

Determining if retail expansion will pay-off



We have retail chains in urban areas and operate out of six districts in Uttar Pradesh. We want to now expand to six other districts in the same state. Can the Guide help us determine if the investment will pay out?

DATA REQUIRED FROM THE GUIDE

- Population urban - Volume II
- Market Potential Value MPV urban - Volume II
- Turnover per outlet - Marketer

SOLUTION

We have to first list the aggregate urban potential, population covered and the turnover per outlet of the districts where the retail outlets are in operation and thereby arrive at turnover per MPV as illustrated in the following table.

Table 1. An illustration of current performance to arrive at current turnover per unit potential.

Population Covered	228 lakh
Number of outlets	100
Turnover	Rs. 1000 lakh
Population covered per outlet	2.28 lakh
Turnover per outlet	Rs. 10 lakh
The total urban MPV of districts with retail presence	567.21
Turnover per unit MPV	Rs. 176300

We can now apply this learning to choose districts that can maximize return on investment and also arrive at optimum number of outlets required as illustrated in the table below.

Table 2. Estimated turnover and optimum number of outlets in districts under consideration.

Details for districts under consideration	
Population covered	215.9 lakhs
Combined MPV	411.82
Combined expected turn over based on results from table 1	$411.82 \times 176300 = \text{Rs. } 726.05 \text{ lakhs}$
Assuming that the spread of outlets is similar as in the districts presently covered, we get	
Required no. of outlets	$215.9 \text{ lakhs} / 2.28 \text{ lakhs} = 95$
Turnover per outlet	$\text{Rs. } 726.05 \text{ lakhs} / 95 = \text{Rs. } 7.64 \text{ lakhs}$

RESULT

As per this analysis, 95 outlets are required in the selected six districts. We see that the expected average turnover per outlet is Rs. 7.64 lakhs as against Rs. 10 lakhs presently realized from the districts in operation. The marketer can evaluate this, along with other variables like intensity of competition, real estate valuation etc. and determine if the investment will be worthwhile.