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GROWING CONCERNS

Rumala Grocery Stores was established in the year 2000 and catered to the local neighbourhood of Kovaipudur, a small township in Coimbatore. There were around 1500 families residing in the place and the Store was an instant success.

Ravi, the owner, started with an area of 200 square feet (which was located inside his house) and stocked the essential household goods – rice and pulses, wheat, soap, toothpaste and other personal care products and dairy products like milk and curd. He had one freezer to stock the dairy products. All other items were stocked on a first-come-first-store basis. The goods were not easily traceable, customer waiting time was high. But, in spite of that, business was soaring. He was getting a return of 120% on his meager investment of Rs. 100,000 – he was rotating his stock 12 times a year!

Slowly, as business started picking up, RGS, as it came to be known, expanded operations to a nearby vacant land. He had bought one ground of land (2400 square feet) in the year 2002 and, a year later, constructed a store with an area of 1,000 square feet. There was now a need to hire assistants. He had one cashier and 3 store assistants. Business grew further. His turnover increased from Rs. 1.2 million in 2000 to 4 million in 2003. The return on his investment went down to 60%, largely because of the increase in investment.

Business continued to do well and in the year 2010, Ravi opened Koviapudur's first hypermarket with an area of 15,000 square feet. The market had three floors – the ground floor stocked the food items (rice, pulses, wheat, fruits, vegetables, edible oils, dairy products and other kitchen edibles). The first floor was reserved for all fast-moving consumer goods. The second floor stocked utensils, stationery, sports goods and other miscellaneous items.

Ravi now had one hundred employees including cashiers and store assistants. He had three Floor supervisors and one Store Manager, Shyam. Ravi was always present in the Store and sat near the cash counters.

In the year 2010, his sales turnover was Rs. 50 million on which he obtained a profit of 10%.

Ravi used a recruitment agency to hire his store assistants, who were paid a fixed salary of Rs. 10,000 per month and an incentive of 1% of the sales achieved in their counters. The agency, owned by Ragini, charged them a flat fee of Rs. 10,000 per candidate hired. In the event of a recruit leaving within 3 months of joining, the agency will provide them a replacement free of cost. However, if the replacement also left within 3 months, no free replacement would be given.

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From the year 2012, Ravi began feeling that he was losing on his profitability. He was not sure if it was because of the employees he had hired or because of the business environment.

The data pertaining to his operations from the year 2012 to 2014 are provided below.

Line Item	Year ending 2012	Year ending 2013	Year ending 2014
Store square feet	20,000	22,000	24,000
Sales	60,000,000	63,250,000	66,000,000
Cost of goods sold	42,000,000	42,250,000	39,600,000
Number of Store Assistants/Cashiers	125	145	160
Salaries – Store Personnel	1,500,000	1,885,000	2,240,000
Incentives	600,000	632,500	660,000
Number of Supervisors	5	6	8
Salary – Supervisors	1,200,000	1,500,000	2,400,000
Recruitment costs	600,000	750,000	1,000,000
Other Operating Expenses	5,000,000	6,882,000	11,237,000
Losses (Pilferage)	600,000	975,000	1,320,000
Profit before Tax	8,500,000	8,375,500	7,543,000
Tax	2,550,000	2,512,650	2,262,900
Profit after Tax	5,950,000	5,862,850	5,280,100

Discuss the performance of the Store and suggest measures to improve it.

- **Professor Sridar Natrajan**