store regardless of demand but given the recessionary scenario they discontinued and paused certain products that were either low in demand or non-profitable in nature. This helped them focus on the profitable products, selling them more leading to revenue generation.

Their next move was a classic *behavioral strategy*

- Big Bazaar modified their customer offering and differentiated their product variety. Noticing and realizing that the over specialized products were not the key trigger anymore, they moved and catered their offerings towards multi-purpose goods.

Their last move to support and enhance the above strategies was a mix of *evolutionary* and *reproductive*

- Big Bazaar launched a unique marketing campaign featuring MS Dhoni, captain of the Indian Cricket team who was the most followed sportsperson and one of the biggest fan followed celebrity in the country. In addition to his considerably large fan base, he had led India to victory in the World Cup T20 championships that India won after over 27 years which created a sense of increased affection and following towards him. Seeing him endorse Big Bazaar really helped them with their competitive and sustainable strategies.

The area director commented that "we are happy that we had a good strategy and the board of directors are very satisfied with what we have achieved so far. We will continue to pursue low cost focus and differentiation focus strategy to go through this economic down turn period (Roy 2011).''

These strategies did help Big Bazaar sail through the recession. They didn't report any losses in the quarter following the end of the recession and maintained their projected usual financial standing with slight variations.

Big Bazaar recognized the downturn of the crisis and revamped their strategy to acclimatize with the current economic situation of India then, therefore successfully endured through the recession.

Harvard Business Review's and Bain & Co's Retail Newsletter research along with other management journals on the retail sector companies during recession hypothesizes that (HBR: Meer, Romberger, 2009):

I. In a recession economy, retailers tend to exercise the low-cost focus strategy pricing.
II. In a recession economy, retailers tend to exercise the differentiation focus strategy.

The Big Bazaar does indeed follow the above 2 statements as they did shift their competitive strategy to a low-cost focus and differentiation focus strategy.

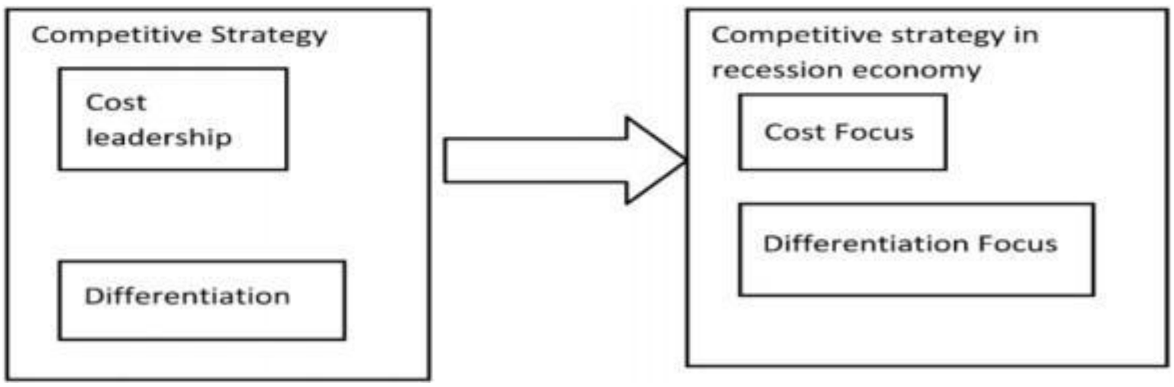


Figure 2: Shift in Big Bazaar's Competitive Strategy in the Recession Economy

Conclusion

This paper exhibited how a retailer reacted during an economic recession and an analysis of the strategies that could be implemented. Porter's generic competitive strategies highlighted the macro strategies defining the overall approach of an organization that they pursue to gain competitive advantage using the different type of sustainable strategies devised by BCG. The case study of Big Bazaar exhibited how their shift in competitive strategy from cost leadership to a focused strategy resulted in them surviving the 2008 recession. A revamped pricing model, shared logistics systems, more efficient team and effective stores with focus on specific product variety and a appealing marketing campaign helped Big Bazaar.

Points of Consideration

While this paper gives a detailed analysis and a case example of how a retailer can survive the recession, it is very important to note and take into consideration that this may not always be applicable for all retailers. Big Bazaar was a large, well established organization within a very large parent group (Fortune group), so the strategy may alter for retailers of different size. Additionally, Big Bazaar is based and operated in India which is an emerging economy, so the consumer preferences might differ to that of a developed economy which can again lead to an alternate shift in strategy. The recession could have different impacts across different nations which is another factor to take into account as well. An investigation into a larger sample size of companies spread across diversely can give a more accurate validated response.

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