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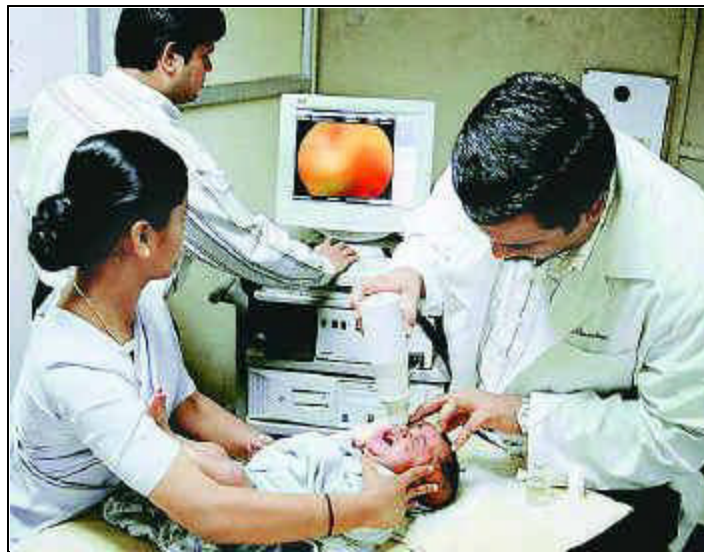
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Catalyst - Strategy
Marketing - Retailing

Delivering value at low price

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Marketers should concentrate on offering value at reasonable prices instead of offering a host of features at a premium.



A surgery being performed at the Aravind Eye Hospital in Madurai. Both organisations, according to the author, provide great value at low price.

WINNING in today's market place is all about establishing value leadership. That calls for delivering value to customers cost-effectively. Adding features which customers do not value and removing features which customers do are both impediments to value leadership.

Too often, the debate in marketing has been about whether to offer no-frills low-priced products or premium products loaded with features. Or, to use Michael Porter's language, the main issue has been cost leadership versus differentiation. In this, companies often overlook the opportunities for providing value while removing unwanted cost elements.

The key to value leadership lies in a deep understanding of what customers want and what they don't. By providing more of what they want and little or nothing of what they do not, there is

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tremendous potential for providing value at a lower cost. Many companies have demonstrated that this is not mere theory but eminently practicable.

Take the case of Nalli, the apparel retailer. When it arrived in Hyderabad a couple of years back, people in the city got a taste of what the Chennai-based retailer had to offer. The sales people at Nalli are not the convent educated, tie-wearing types. They look rustic in the way they speak and move around. But when it comes to serving customers, their commitment is phenomenal. A Nalli salesperson will go all out to make customers at ease and understand what they are looking for and show them products that suit their budget. By offering a wide range of products at different price points, the store also facilitates one-stop shopping. The ambience is comfortable and friendly though not jazzy as in the case of many up-market retailers. The result is, customers get good value for money and time.

Hyderabad's homegrown apparel retail chain Chermas is another good example. While the prices are reasonable, what is most striking is the service. Chermas often gives the appearance of a crowded place but the young sales people bubbling with enthusiasm ensure that customers are not kept waiting even during peak hours. The store also offers a wide range of clothes at different price-points. There is something there for every member of the family. And unlike many other retail chains, the time taken at the billing counters is incredibly small. That is because the cashiers focus on receiving cash. The bills are ready before the goods reach the counter. Once, after making my payment at the cash counter, I was surprised to note a slight delay in the delivery of a pair of trousers which I had purchased. The person at the packing desk had noticed they had faulty zippers and promptly got them repaired, even though it had completely escaped me. Exchange of apparel is also hassle-free at Chermas. It demonstrates that high service levels can be provided without charging a premium.

Nalli and Chermas stand in sharp contrast to several upmarket apparel retailers in the country. They promise an international shopping experience. The sales people are smart and the ambience is elegant, yet many of these shops are unable to convert traffic into actual purchases. Customers visit these shops but do not make a purchase, as they do not find the value they are looking for. Sales people look hi-fi and the prices are high, but when help is needed, no one is to be seen! And, the product range is extremely limited. One can spend hours and yet not find a satisfactory item. The result: customers spend more time in the cafeteria and less time buying the merchandise!

India's organised retailers can certainly learn some useful lessons from America's Wal-Mart, which is not only the largest retailer but also the largest company in the world. Despite its gigantic size, Wal-Mart has a *kirana* store mindset. It cuts costs wherever it can but without diluting quality. Nothing symbolises the retailer's ability to sustain value leadership better than its Chinese operations. Wal-Mart entered China only recently, but there are signs that the Chinese operations are going to grow in a big way. The general merchandise and the food products offered by Wal-Mart in China are of excellent quality. Yet, they are attractively priced. Customers are treated with respect, unlike in the 'wet' open-air markets for which China is famous. It allows the customers to return electronic goods within 30 days if they are unsatisfied, without asking questions. If there is any problem, the customers can contact the same salesperson who has sold them the product. On the packet, a sticker is inserted with the salesperson's name and phone number to facilitate this process.

Retailing is not the only industry where we see organisations providing great value at low price. Aravind Eye Hospital in Madurai, about which Harvard Business School has developed a case study, uses modern equipment to offer high quality healthcare. But through high capacity utilisation and specialisation in its core business of eyecare, Aravind has cut its costs

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dramatically. For 60 per cent of the patients, the treatment at Aravind is free. Despite its tremendous commitment to discharging social obligations, cataract surgery in Aravind costs only one-sixtieth of that in the US. Still Aravind makes surpluses in its operations. Most importantly, Aravind has not diluted service levels in its enthusiasm to cut costs. The hospital encourages its nurses to be kind to patients at all times and show their gratitude to them for providing an opportunity to serve. Doctors are known to speak in soft voices and rarely get angry at patients or nurses. As a result, the quality of healthcare compares with that of any world-class eye-care centre. This is an excellent example of providing great value at low price.

We are seeing the same phenomenon in the Indian airline industry, though these are still early days to pass a definitive judgment. The cost leader today is Air Deccan. Despite charging the lowest prices, Air Deccan attempts to provide value in various ways. The interiors are plush, and the seats are new. There is no in-flight refreshment service, but one can get a wide range of drinks and food items at a reasonable price. The full service airlines like Jet, Sahara and Indian Airlines offer free meals. But customers have to eat what is given to them. In Air Deccan, one can choose from a range of items. And why should customers mind paying Rs 50-60 from their pocket when they can save a thousand rupees or more on the air fare? One of the best ways of providing value to customers in the airline business is by maintaining punctuality. Most people going by air are business travellers. They are anxious to reach their destinations on time and get started. Air Deccan seems to take punctuality more seriously than other airlines. That is because its business model depends heavily on quick turnaround of aircraft, which is possible only if schedules are tightly maintained.

Providing value in a cost-effective way calls for a deep understanding of consumer behaviour. Often, the needs of less affluent customers are underestimated. When Procter & Gamble was planning to enter China, it found consumers were not looking for superior detergent performance. P&G's traditional value proposition that emphasised whiteness, brightness or superior cleaning power did not mean much to customers. But as P&G continued its market research, it found that Chinese customers, despite their limited purchasing power, seemed to attach importance to personal appearance, especially attractive skin and hair. In the test market, P&G's shampoo brand, Head & Shoulders, fared very well. Since the Chinese had low disposable incomes, P&G offered the shampoo in small packs. P&G was able to get off to a flying start, thanks to a high quality branded product offered in the right amounts that made it affordable to the customer.

Another P&G experience, though quite old, again proves that value can be provided at low prices even in case of branded products. In the late '50s, P&G struggled in Mexico. First, it had to compete with Colgate and then with local manufacturers who started selling detergents in bulk at low prices. P&G launched Rapido, a blue-colour detergent, formulated for cold water washing, with boosted levels of perfume and better performance than its bulk competitors. Packaged in polythene bags and priced 25 to 40 per cent below other packaged brands, Rapido also came in 250 and 100 gm packages and, thus, was more affordable to customers. Rapido offered better performance than bulk detergents, yet better economy than the packaged ones. Rapido quickly became a hit in the Mexican market successfully taking on both Colgate and the non-branded manufacturers.

Clearly, in developing countries such as ours, marketers should not keep adding features that drive up prices beyond the reach of the customer. At the same time, they should not eliminate features that take away the joy of the product. The really successful marketers will be those who know how to provide value at low or at least reasonable prices. And they can do this through superior understanding of what customers are looking for.

(The author is Dean, ICAI - Knowledge Centre.)