



National Institute of Development Administration (NIDA)

# NIDA-ICCS 2019



NIDA International Conference for Case Studies  
on Development Administration 2019 (ICCS 2019)

**June 28, 2019**

At Chira Boonmark Hall, 3 floor, Sayamboromrajakumari Building,  
National Institute of Development Administration (NIDA)  
Serithai Road, Bangkok, THAILAND

Organized by  
National Institute of Development Administration (NIDA)  
Bangkok, THAILAND



**National Institute of Development Administration (NIDA)**

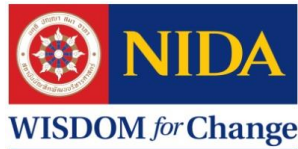
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**Editors**

**Assistant Professor Dr. Wariya Lamlert**

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## Preface

The Ninth NIDA International Conference for Case Studies (NIDA-ICCS) will be held in Bangkok Thailand, June 28, 2019, at NIDA's Bangkok campus. The conference brings together scholars and experts from a wide range of development administration fields to discuss practical and research issues related to teaching case studies.

NIDA proudly invites scholars and experts to send their teaching case studies in various fields of development administration.

The keynote speaker will be Dr. Evan M. Berman, Professor of Public Management, School of Government, Victoria University of Wellington, New Zealand

|                                 |
|---------------------------------|
| Conference Theme and Sub-themes |
|---------------------------------|

Main Theme: Teaching Case Studies on Development Administration

Sub-themes in various fields of development administration include:

- Public Administration
- Economics
- Business Administration
- Social Development
- Environmental Management
- Law, Legal Studies
- Human Resource Development
- Language and Communication
- Applied Statistics
- Decision Technology
- Actuarial Science and Risk Management
- Population and Development,
- Information System Management and Computer Science
- Tourism Management
- Sustainability
- Corporate Social Responsibility and Ethics

### About NIDA

National Institute of Development Administration (NIDA), is established in 1966, is a unique higher education institute in Thailand that offer exclusively graduate degree programs. NIDA was originally established to support national development in Thailand; this objective has now been expanded to encompass regional development in countries outside of Thailand, with the aim of producing advanced degree graduates who can serve in the public, business, and nonprofit sectors. NIDA holds its academic conferences and publish at least two journals regularly—NIDA Development Journal (in English) quarterly, and NIDA Case Research Journal (in English) annually. For more information please visit our website: <http://www.nida.ac.th>.

## **Foreword**

It is our great pleasure to present the proceedings of the 9<sup>th</sup> NIDA Case Studies on Development Administration 2019 (NIDA-ICCS 2019). We have compiled the latest quality teaching case studies from scholars in the region and around the world.

After blind review process, a total of 17 case studies were accepted for presentation in several parallel sessions of the conference to be held at National Institute of Development Administration Bangkok, Thailand between June 28, 2019.

The case studies are resourceful and contribute a great deal to the academicians and practitioners in the field relating to development administration. The organizing committee wishes to express our special thanks to the authors of the cases, the reviewers, and all those who have contributed to the conference. We would like to express our gratitude to all those individuals and institutions who had supported this conference professionally and enthusiastically in order to make this conference happen.

Research Center  
National Institute of Development Administration

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Friday, June 28, 2019

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## Strategy and Success of DMart: The Case of Retail Chain in India

*Avinash Pawar<sup>1</sup> and B. V. Sangvikar<sup>2</sup>*

### Abstract

The objective of this paper is to discuss and present the case of DMart retail chain and provide insights about their success in India. The Indian retail industry is emerging as one of the most dynamic and growing industries due to the market size and economic power. DMart is increasingly profitable retail supermarket chain in India that aims to offer customers a wide range of basic home and personal products under one roof with an objective to offer good products at great prices. Customers prefer DMart for better value for money and masses of discounts than their competitors. Their target customers are middle-income groups and families who are aspiring to meet most regular consumer needs. DMart is termed as Indian Wal-Mart and this accomplishment is largely due to their business philosophy, long-term vision, pricing strategy, cautious focus, regimented model, ACT formula, innovative planning and product categories. DMart's financial and market success is due to three major pillars, they are customers, vendors and employees. The data is collected from customers and employees using the questionnaire and interviews to build up qualitative inferences. While the financial and market reports are collected from authenticated sources. This case also discusses the qualities, lessons and reasons for the success of DMart in India.

**Keywords:** Retailing in India, DMart Supermarket, Retail Success

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## 1. Introduction

Indian retail industry is under transition today, bringing a lot of transformations in retailing business. The shoppers enjoy the privilege of shopping the goods and services required by them in a variety of formats to meet their expectations.

Retail comes from the French word *retailier*, which refers to "cutting off, clip and divide". In terms of Tailoring (1365) it first was recorded as a noun with the meaning of a "sale in small quantities" in French. Its literal meaning for retail was to "cut off, shred, paring". According to Gilbert, D (2013), it is a business that directs its marketing effort towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution. Retailing was never as seen today. It is believed that the first true department store in the world was founded in the Paris in 1852 by Aristide Boucicaut and was named as Bon Marche. (Lamba, 2003)

Retailer performs various functions while selling their products and services to their customers and it enable the products to ultimately be sold successfully. In this context, they perform various functions like sorting, breaking bulk, holding stock, as a channel of communication, storage, advertising and certain additional services. The emergence of organized retail in India dates back to the pre-independence era when the country's established business houses, mostly textile majors, ventured into the retail arena through company-owned or franchisee outlets. The retail revolution in India can be explained in four stages as below:

**Table 1:** Phases of Retail Evolution in India

| No | Phase                    | Year         | Significance  |
|----|--------------------------|--------------|---|
| 1  | Initiation               | Pre 1990     | It was essentially dominated by manufacturers establishing their presence in retail.  |
| 2  | Conceptualization        | 1990 - 2005  | This time around it was not the manufacturer looking for an alternative sales channel, but pure-play retailers who entered the retail market, to expand pan-India |
| 3  | Retail Expansion         | 2005 - 2010  | This is perhaps the most active phase of the Indian retail industry in terms of growth, entry of new players and development of new formats.                      |
| 4  | Consolidation and Growth | 2010 onwards | Considering the challenges and competition faced by the industry at present, retail chains are likely to focus on consolidations and growth                       |

(Source: <http://india.retailmantra.com>)

## 2. DMart: The Indian Retail Chain

### 2.1 Indian Retail Segment:

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly US\$ 3,600 billion by 2020 from US\$ 1,824 billion in 2017. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. India is the world's fifth-largest global destination in the retail space. Retail industry is one of the largest and the fastest growing industries in the global economy. Retail industry in India has been present through history and has witnessed so much dynamism. It is slowly giving way to international formats of retailing. According to IBEF report (2017), retail sector in India accounts for about 10% of countries GDP and is the world's 5th largest global destination in the retail space. India's retail sector is experiencing exponential growth, with retail development taking place not just in major cities and metros, but also in Tier-II and Tier-III cities.

India's retail market is expected to increase by 60 per cent to reach US\$ 1.1 trillion by 2020, on the back of factors like rising incomes and lifestyle changes by middle class and increased digital connectivity. Online retail sales are forecasted to grow at the rate of 31 per cent year-on-year to reach US\$ 32.70 billion in 2018. India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Luxury market of India is expected to grow to US\$ 30 billion by the end of 2018 from US\$ 23.8 billion 2017 supported by higher purchasing power of the middle class (Assocham, 2017)

The Indian retail trading has received Foreign Direct Investment (FDI) equity inflows totaling US\$ 1.59 billion during April 2000 – December 2018, according to the Department for Promotion of Industry and Internal Trade (DPIIT). With the rising need for consumer goods in different sectors including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months. The Government of India has taken various initiatives to improve the retail industry in India.

### 2.2 DMart: The Indian Retail Chain

DMart retail chain accounts for 91 stores across India and is the third biggest in the industry. It is operated by its parent company Avenue Supermarts Ltd (ASL). DMart is a chain of hypermarket and supermarkets in India which was first started in 2000 in Mumbai by R. K. Damani. DMart began almost 14 years ago in the city of Mumbai (India) where its promoters walked the supermarkets and co-operative stores of the time and observed the contents of the shopping trolleys to gain an understanding of what the customer bought and what they rejected.

All operational wisdom was gathered from the supermarket, while philosophically, it was clear that the store must follow the principles laid down by Sam Walton. Wal-Mart had treated some fundamentals as gospel and if they could succeed with their simple approach to retail, there was no reason for a store in India not to do so. In a very basic way, therefore, all DMart did was to watch the customer trolley and read everything about Sam Walton and Wal-Mart. The strategy paid off in spades and its retailing has customers lining up at their doors. The simple formula that makes DMart tick is shared and intuitively understood as invaluable in the large organisation. Probably this simplicity has helped it scale nicely while staying lean as an organisation. One of the cornerstones of DMart's continued success is how it has retained its frugal outlook to retail through all market upheavals and internal changes over the years. They have the following unique selling proposition.

- **Selling Tool:** Heavy discounts and has managed to sell cheap
- **Market Segment:** Price sensitive group
- **Target Market:** Middle income households
- **Market Positioning:** One-stop value retail store chain

DMart is a one-stop supermarket chain that aims to offer customers a wide range of basic home and personal products under one roof. Each DMart store stocks home utility products including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and more available at competitive prices that customers appreciate. Their core objective is to offer customers good products at great value. At DMart, they place strong emphasis on excellence in customer service. They rely on the ACT formula as below.

- **Action**
  - Focus: To be focused about what I do.
  - Motivated: To be clear of achieving my goal.
  - Enthusiastic: To love what I do.
- **Care**
  - Respect: To respect every individual in the organization and provide her/him with the dignity and attention to make her/him believe that she/he makes a difference to the organization.
  - Listen: To listen and resolve any employee / customer grievance quickly and fairly.
- **Truth**
  - Integrity: By being open, honest and fair in all our relationships and being respectful and trustful to others.

They strongly believe that honesty and sincerity are critical in achieving complete customer satisfaction and welcome individuals who share our values and believe in leading by action.

### **3. Growth Milestones of DMart:**

Since the time R. K. Damani was an investor, he liked the consumer business and was seen investing in similar stock too! So he always had a strong affinity to start something in the same sector and in 1999, when retailing was far from reality, at least in India. The early days of the business were all about intensive learning, understanding the customer's mindset and accordingly creating a store layout, billing systems, gaining the confidence of vendors. Within a year, they decided to apply the model to multiple locations as well.

- In 2007, DMart began its expansion and went on to open various stores in Ahmedabad, Baroda, Pune, Sangli and Solapur. Their expansion strategy followed a collective approach and was designed in such a way that they used the local vendor support.
- By 2012-13, DMart had soared its revenues from Rs. 260 crores in 2006-07 to Rs. 3,334 crores, making them India's third-largest branded retail chain. The beauty here was that, what Future Group with 1000 stores was clocking (turnover of Rs.14,201 crores), and Reliance Retail was clocking (Rs.10,800 crores) with 1450 stores; DMart was achieving with just 65 stores, which weren't pan India. Their sales per store was somewhere close to Rs. 53 crores, while Reliance was making around Rs. 7.45 crores per store. In just a span of 13 years, DMart had also managed to achieve profitability around 2.5 %.
- By 2014, they had reached to account for 73 stores across Maharashtra, Gujarat, Hyderabad and Bangalore. The company has been growing robustly despite a slowing economy and were also crossing the Rs. 100-crore mark in profits. At a time when other retailers were finding ways to cut costs or slow down, DMart was on an expansion drive to open more supermarkets.
- Moving on to 2015, with revenues worth Rs. 6450 crores, DMart booked a profit of Rs. 211 crores in FY14-15, which was higher than Reliance Retail's Rs. 159 crores and Future Retail's Rs. 153 crores.

- DMart now accounts 91 stores spread across 26 cities including states of Maharashtra, Gujarat, Telangana, Andhra Pradesh, Madhya Pradesh and Karnataka, Since its initiation, DMart became the first retailer to cross the billion dollar market profitably and DMart's target audience being the middle income group, it uses discount offers as a promotional tool for attracting the customers and increasing sales as well.

## 4. Strategic Elements of DMart:

### 4.1 Every Day Low Price:

DMart wants to create an image amongst the masses of a discount store that offers most of the products from across all major brands. Basically, a store that offers value for money. Now, since people mostly come to DMart because they all what they need under one roof, DMart stores are operational in high traffic areas and across three formats including Hypermarkets, that are spread across 30,000-35,000 sqft, Express format, that is spread over 7,000-10,000 sqft and lastly, the Super Centers, that are set up at over 1 lakh sqft.

- No matter where it operates, the prices that DMart offers are 6-7 % lower than its competition. What lets it achieve such pricing tactics is its operational style.
- Out of the all the stores it runs, DMart owns majority of the properties, which helps them to save a huge chunk of money on rent.
- They also avoid opening stores inside malls unlike other hypermarkets to avoid high CAM (Common Area Maintenance) charges and highly inflated rents.
- Most DMart stores are in the suburbs in the metros and in tier II & tier III cities, the operational costs remain low.
- DMart also saves a good amount of 2-3% from the suppliers by paying them upfront in about 48 hours of delivery, when all other organized retailers, buy goods on credit of 30-60 days.
- Unlike bigger retailers, costs are further kept low by keeping a basic and economical layout without any flashy interior.

- Given its size, DMart also manages to keep its financials at check and grounded too. They have kept their debts at a bare minimum and have also cut their advertising budgets by 30-40 % in the last couple of years to save costs.

There is an unsaid rule in the market that, “one must not open any store within a 1km radius of DMart, simply because, no one can beat them on prices.” but DMart’s cost efficiency model is practically very difficult to replicate. On a larger scale, it is not possible for bigger chains to own stores because, it requires huge capital expenditure, and this method is only affordable till the time you’re a small chain, which is why DMart is growing slowly. Using such strategies, DMart has managed to reach profitability much before any other peers.

A winning formula making products available at Every Day Low Price (EDLP) is D-Mart’s winning formula in value retailing. For EDLP, the company focuses on Every Day Low Cost (EDLC).

## 4.2 Pillars of DMart:

DMart’s success is focused on three pillars Customers, Vendors and Employees.

1. **Customers:** Since DMart is targeting middle income households, all their stores are in, or close to, residential areas and not in malls. Their idea is not to meet every consumer need like other competitors, but instead, DMart aspires to meet most regular consumer needs, while providing value for their money and since, 90% of these stores are owned directly by DMart, they don’t have to worry about monthly rentals and their rise, or relocation risk. Additionally, this is helping them build assets on their books. This also helps to keep DMart well capitalized and debt-light, while its operations generate spare cash. All the money that is saved using this strategy is eventually offered back to the customers in the form of discounts.
2. **Vendors:** The relationships with vendors are the second pillar of their model. Since he comes from a trader background, his vendor relationships have been his biggest strength. The FMCG industry has a payment norm of 12-21 days, but DMart pays its vendors on 11th day itself. This helps him stay in the good books of the vendors and avoids stock outs and since DMart

buys in bulk and pays its vendors well in time, they also get to earn higher margins. Basically, their strategy is to “Buy it low, Stack it high and sell it cheap”.

3. **Employees:** It is the third pillar of their model. DMart offers good money, flexibility, empowerment, and relaxed & efficient work culture. They even go on to hire 10th standard dropouts with the right attitude and commitment. They prefer hiring raw talent, and then invest heavily in training, to mold them as per their requirement. Employees are just told once about the value system and policies at D-Mart and then are empowered by giving them the freedom to operate without somebody constantly looking over their shoulders. There is absolute clarity on what needs to be achieved, but you don't need to fear targets.

#### 4.3 Strategies for Success of DMart:

**A) Strategy 1: Full Ownership of Space:** Majority of the known names like Big Bazaar, Star Bazaar, Hypercity, More etc. have a good number of stores located in malls which is rented space. This is done to benefit from customer footfalls & also because the initial investment is much lesser, since good malls only give out spaces on rent which is significant and becomes a fixed operational cost month on month. DMart have their own properties. Over a period of last 10 years, this strategy has made perfect sense because, now these properties have all appreciated in value and they do not have to pay any rent, which is usually the most major cost factor for a retailer which resulted in higher margins.

**B) Strategy 2: Low Margin and High Volume:** FMCG business is based on low margin and high volume business. The better way to attract the Indian consumers is by offering more discounts. DMart bought good volume of goods from the distributors and instead of requesting them to extend a credit line to DMart. They assured Payment of Goods in about 15 days. Other players work usually on a 60-day credit line. No comparable competitor competes with DMart on this and DMart gets extra margin for quick cash. Behind the scenes, this fast turnover is what it uses to negotiate with wholesalers and companies for better prices. This doesn't mean arm-twisting suppliers though. In fact, payment to most suppliers are arranged fortnightly. This is among the shortest credit periods in any industry.



**C) Strategy 3: Low Private Brands:** They offer a lesser array of top brands for a particular product when compared to other shopping malls. This is because, they contract people to directly manufacture products. This ensures elimination of distributors and middlemen. Now since, they have volume bargaining & cash power, they negotiate best margins. Some of which are passed to the customer and remaining become profits along with better control on the supply chain. Similarly, contrary to other chains, it does not have private labels, nor does it offer a wide choice of brands in each segment. The focus is clear: daily consumption goods + known brands only + limited options = ultra-fast turnover.

**D) Strategy 4: Elimination of Intermediaries:** DMart uses bargaining power to negotiate with top brands by eliminating distributors. While, the best of brands make an exception for them because the sales volume is too large to ignore. This strategy has caught up with other retailers too.

**E) Strategy 5: Value Based Management and Team:** They have a wonderful top management and employee team. They have developed the unique value proposition for their organization and employees to perform better which contributed to the growth of the DMart.

**F) Strategy 6: Cautious Business Focus:** Other retail companies have expanded quickly into multiple segments with differentiated retail chains, D-Mart's sales mix is largely limited to food, groceries and daily products. Categories like high-end electronics, jewellery and watches which companies like Reliance have forayed into and which make up as much as 25% of Indian consumer spending is something the company stays far away from. DMart thrives on low margins and, to a certain extent, D-mart is built around this philosophy. Industry executives call it their three step business model as "Start with low-cost products that consumers need on a daily basis and that you can sell for slightly below MRP. This allows to rack up a great inventory turnover ratio. Then use that quick inventory turnover to negotiate better prices with wholesalers which supports to get low prices"

**G) Strategy 7: Different Duckling Approach:** Private labels and top-end products bring in higher margins but saddle companies with inevitably higher inventory turnover. Offering multiple brands of the same product also leads to similar outcomes, which is why the assortment of products and variety of brands that one finds at a D-Mart store is often limited when compared to other retail stores.

**H) Strategy 8: Assembly Chain of Sales:** They want the products are converted into sales as fast as possible because of this, they are able to avoid the high-stakes, perennial discount game that other retailers often get trapped in. Customers who walk into a DMart store understand that they are getting a no-frills approach but also know that most food items and groceries on offer will be 6% to 12% cheaper than what they will find at other stores. In some cases, certain products will be 10% below MRP.

**I) Strategy 9: Regimented Business Model:** Much of the company's focus, as well as comparisons to Walmart, stems from decision to follow a store-ownership model. The company has spent over Rs 23 billion on acquiring land and buildings but either owns most of its stores or has them on a 30-year long-term lease. This is, in part, what has forced it to rack up debt of a little over Rs. 1000 crores; a certain amount of its IPO proceeds have been allocated towards repaying this debt.

**J) Strategy 10: Particular Location as per Density:** While competitors head to India's rapidly-growing malls because that's where consumer spending is highest, D-Mart hasn't and doesn't ever plan on opening a store in a mall. As other retailers are experimenting with a wide range of formats and geographic locations, D-Mart sticks to what it knows best. It uses one of two formats of stores whose size is calculated based on location and shopper density. The company is also extremely reluctant to expand geographically. Until 2014, it had stores only in four Indian states. Over the last three years, it has expanded into five more states but is still conspicuously absent in the NCR region and other high consumer spending states like Tamil Nadu. This strategy pays off for the company.

**K) Strategy 11: Conscious Pricing Approach:** D-Mart operates on pricing and discounts. Consumers are offered a minimum 3% discount on every product off its shelf, and in some cases the discount is as much as 10% off MRP. As we will see, it influences all decision-making for the chain.

**L) Strategy 12: Lowest Product Inventory Turnover:** Profitability in retail is driven by a combination of profit margins and inventory turnover. With price as the differentiator, profit margins on individual items will be squeezed (its gross margin is only about half of its competitors). Hence, D-Mart operates in limited product segments mainly food and groceries. Most other retail chains have expanded into high-end segments too, but D-Mart has stayed away from them to keep inventories low and inventory turnover high

(during 2012-2016, inventory turnover was about 11.6 times in a year i.e. its stock was bought and sold an average of 11.6 times every year).

**M) Strategy 13: Diligent Cost Control:** It has been another key focus area of DMart. Unlike its peers in the retail space, DMart has steered clear of exuberant spending on marketing and advertising. It has simple store plans and has never set up fancy stores in malls or launched multiple formats and categories. Instead, it moved forward taking measured steps. It owns most of its stores or has them on 30-year long-term leases. This has brought down costs further as real estate dents revenues to some degree. Besides avoiding swift and costly expansion strategies to gain market share, DMart has also avoided forking out astronomical pay packages to top honchos. In fact, it does not hire high profile executives like its competitors.

**N) Strategy 14: Low Cost Promotional Methods:** DMart advertises mainly about its store openings, and occasionally about the prices. Also, because the combination of product lines and prices offered by the store will build habitual visits hence the promotion has a limited role.

**O) Strategy 15: Emphasis on Fast Moving Products:** The idea behind launching DMart stores was simple, It cater to the growing middle-class's daily household needs by purveying groceries, vegetables, electronics and apparel at ultra-competitive prices. On the lines of global retail giant Wal-Mart's everyday low prices, DMart also started offering Every Day Low Price and Every Day Low Cost. It proved to be its biggest unique selling point and till date is the sole reason behind housewives and other bargain hunters making a beeline for its stores. This has resulted in high inventory turnover, particularly in the food segment which sees over half the demand, and thus even with low profit margins, the retail chain has managed to flourish. Further, DMart's tight and a relatively small assortment has also helped it arrest losses from wastage.

**P) Strategy 16: Stringent Distribution System:** Since location is the most expensive and critical decision in retail, D-Mart ensures it doesn't burn money by a compact supply chain and staying away from malls. The concentrated supply chain means not spreading their footprint far and wide. In fact, until 2014, it was present only in 4 states. It follows a policy of opening 75% of its new stores in existing states or markets. In terms of formats too, it has limited itself just to 2 size formats, and choosing between them is based on

location and shopper density. While, not being in malls helps the chain to keep retail costs low. It also believes in owning the retail space so that rental costs are low. In places where owning is not possible, the store is on 30-year leases.

**Q) Strategy 17: Maintaining Loyal Consumers:** One of the primary reasons for DMart's dedicated customer base is its low prices. For one, there is a minimum 3% discount on every product off its shelf. Secondly, the store decor is simple, even for the ones situated in urban localities this does not drive away any strata of consumers and they keep returning. This, coupled with low prices, means that bulk buying is a very common phenomenon, on the demand side.

## 5. Methodology

The primary data is collected from the 197 customers of DMart from different regions using the convenient sampling. The researcher has collected the responses with questionnaire and also conducted the interviews of the respondents. The validity and reliability of the instruments is ensured in the study.

## 6. Analysis and Interpretations

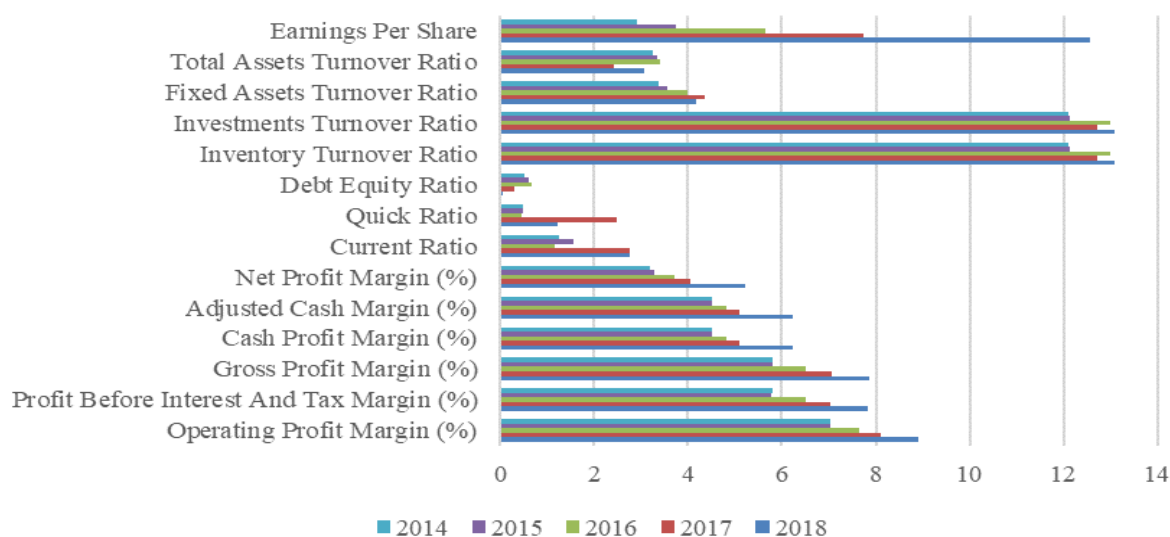
The data is collected from the authenticated sources of Bombay Stock Exchange, National Stock Exchange of India and money control. The following ratios of DMart from 2014 to 2018 are analyzed for getting the inferences.

**Table 2:** Functional Ratios of DMart

| Factor/Year                               | 2018  | 2017  | 2016  | 2015  | 2014  |
|---|-------|-------|-------|-------|-------|
| Operating Profit Margin (%)               | 8.91  | 8.11  | 7.65  | 7.04  | 7.02  |
| Profit Before Interest And Tax Margin (%) | 7.84  | 7.03  | 6.50  | 5.77  | 5.80  |
| Gross Profit Margin (%)                   | 7.87  | 7.05  | 6.52  | 5.79  | 5.80  |
| Cash Profit Margin (%)                    | 6.22  | 5.10  | 4.82  | 4.52  | 4.51  |
| Adjusted Cash Margin (%)                  | 6.22  | 5.10  | 4.82  | 4.52  | 4.50  |
| Net Profit Margin (%)                     | 5.22  | 4.06  | 3.70  | 3.27  | 3.20  |
| Current Ratio                             | 2.77  | 2.77  | 1.17  | 1.56  | 1.25  |
| Quick Ratio                               | 1.23  | 2.47  | 0.45  | 0.48  | 0.47  |
| Debt Equity Ratio                         | 0.05  | 0.29  | 0.68  | 0.62  | 0.52  |
| Inventory Turnover Ratio                  | 13.08 | 12.73 | 12.99 | 12.14 | 12.11 |
| Investments Turnover Ratio                | 13.08 | 12.73 | 12.99 | 12.14 | 12.11 |

**Table 2:** Functional Ratios of DMart (Cont.)

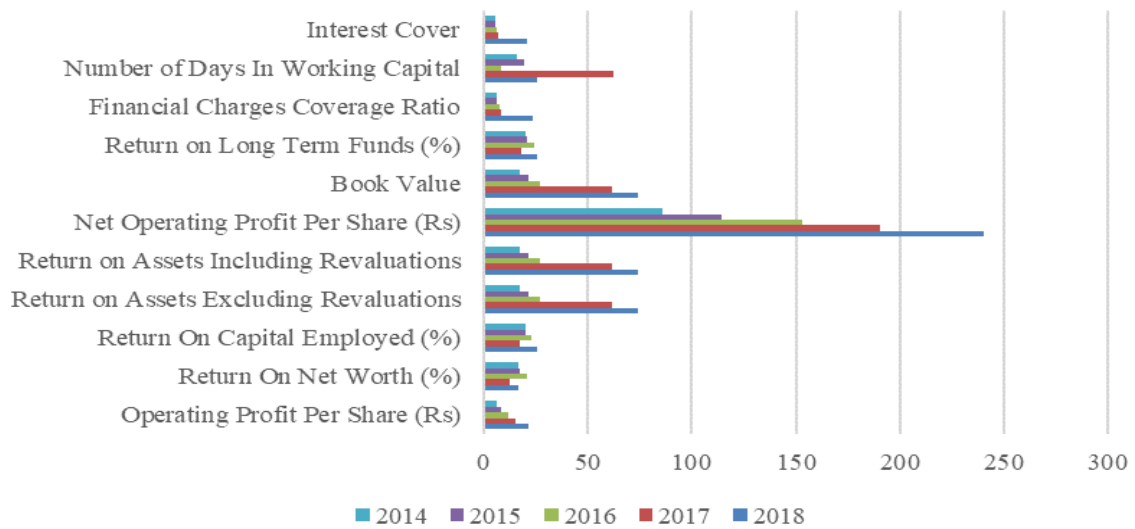
| Factor/Year                 | 2018  | 2017 | 2016 | 2015 | 2014 |
|-----------------------------|-------|------|------|------|------|
| Fixed Assets Turnover Ratio | 4.16  | 4.35 | 3.98 | 3.57 | 3.38 |
| Total Assets Turnover Ratio | 3.07  | 2.41 | 3.39 | 3.33 | 3.25 |
| Earnings Per Share          | 12.57 | 7.73 | 5.66 | 3.75 | 2.92 |



2014 to 2018 except for the debt equity ratio and total asset turnover ratio. It is because DMart invest in buying the space for business rather than renting it.

**Table 3:** Operating Ratios of DMart

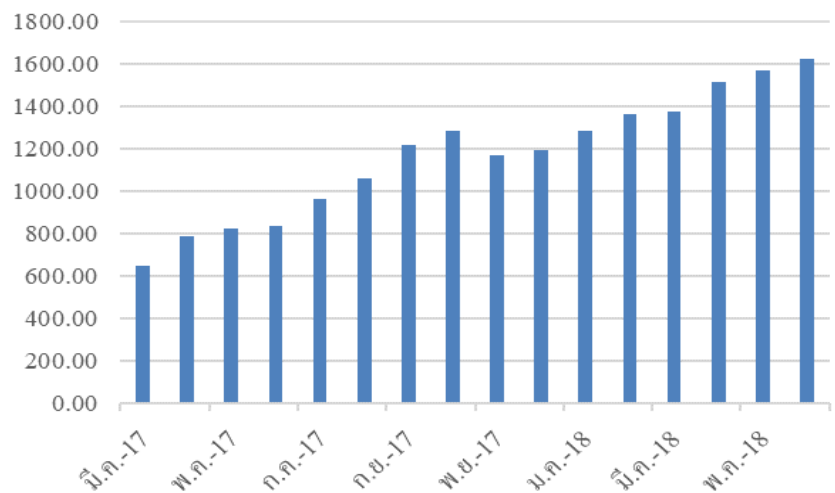
| Factor/Year                             | 2018   | 2017   | 2016   | 2015   | 2014  |
|---|--------|--------|--------|--------|-------|
| Operating Profit Per Share (Rs)         | 21.43  | 15.44  | 11.69  | 8.07   | 6.13  |
| Return On Net Worth (%)                 | 16.90  | 12.57  | 21.02  | 17.66  | 16.79 |
| Return On Capital Employed (%)          | 25.63  | 17.58  | 22.87  | 20.34  | 20.31 |
| Return on Assets Excluding Revaluations | 74.39  | 61.48  | 26.92  | 21.24  | 17.38 |
| Return on Assets Including Revaluations | 74.39  | 61.48  | 26.92  | 21.24  | 17.38 |
| Net Operating Profit Per Share (Rs)     | 240.49 | 190.38 | 152.71 | 114.57 | 85.61 |
| Book Value                              | 74.39  | 61.48  | 26.92  | 21.24  | 17.38 |
| Return on Long Term Funds (%)           | 25.67  | 18.03  | 23.94  | 20.63  | 20.42 |
| Financial Charges Coverage Ratio        | 23.73  | 8.17   | 7.42   | 6.59   | 6.40  |
| Number of Days In Working Capital       | 25.92  | 62.20  | 8.25   | 19.49  | 15.95 |
| Interest Cover                          | 21.13  | 7.13   | 6.35   | 5.47   | 5.38  |



**Interpretation:** all the operating ratios and values shows the positive incremental trend from 2014 to 2018.

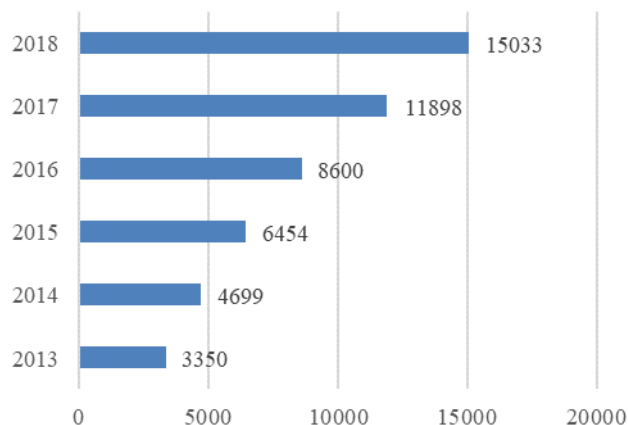
**Table 4:** DMart Stock Price Trend

| Month  | Stock Price |
|--------|-------------|
| Mar-17 | 648.90      |
| Apr-17 | 790.00      |
| May-17 | 825.10      |
| Jun-17 | 835.00      |
| Jul-17 | 964.25      |
| Aug-17 | 1058.55     |
| Sep-17 | 1217.00     |
| Oct-17 | 1283.75     |
| Nov-17 | 1170.00     |
| Dec-17 | 1193.90     |
| Jan-18 | 1283.15     |
| Feb-18 | 1364.95     |
| Mar-18 | 1375.00     |
| Apr-18 | 1516.70     |
| May-18 | 1571.00     |
| Jun-18 | 1623.00     |

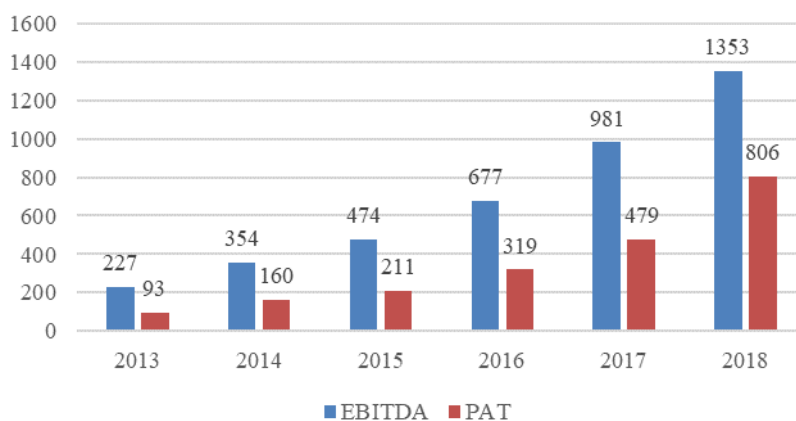


**Table 5:** DMart Revenue, EBIT and PAT Trend

| Year | Revenue  |
|------|----------|
| 2013 | 3350 CR  |
| 2014 | 4699 CR  |
| 2015 | 6454 CR  |
| 2016 | 8600 CR  |
| 2017 | 11898 CR |
| 2018 | 15033 CR |



| YEAR | EBITDA (CR) | PAT (CR) |
|------|-------------|----------|
| 2013 | 227         | 93       |
| 2014 | 354         | 160      |
| 2015 | 474         | 211      |
| 2016 | 677         | 319      |
| 2017 | 981         | 479      |
| 2018 | 1353        | 806      |



**Interpretation:** There is a positive growth in stock price, earnings before interest, tax, depreciation and amortization (EBITDA) and profit after tax (PAT).

**Table 6:** Consumer Perception for DMart

| Consumer Perception         | Average |
|-----------------------------|---------|
| Prices are lower            | 4.6     |
| Value for money             | 4.3     |
| Better offers and discounts | 4.2     |
| Good quality of products    | 4.0     |
| Availability of products    | 3.8     |
| Variety of products         | 3.7     |
| Location is convenient      | 3.6     |
| Fast service                | 3.6     |
| Well trained staff          | 3.6     |
| Employees are helpful       | 3.5     |
| Good facilities             | 3.2     |



**Interpretation:** It signifies that, the majority of consumers have a perception and prefer DMart due to low prices, value for money and better offers and discounts.

## 6. Results and Conclusion

### 6.1 Results of the study:

- All the functional and operating ratios and values for DMart shows the positive incremental trend from 2014 to 2018.
- All the functional and operating ratios and values for DMart shows the positive incremental trend from 2014 to 2018.
- The stock price trend show the positive growing trend in just a period of one year from 2017 to 2018.
- The revenue, EBITDA and PAT shows the incremental trend for DMart from 2013 to 2018.
- The major reasons for consumers to visit the DMart is low prices, better value for money and more offers and discounts
- DMart continues to have a net profit margin of 3.5%. The initial public offering (IPO) rocked the stock market like no other. On day one, share prices doubled and by the time the initial public offering (IPO) closed, it was oversubscribed by over 100 times. Its IPO was over-subscribed and then it got listed at more than 100% premium of its subscription price. And it has also made its promoter R. K.



Damini the wealthiest retailer in India. DMart's stock the most expensive among retail stocks in the world.

- DMart is successful by following a viable *modus operandi* that helps control costs and rake in profits. Profits enable them to fund expansions and capture greater market share. Following this simple and logical strategy, home grown retail chain DMart has quietly stolen a march over all its formidable competitors over the years to taste phenomenal success.
- It may appear strange that while buzz is so strong around India's e-commerce industry and companies like Flipkart and Amazon, the best-performing IPO in recent corporate history is a brick-and-mortar supermarket and yet, D-Mart's stringent focus on profitability offers lessons to both physical and online retailers, both of which have stumbled in the last few years. After burning through billions in venture capital funding and thousands of layoffs, India's e-commerce industry is finally growing up and shifting towards a focus on profitability. The company's success so far stems from its blinkered approach towards product categories and geographic location. And in its 15 years of operations, it has never closed, moved or shut down a store.

## **6.2 Conclusion:**

DMart's case study creates awareness about the techniques and strategies it uses especially for cost efficiency and higher sales. Their strategy has marked difference from nearly every other Indian retailer. Whereas other companies have expanded quickly into multiple segments with differentiated retail chain, DMart has restricted segmentation. This makes DMart more profitable than others. It has certain challenges but the founder is always prepared with some out of box strategy and gives stellar performance. Majority of the customers of DMart are middle income families and they prefer it for price, value for money and offers and discounts. The inferences drawn from the case may lead to possible understanding of a company's performance, the way it differentiates from its competitors. The company is working on its dilemma by pilot testing some online services & home delivery services in metro cities keeping in mind its cost efficiency.

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## SOS! The Early Stage of Rescuing Mydin Pke Emporium

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Abdul Rahim N., <sup>4</sup> and Saad S., <sup>5</sup>*

Nizar was not in the best of mood. He feels that all are about to crumble and he is helpless against the impending avalanche. His mind was wandering off being preoccupied with an earlier conversation that he had this morning. He was on his way home after picking Nani, his daughter from nursery. His adorable 3 yearold daughter who was talking to him animatedly telling him about what happened at nursery today shouted with anger “Daddy, you are not listening to me. Puss, the cat at school scratched me today. Look Daddy, it is still bleeding.” “Oh sorry my dear, let me see your arm. It’s not that bad. Let’s put a plaster when we get home”, replied Nizar to Nani. She continued her chatter oblivious to the fact that her Dad is not listening to her. His mind is still thinking on the new project assigned to him by the senior management team (i.e. the steering committee) of MYDIN Headquarters (HQ) to revive the flagging MYDIN PKE to a profit-making emporium. He still remembers the statement made by Datuk Hj. Azeez Ali, the Managing Director of MYDIN via the phone, “I strongly believe you can do it, you are one of our best managers. We do not need an external consultant to do it. The cost will be exorbitant plus with the dire straits that we are in, we simply could not afford it. We know you can transform MYDIN PKE to a profit-making centre!”

MYDIN Holdings Berhad (MYDIN) projected accumulated annual revenue of RM3.0 billion in 2013 with a profit nearly RM24 million. MYDIN has enjoyed sales growth approximately at 12 percent per annum until 2012. However, forty five outlets performed quite badly which had resulted in a significant drop in sales performance in 2013. The 45 outlets comprised of 3 emporiums, 2 supermarkets and 40 mini markets. One of the 45 outlets was MYDIN Pekan Emporium (MYDIN PKE) which recorded a significant net loss of RM668,756. This poor performance has affected MYDIN’s overall plan to go for public listing.

MYDIN senior management team formed a Steering Committee to review and address issues that would have contributed to the overall financial performance of MYDIN. Some of the more crucial items for MYDIN to work on was to intervene and stop MYDIN

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PKE from making more losses, revive and convert MYDIN PKE to be a profit-making emporium. They should find a suitable project leader and this project needs to be executed immediately. Hence, Nizar, one of MYDIN's highly reputed Senior Managers had been assigned to lead the business turnaround project at MYDIN PKE. His mission was to identify and determine the reason behind MYDIN PKE's dismal performance and to initiate reviving efforts for MYDIN PKE to revert to its former glory with the ultimate aim of improving the overall sales performance in ensuring that MYDIN could take care of their shareholders and also go for public listing.

Nizar was a Senior Manager at MYDIN franchise outlet located in Nilai, Negeri Sembilan. He had 12 years relevant working experiences in retail industry at various areas such as setting up new outlets, project management, merchandizing and operating outlet. He possessed good entrepreneurship skills when he led the MYDIN Mart Nilai and his outlet (i.e. MYDIN Mart Nilai) received a number of prestigious awards, including the Anugerah Kedai Pilihan Rakyat 2013, Anugerah Kedai Harga Patut for two years (in 2010 and 2014) and Sijil Prestasi Cemerlang PUNB 2009. He also gained experiences in various companies such as Permodalan Nasional Berhad as business consultant and Kumpulan Darul Ehsan Berhad as QA & Procedure Manager – prior joining MYDIN Group. Nizar obtained a Degree in Marketing from Universiti Putra Malaysia (UPM), Master of Business Administration (MBA) from Universiti Kebangsaan Malaysia (UKM) and is currently pursuing a Doctor of Business Administration (DBA) at Universiti Utara Malaysia (UUM).

## **THE INDUSTRY – WHOLESALE AND RETAIL**

Wholesale and retail business is among the biggest contributors towards the GDP of Malaysia. These sectors registered the sales value of RM121 billion in 2015 providing employment for 1.4 million people (Department of Statistics, Malaysia). These sectors are categorized under the Service Sector Industry by the Malaysian government which are mainly divided into three components, namely:

- a. Wholesale and retail trade; restaurants and accommodations (WRAA)
- b. Finance, insurance, real estate and business services (FIRB)
- c. Transport and storage; and communication (TSC)

In September 2010, the Government had introduced the wholesale and retail sector as one of the 12 National Key Economics Areas (NKEA) under the initiative of Economic Transformation Programme (ETP), a high priority programme with the goal of boosting Malaysian economy and for becoming a developed-nation by 2020. The other objective of ETP is to elevate Malaysia's status as one of the world's best shopping destinations.

According to Price Waterhouse Cooper Report 2015-16, the retail industries were expected to grow by 5.4 percent in 2014 with the overall transaction of USD93 billion compared to the statistics of 2013 (6.4%: USD89 billion) – *Refer Exhibit 1*.

For the years 2013 and 2014, Malaysian businesses including retailers were subjected to two important policies by the government; the introduction of minimum wage and imposing of Goods and Services Tax (GST). In January 2013, Malaysia had introduced a minimum salary scheme in which the basic rate of RM650 for a general worker had been increased to RM900, for Peninsular Malaysia and RM800 for East Malaysia. These increases equalled to 38 per cent of increased wage. Employers had no choice but to accept these changes which sadly have caused their operational cost to increase and their profit margin to decrease. Many of the small businesses were at risk and some of them had to cease operations or had changed their focus to other forms of businesses that required lesser people. Some companies even had to go back to the drawing boards to re-strategize in order to ensure they remain in business.

The GST was officially imposed on 1st January 2014 by the Malaysian government. Despite many assurances given by the Minister of Domestic Trade, Consumerism and Cooperative that the price of most products would become cheaper, the price of consumer products kept on increasing from time to time. GST is supposed to replace sales and service tax (SST) which varied for different products; at a maximum rate of 12 percent to a flat rate of 6 percent. However, manufacturers and producers insisted that the increasing costs of raw material, fuel hike and other factors had resulted in them hiking the product prices. Ultimately, the consumers suffered and had to fork out extra money due to the price increase. The main difference between SST and GST is for GST tax is being imposed at all levels of distributions and for SST, sales tax is being imposed at manufacturer and consumer levels and service tax is being imposed to consumers who are using tax services.

The minimum wage policy had put a real blow on the profit and loss of labour-intensive industries like manufacturing, agriculture, construction and retailing. However, some argue that better wages would increase the morale of employees and boost productivity, both positive for employers. Meanwhile, those against the minimum wage argued that it interfered with the market demand, increases business costs and lead to some inflationary impact as higher costs will be transferred to consumers.

The government also admitted that certain products might suffer from price hike. Despite the issue surrounding minimum wage policy, the number of products involved was very minimal. On the other hand, some manufacturers had increased the price ahead of the date of implementation that caused price to increase before the implementation of GST. As a result, sales volume had fallen in the aftermath and affected the revenue of many companies.

## **THE COMPETITOR IN RETAIL INDUSTRY**

The retail sector can be considered as a fragmented industry due to geographical influence. The rural areas are still dominated by traditional stores. On the contrary, in urban areas, the trend showed that the markets are more organized and mostly cater for premium brands. For household and groceries subsector, hypermarket establishments were the popular choice due to its convenience, easy accessibility and “all under one roof” merchandizing.

Based on a 2015 PriceWaterhouseCoopers Report, Dairy Farm, a Hong Kong-based subsidiary dominated this subsector with 3 chain formats in 2013: Giant (which had 78 hypermarkets and 72 supermarkets), Cold Storage (17 outlets) and premium market, Mercato (2 outlets). Tesco, the UK-based retailer has 46 hypermarkets; and AEON Jusco (Japan) had increased its share with 58 outlets after taking over from Carrefour in 2012.

For the local companies, MYDIN had strengthened its strategy by having 14 hypermarkets, 38 departmental stores/emporiums, 2 premium outlets, 6 franchise outlets, 52 supermarkets and 8 convenience stores. (Figures for Mydin are as at 2014). Parkson Grand, a subsidiary of local conglomerate. Lion Group dominated the departmental stores segment with 39 outlets mostly located in the mall of major cities. Other small players are Econsave, Jaya Grocers, Billion, TF Mart and Hero Mart are mostly located in small cities and towns.

In the future, there is still room for growth for every player as this industry would keep growing due to its nature – where people need to fulfil their daily needs. In addition, the current development at major cities showed the market is going to be dominated by hypermarkets - one stop centre that provides new trend for modern merchandizing, a one-stop avenue for family shopping and leisure. However, having said that, players need to be mindful of the growing influence of online shopping especially by the younger generation in urban areas.

## **HISTORY OF MYDIN HOLDINGS BERHAD**

MYDIN Holdings Bhd. previously known as Syarikat MYDIN Mohamed is a local retailing company, steadily growing from a small family business in Penang selling merchandize such as toys to a well-established Malaysian-owned business throughout Malaysia. The founder of this company is Mr. MYDIN Mohamed (also known as Uncle MYDIN). In 1945, he started a small business in Georgetown, Pulau Pinang, then he moved to Kelantan to set up his very first shop in 1957. Later in 1979, he again moved to Terengganu and his eldest son Mr. Murad Ali had set up a branch at Kuala Terengganu. From then on, MYDIN has established itself to be a reliable and trustworthy retailer with their branches offering a variety of merchandise at affordable prices. In 1986, Uncle MYDIN's second son, Datuk Hj. Azeez Ali who had never shown any interest in the family business came back into the family fold and helped to open their third branch in Jalan Masjid India, Kuala Lumpur and together with his three brothers, MYDIN had steadfastly moved forward and continuously expanded their business.

MYDIN business model come in several forms namely hypermarkets, emporiums, mini markets, 24 hours convenience stores, bazaars and complexes (see *Exhibit 2*). In year 2013, they have 110 outlets with 10,500 employees and hope to emerge as the best home-grown company in distributing *halal* goods and services. At the beginning of their business, MYDIN only sold non-food items such as textiles and bags known as soft-line products. For the record, the hard-line products include stationery, electrical, toys, bags, and more. When they opened their first hypermarket in USJ Subang Jaya, they sold full range of products that include fresh foods items such as chicken, vegetables, fruit, drinks, beverages and



confectioneries. The food items also began appearing in other branches such as mini market and bazaar.

## **Business Concept**

As per *Exhibit 3*, each MYDIN branch has their own business category, based on the capacity of goods traded. In 2014, MYDIN had 114 retail chain outlets nationwide which consist of:

- a) 14 hypermarkets – one stop shopping centre under one roof. It provides all necessary items inclusive of non-food and food items. The sales area was about 55,000 sq. ft.
- b) 32 emporiums – selling several product lines without fresh foods and the size approximately 20 to 30,000 sq. ft.
- c) 6 franchise MYDIN Mart (emporium)
- d) 52 supermarkets / mini markets (48 MYDIN, 2 MYDIN Bazaar & 2 Sam's Groceria -premium minimarkets – selling groceries, fresh and wet with medium scale size of stores (10 – 30,000 sq. ft.)
- e) 8 Convenience stores – under the flagship of My Mart, a small outlet around 1,400 sq. feet operating 24 hours every day. Similar concept with 7 Eleven.
- f) 2 premium café – Sam's Deli (F&B)

MYDIN was also entrusted by the government to operate the national discount mini markets, which are Kedai Rakyat 1 Malaysia (KR1M) under the public-private partnership arrangement. As of 2014, there were 113 KR1M outlets throughout Malaysia.

## **RECOGNITION**

Based on the overall performance, both MYDIN Holdings as a company and the Managing Director of MYDIN Holdings, Dato' Ameer Ali had received 40 awards and some of the prestigious awards received were:

- Corporate Social Responsibility Leadership Award 2012 – Young Entrepreneur Organization Malaysia
- Special Award for Industry Collaboration 2012 – UUM
- Brand Laureate Top 10 Master Award 2011- SMEs Chapter Award for Most Preferred Brand in Retail-Hypermarket
- Retail & Courtesy Standard of Excellence Accreditation Program 2011/2012 –MRA
- The People's Choice Putra Brand Award 2011



- Excellence Brand – The 8th Asia Pacific International Entrepreneur Award 2009
- The Malaysia Business Leadership Award 2010-Retail Chain Sector E&Y
- The E-50 Enterprise 2007 – SMIDEC & Deloitte
- Fair Price Retailer- KPDNKK from 2003 till 2014
- Anugerah Tokoh Kepenggunaan Islam 2008 -PPIM

The awards received reflected the recognition of a Malaysian company that has successfully strived and competed with the big multinational competitors such as Tesco, Carrefour, Jusco, and Giant – as well with other local players such as Econsave and Billion.

### **MYDIN EMPORIUM (MYDIN PKE)**

MYDIN Emporium (MYDIN PKE) is located at the royal town of Pekan, Pahang. MYDIN PKE rented eight double-storey shop lots in the commercial area of Pekan. The emporium started operating its business in September 2005. The size of the emporium was about 22,400 square feet and the product assortments were more to non-food merchandize; with no fresh items sold. Pekan then was populated with approximately 112,000 people with the main activities were agriculture, plantation and livestock. The majority of them fell under the low and middle income categories.

MYDIN PKE was led by a young Assistant Manager named Bakri holding a Bachelor's degree in Business Administration with less than one year of working experience. He had been appointed as Management Trainee at one of MYDIN's outlets for 4 months. Due to his superb performance during internship program, MYDIN has decided to hire him as MYDIN PKE manager in January 2014. This big and hasty decision were made since the current MYDIN PKE manager had tendered his resignation on a 24-hour notice. Taking in an outsider may take a longer time. Therefore, MYDIN needed to hire someone who already know the operation of MYDIN PKE and how to manage the staff. MYDIN PKE had 64 employees and 50 of them were on a 2-rotating shift. As such, Bakri took the reign of MYDIN PKE when the sales were on a declining trend.

Since the inception, MYDIN PKE enjoyed the sales growth of about 5% to 7% a year. However, the growth could not be sustained and the sales started declining in 2012 and 2103. Based on internal report, the sales for this outlet is shown at *Exhibit 4*.

The significant movement and volatility of sales figure normally affect the profit and loss of any business. As for the wholesale emporium, the huge declining of the revenue would definitely reduce the profit for the respective year. This was also due to the nature of MYDIN's business, which was selling at a wholesale price instead of retail's price. MYDIN has targeted for small margin and expected high volume of sales in order to make profit. When the sales volume drastically dropped, MYDIN is unable to make profit since the other costs such as operation and fixed costs remains unchanged. Therefore, MYDIN suffered a big lost during that particular year – See *Exhibit 5* for MYDIN PKE's Financial Report.

## THE INITIAL TURNAROUND JOURNEY

Nizar with his vast experience was assigned by the steering committee as an internal consultant or project leader for the initial revival initiatives for MYDIN PKE. He needed to turn the loss to profit from year 2014 onwards. In addition, he needed to train and mentor the existing MYDIN PKE branch manager, Bakri on how to better run the emporium and manage the stakeholders. When Nizar came to MYDIN PKE, he was working closely with Bakri and gave advice on certain procedures and issues that could be further improved. There were days, especially in the initial months that Nizar spent ‘shadowing’ Bakri when he went for his ‘walkabouts’ in the emporium and took notes. Later, he will advise Bakri on the better ways in handling certain issues with the employees. He realized that the top management of MYDIN Holdings failed to put management succession program in place. They simply appointed Bakri, a fresh graduate as the MYDIN PKE branch manager without providing him sufficient knowledge and skills prior to holding the branch manager position. They assumed that this newbie could perform the job due to his stellar performance as an intern. Unfortunately, Bakri failed from the beginning due to the lack of relevant knowledge and skills in managing the people and the whole operation. As a young and new manager and him being still wet behind the ears, despite being excited and raring to go, he still had a lot to learn in the business operations and people management. Personally, Nizar felt that what Bakri was lacking in terms of experience, he made that up through determination and hard-work. He was very receptive of whatever suggestions that Nizar put forth as he knew that Nizar was a very senior manager and his Mydin Mart Nilai, under his management and leadership was doing very well. On several occasions, Nizar noticed that when Bakri was interacting with his staff, they were giving some negative body language which for Nizar indicated that they were not too happy with Bakri and how he was running the branch. To him, Bakri still has a lot to learn especially in terms of managing people. And most definitely and the staff made that very obvious, that they did not respect him as their Manager.

## WHAT HAPPENED TO MYDIN PKE?

The sudden departure of MYDIN PKE branch manager in the beginning of January 2014 forced the MYDIN management team to quickly appoint someone to lead the branch. Due to his superb performance during internship program, Bakri was selected to be the new branch manager for MYDIN PKE in January 2014. Since he was a fresh graduate, MYDIN had offered him as Assistant Manager first instead of the manager position. Bakri had just graduated from a local university majoring in Business Administration. Soon after graduation, he was offered as Management Trainee at one of MYDIN’s outlets (i.e. not MYDIN PKE) for 4 months.

To rub salt in the wound, MYDIN PKE was severely understaffed! As at January 2014, MYDIN PKE had 64 staff, 50 of them working in shift period (2 shifts rotating) and the rest work normal office hours. The overall manpower planning was 88 staff. The penchant of job-hopping amongst their younger workers made it harder for them to retain staff and groom them to be promoted. The turnover rate especially for store-workers was high. It is common

for MYDIN PKE HR department to train a group of staff and to have them quitting and resigning in the following months.

Nizar contacted Sarah and Azmi to know more about the situation at MYDIN PKE. Sarah and Azmi are attached to MYDIN PKE since the opening of MYDIN PKE. Both of them were supervisors at MYDIN PKE. Sarah was the operational supervisor and Azmi was the store supervisor. Prior to joining MYDIN PKE, Sarah worked under Nizar at MYDIN Mart, Nilai and Azmi was his friend at MYDIN Holdings, Kuala Lumpur so both of them are trusted by Nizar.

Below are some information gathered from his conversations with both Sarah and Azmi. As they were experienced staff, Nizar valued their input especially on the operations issues, staffing and input gathered from the feedback from other staff and customers. The issues could be grouped into six (6) areas as follows:

**i. Operational Issues including Supply Chain and Inventory Management aspects**

There were lack of supervision and enforcement by the supervisors which caused the items to be always out-of-stock (OOS). MYDIN PKE got its supply from the HQ warehouse. HQ warehouse was responsible to deliver the items to MYDIN PKE before the items go OOS. When OOS was not properly managed and controlled, the outlet could not make sales. The situation worsened when the basic items normally needed by the customers were not displayed since the items was OOS. On the other hand, some of the important items were already OOS at the headquarter warehouse causing long waiting time at MYDIN PKE. The record showed reduction in delivery compliance between HQ warehouse and MYDIN PKE from 72% to 66%.

For ordering system, MYDIN PKE used the Internet broadband leased from a private company. However, the Internet was slow in transmitting data (i.e. the order) to the headquarters resulting in delay in issuing purchase order (PO). It was observed that manual recording for receiving items were still practiced. In addition, the music that was played loudly in the background had caused disturbance to manual checking and recording. As a result, the staff had to wait for manual record to be completed before they could collect the items for sales. In addition, they have also realized that when items arrived within the same week, the deliveries created mountains at the receiving area where many of the boxes were left unattended and blocked the walkways. That in itself posed health and safety risk in case of emergencies. Also, manual record could contribute to error in item counting.

**ii. Working Environment**

The outlet consisted of 2 storeys equipped with toilet and other facilities. Unfortunately, the first floor toilet was forced to be closed under the direction of Bakri ever since he found some staff had misused the toilet on the first floor for smoking, resting and loitering. As a result, the staffs who work at the first floor would now need to spend more time going to toilet at the ground level. With heavy traffic, the toilet would be congested and unclean. In addition, some of the staff felt that they did not have a proper toilet and resting area. They felt stressed and experience unpleasant working environment.

In addition, the backroom and the storage areas were quite humid. There was no air-conditioner installed. They only used normal air suction and blower machines for better ventilation of air flow. Due to stuffiness, many staff were reluctant to enter inside the backroom and storage areas to get the items.

### **iii. Lack of Skills and Experience**

As a new kid in the retail business, Bakri was still lacking in understanding on how to analyse reports and make use of the data for remedial and improvement actions. There were many useful reports such as Top 100 sellable item or the report on ABC items. For instance, 'A' items are items mostly needed by customers/bestselling; 'B' items are the items that always received customer complaint; and 'C' items refer to basic wholesale items. It was also found that selling key units (SKU) was not correctly done where category of items were mixed between A, B and C. In addition, 3 out of the 4 supervisors were also new and have not fully understand the workflow at MYDIN PKE. Bakri was also inexperienced in 'reading between the lines' and interpreting staffs' behaviours.

### **iv. External Environment**

The increase in high living cost resulted in lesser the spending power. People tend to use money for more important items and saved some for rainy days. In addition, MYDIN's competitor such as Giant had its operation at Pekan Shopping Mall and offered better service and competitive price. As a result, some of MYDIN PKE's customer shifted to Giant. One customer lamented "so frustrating to jostle for parking space and when you go to the shelves, products are not there". Another customer just shrugged and left his shopping items in his trolley and went out of the store complaining that the cashier "took forever to scan the items and line was so long..Go to Giant better".

### **v. Manpower**

Apart from staffs had to work double shifts, MYDIN PKE also was experiencing the high turnover rate especially amongst the store-workers and younger generation. In addition, some of the staff were not willing to work overtime due to family and other commitments. Most of the staff especially the foreign workers, security guards and cashiers had to work for longer hours due to staff shortage. The normal working is 8 hours but due to shortage of staff, most of them had to work overtime. Some of them worked 12 hours a day, for 20 to 26 days a month. Despite having some extra money from the overtime payment, staff felt stressed and were physically and mentally tired due to the long hours of working which then prompted them to leave the company. Sarah and Azmi also witnessed staff lashing out to each other and to poor, unsuspecting customers due to fatigue and simply being overworked

### **vi. Facility for Customers**

Due to the shortage of trolleys, some customers would buy fewer items from their list or shop elsewhere. The staffs are unable to restock the needed items on rack if the trolleys are unavailable to transport the items. There was no escalator to move from ground floor to first floor. People needed to use staircase which caused inconvenience to them. Furthermore,

some of the items were without price tags and heavily influenced on the refusal of customers in purchasing these items.

There were 7 counters for cashiers but most of the time, only 4 to 5 counters were opened due to staff shortage. Some customers just left their items in the trolleys and walked out from the outlet since they were not willing to wait in the long queues.

## GO OR NO GO?

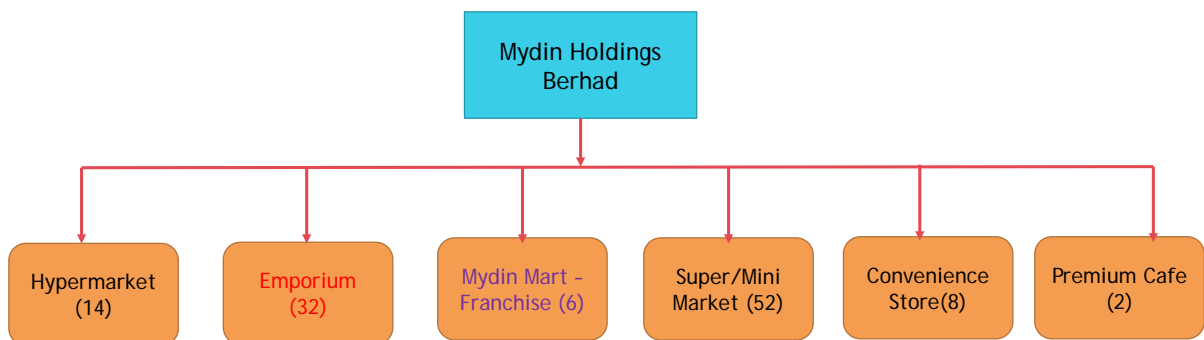
Nizar was given a month to diagnose the problems and propose relevant strategies for the initial reviving efforts for MYDIN PKE and share them with the steering committee. He was challenged to make the initial turnaround within 3 months. Is this project going to be good to cement his influence and guaranteeing a solid career with MYDIN or a suicide mission? Nizar has always been praised for his good observation skills and entrepreneurial mindset. He has also being hailed as one of MYDIN's 'next-in-line' leaders. However, he is not sure whether he could deliver what the steering committee wanted in the given time frame. While he was mulling on this dilemma, he suddenly heard his daughter crying and cries of "Daddy, Daddy" shifted his attention to the present. To his dismay, Nani was lying face-down on the steps at the entrance of the house. She fell down while trying to navigate her way to the front door tripping herself on her untied shoelaces. Nizar quickly ran to his daughter, calmed her and carried her inside. "It's okay Princess, you will be fine. Let's go in and I shall get the plaster for your arm and we will see what else needs some tender loving care". Nizar, still unsure of what his decision would be has decided to let things rest for a while and vow to look at matters again the next morning hopefully with new perspectives and a fresh mind. Nani, preoccupied with the plaster on her arm babbled on about how strong she was for not crying and that she will show the plaster on her arm proudly to her friends in nursery the next day.

### Exhibit 1: Malaysian Retail Sales Outlook 2011-2015

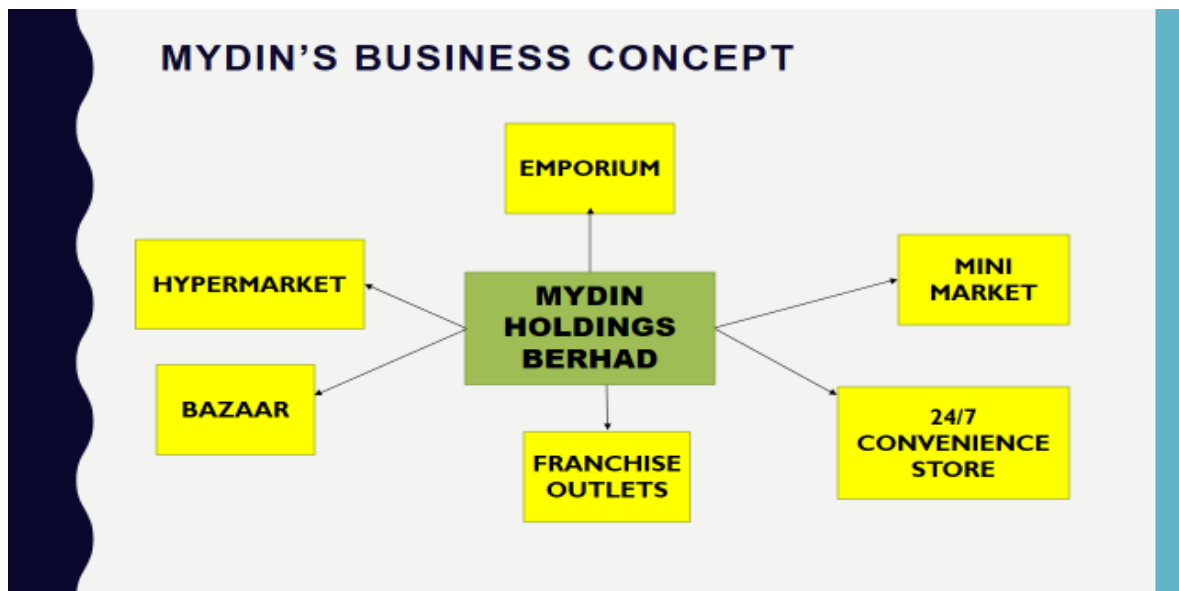
|                                     | 2011   | 2012   | 2013   | 2014              | 2015              |
|-------------------------------------|--------|--------|--------|-------------------|-------------------|
| Retail sales volume growth (% p.a.) | 4.5    | 5.7    | 6.4    | 5.4<br>(Forecast) | 5.3<br>(Forecast) |
| Retail sales (USD million)          | 78,260 | 82,554 | 87,939 | 93,295            | 106,831           |

Source: Economist Intelligent Unit, BIMB Research

**Exhibit 2:** Business Structure of MYDIN Holdings Berhad



**Exhibit 3:** MYDIN's Business Concept



**Exhibit 4:** Extracted from MYDIN PKE Financial Performance Summary (Annual Sales)

| Year | Profit/(Loss) (RM) | P&L Growth (%) |
|------|--------------------|----------------|
| 2010 | 103,276            |                |
| 2011 | 177,406            | 7.2            |
| 2012 | 116,406            | -9.4           |
| 2013 | (668,756)          | -47.4          |

*Source: Audited Financial Report 2010-2013*

**Exhibit 5:** Extracted from MYDIN PKE Financial Performance Summary

| <b>Year</b> | <b>Annual Sales (RM)</b> | <b>Sales<br/>(%)</b> | <b>Growth</b> |
|-------------|--------------------------|----------------------|---------------|
| <b>2010</b> | 19,735,176               |                      |               |
| <b>2011</b> | 21,108,791               | 6.9                  |               |
| <b>2012</b> | 20,307,079               | -3.8                 |               |
| <b>2013</b> | 19,286,486               | -5.0                 |               |

*Source: 2013's MYDIN PKE Sales record*

## Forecasting trends in buying glasses in Bangkok by the Modern Artificial Interdisciplinary (MAI) model

*Suphorn Puaviriyasophon,<sup>1</sup> Prapai Sridama<sup>2</sup> and Kanakorn SawangCharoen<sup>3</sup>*

### Abstract

The objective of this research is to study the consumer behavior in purchasing glasses. To know which factors affect purchasing decision of those who buy glasses, since glasses products are customized by each person's sight and the price is considering expensive. The result of this research is useful for matching the product profile to the customer's needs such as to set the price at the optimum price, and to improve the sales strategy to match the customer's needs. Sales volumes of 49 eyewear stores in Bangkok, Thailand were collected. Statistic tools and terms such as Data base Management System: DBMS, Statistics, Slope, and Forecasting were used, together with Microsoft office, in the analyzing process. The result shows sales and sales volume trend of glasses products is an upward trend, comparing between sales volume and average sales volume of year 2012 to 2015 and year 2016, and the Secular trend of year 2012 to 2015 and year 2016

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## Introduction

Nowadays lifestyle had been changing towards rush and busy lifestyle. People are living in competitive environment, the consumption trends are convinced by modern news sources with the involving of information technology. Thus, people tends to use so much more of computers, tablets, and smart phones, which are key factors that cause people refractive errors. Refractive errors could be corrected by (1) wearing glasses, (2) using lens, and (3) getting Lasik laser vision correction. Glasses are considered the best option in term of safety and how each person could customize their own sight. Glasses are medical devices helping those with nearsightedness, farsightedness, and other refractive errors, to be able to live normally. Glasses that fit well could also help build good personality and protect eyes from bad pollution. However, each person needs different glasses lens. It depends on the errors of sight, age, environment, and lifestyle. Fashion glasses with higher pricing has decreasing rate of growth since consumers are more be careful about spending. But the growth rate of eye glasses industry is still increasing because it is a necessity. And people are looking for a new one that fit their current sight condition.

The researcher is interested to study the consumer behavior in purchasing glasses to understand what are the main factors supporting their decision making when purchasing glasses, since eye glasses are very useful for vision, but the price is high, and users need to switch it quite often. The result of this research is useful for matching the product profile to the customer's needs such as to set the price at the optimum price, and to improve the sales strategy to match the customer's needs to each type of glasses.

## 2. Theories and related researches

### 2.1 Forecasting

Forecasting means to predict or predicting the occurrence of an event in the future. Such as to forecast sales, to forecast the use of raw materials, to plan marketing promotion, to forecast the interest rate in order to manage the cash flow. The forecasting is a study of trends and patterns of the situation using data from the past and personal experience of the forecaster. (Doornik, J. A., 2013)

#### There are two types of forecasting techniques

2.1.1. Quantitative forecasting methods, are the forecast that uses information in the past, together with mathematical or statistics models. This technique has two groups.

First, Time series techniques are techniques that use data from the past to predict the situation in the future. The data are collected on a daily, weekly, monthly or yearly basis.

Second, Causal model techniques are techniques that emphasize the relationship of forecasting variables, such as using simple regression analysis or simple regression to find, for example, the relationship of sales and advertising. And using multiple regression to find, for example, the relationship of sales, advertising budget, and number of employees.

2.1.2. Qualitative forecasting methods are forecasts that use information in the past without mathematical or statistics models. The forecaster must have knowledge and experience to conduct the forecasting. The forecast is conducted for, for example, surveys and market research. (Ruben T., 2014)

## **2.2 Data base management system (DBMS)**

Database management system is a program or software that manages database in creating, retrieving, and modifying. It acts as an intermediary between users and database system. Database is a group of data that is related to each other stored as a database. This information is used to support operations such as payroll database systems. Sales and marketing database Etc. (Kitti Phakdi Wattanakun, 2007)

## **2.3 Data Warehouse**

Data warehouse is a large database of the organizations. Data in data warehouse is usually collected from daily working system database or operating database (also known as operational database). Another one is external database which is to collect data in the same pattern in data warehouse for the same objective, to analyze and helping in decision making process for the internal management of organization. (William H. Inmon, 2000)

## **2.4 Data Mining**

Data mining is to the process of finding patterns, rules, and relationships that are hidden within the data. To use the information in decision making when forecasting. Information might be used to create models for group classification or to show relationships between each group. To create data mining, it requires knowledge from many fields, together with a set of rules, patterns, and messages. (Jiawei Han and Micheline Kamber, 2007)

## **2.5 First order condition (FOC)**

The average slope values are calculated with the FOC algorithm (Akila W., 2013) and the trend values are given from the FOC algorithm too. Furthermore, the FOC is used to approximate convex values and concave values (Boris Houska, Hans Joachim Ferreau, and Moritz Diehl, 2011). In addition, this research uses the FOC to look the trend of requesting of users.

## **2.6 Expected value**

Expected value is used to search an average value that one calculates from the random variable Gerhard B., Gunter Z., 2010). The Expected value can solve with two types which are based on discrete random variable or continuous random variable. However, continuous random variable is used in this research that it is shown in the equation 1.

$$E(x) = \int_1^{\infty} xf(x)dx \quad (1)$$

## 2.7 Statistics

Statistics have been studied and used for a long time for solving both daily life problems and business problems. For example, the regression theory has been using for interpreting data from surveys. Survey, in statistical method, usually collect data from a group of sample as the representative of population, analyze the data to get the interpretation, and use it to support business decision. Statistics have been applied to data mining in many areas. Data mining algorithms and new techniques have been created. However, there are the key differences between statistics and data mining, which are the preparation, the analysis, and the interpretation of the results. Data mining is easier in a way, and may not need statistical experts to help with the interpretation.

## 2.8 Derivative

In mathematics, the derivative of function of real variable is to measure the change in value of a function relative to the change in the argument (independent variable). Derivative is basic tool in Calculus. For example, the derivative of the position of an object that is moving relative to time is the speed of that object. Which is a measure of how quickly the position of an object changes over time.

The derivative of a single variable function where any independent variable is the slope of the tangent line that touches the graph of the function at that point, the tangent line is the linear approximation of the best function close to the independent variable. For this reason, derivatives are often described as "The rate of change at a moment" which is the ratio of change at any moment of the variable according to the independent variable.

The process for finding derivatives is called "Differentiation". And the inverse one is called finding the "Anti-differentiation". The calculus's basic theorem says that the anti-differentiation is similar to integration. Derivatives and integrals are the basic operators in single variable calculus.

The derivative of a function is one of the two main concepts of the calculus. (Another concept is the antiderivative, which is the inverse of the derivative).

Derivative is to calculate to obtain derivatives. The derivative of the function  $y = f(x)$  of the variable  $x$  is the rate at which the value of 'y' changes toward the change of 'x'. It is called derivative of 'f' comparing to 'x', if 'x' and 'y' are real numbers, and if the graph of the function 'f' points with respect to 'x', the derivative is the slope of the graph in each point.

The simplest case aside from the case of a fixed function, is where 'y' is a linear function of 'x', which means the graph of 'y' is a straight line. In this case,  $y = f(x) = mx + b$  for real numbers 'm' and 'b', and the slope m which determines by the change in 'y' divided by the change in 'x'.

### 3. Methodology

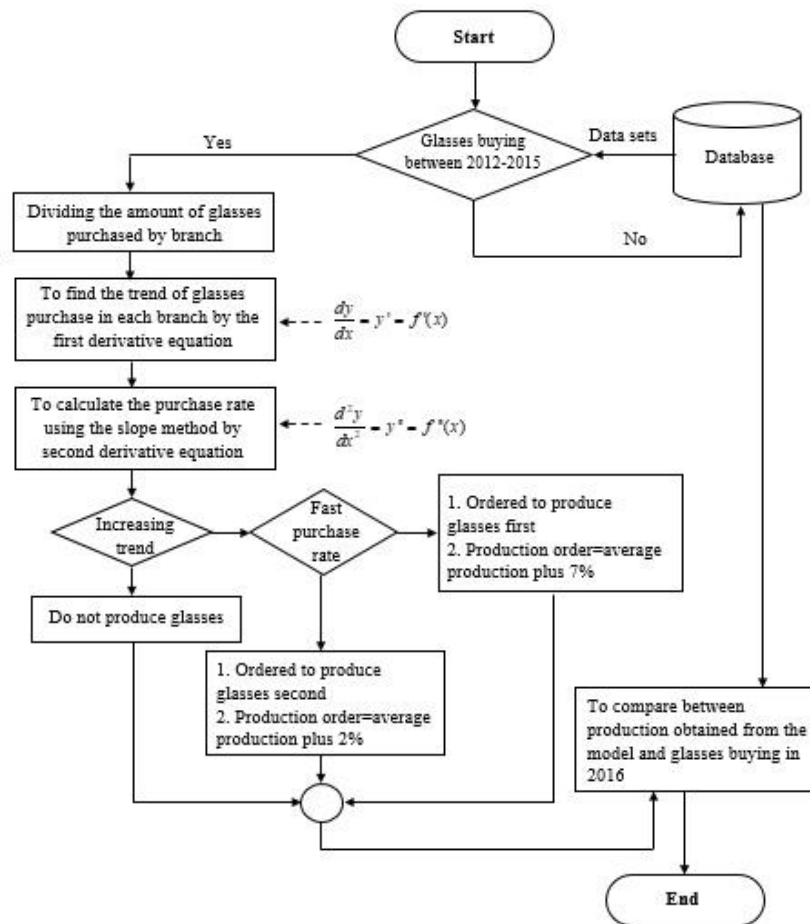
The forecasting for buying glasses in Bangkok uses the Modern Artificial Interdisciplinary (MAI) model, which is made in this research. The researcher has set guidelines for conducting research with details including demographic data. The size of the sample chooses from a sample group tools.

#### 3.1 Demographics and sample groups

The population of this research are glasses users and buy glasses in Bangkok and sales information and sales amount.

#### 3.2 Procedures of MAI model

Procedures of MAI model consist 4 procedures as follows: 1) to prepare data sets, 2) to find the trend of glasses buying, 3) to calculate the rate of buying, and 4) to calculate the quantity of glasses production that the procedures of MAI model can be shown in figure 1.



**Figure 1.** Procedures of MAI model

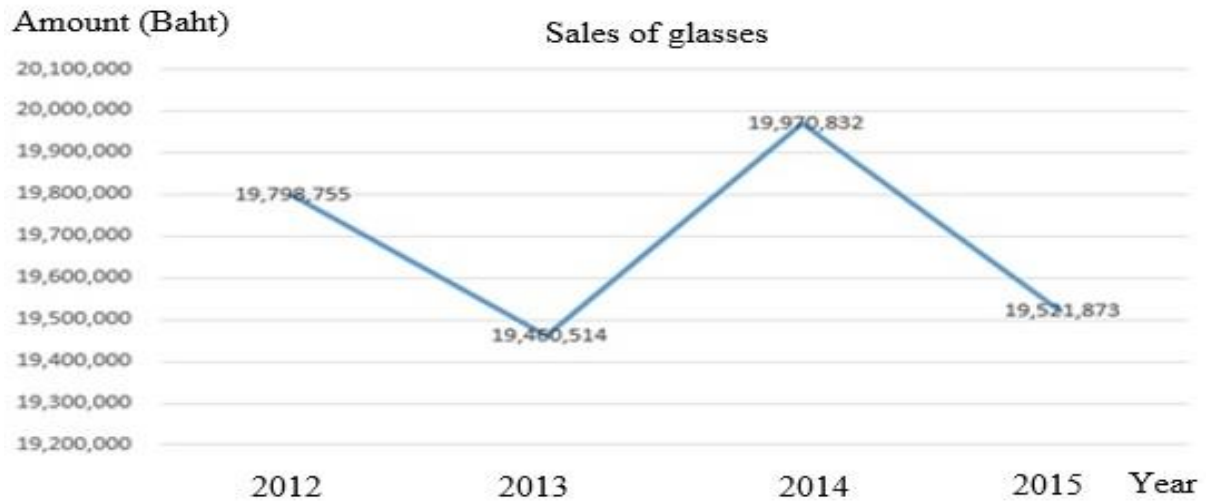
Figure 1 presents the procedures of MAI model. There are 4 procedures in this model.

1. To prepare data sets: this procedure load data sets from glasses database to the MAI model that data sets are used between 2012 and 2015 only.
2. To find the trend of glasses buying: the first derivative equation is a technique to calculate the trend of the number of glasses purchased from historical data. This research uses this technique for choosing or decision to produce in next year (2018).
3. To calculate the rate of buying: this procedure calculates the rate of glasses buying by the second derivative equation. In addition, the first order condition is used to decide for glasses production.
4. To calculate the quantity of glasses production: this procedure selects the highest rate of glasses in the first. However, the glasses is low trend then MAI model does not produce.

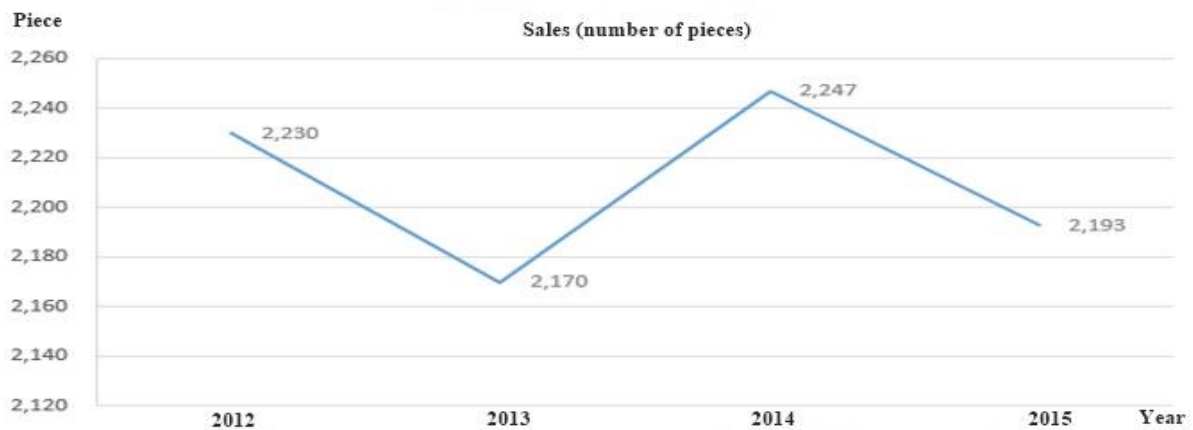
There are compare the number glasses production in 2016 too. The results from MAI model is used to compare with the number glasses production in 2016. If MAI model can give related the number glasses production in 2016 then MAI model is a powerful model.

#### 4. Experiment results

This research creates the MAI model, which can forecast the number glasses in next year. Many techniques are used to solve the number glasses production. Sales of glasses from all branches are shown in figure 2 and Sales (number of pieces) are shown in figure 3.



**Figure 2.** Sales of glasses from all branches



**Figure 3.** Number of pieces of sales from all branches

Figure 2 and figure 3 present sales (amount and number of pieces). These data are used to process by the MAI model. The results from the MAI model can be shown in table 1.

**Table 1:** The results of the experiment are compared between the amount sold and the amount predicted from the MAI model (Example)

| Sales (Baht)        |                 |                    |               |                     | Forecast result         |
|---------------------|-----------------|--------------------|---------------|---------------------|-------------------------|
| Branch              | Sales 2012-2015 | Trend of 2012-2015 | Sales in 2018 | Result of MAI model |                         |
| Silom (soi 1)       | 541,800         | -480,37            | 537,410       | -116.82             | Decreased as a result   |
| The mall (Thaphra)  | 387,062         | 1,336.59           | 420,240       | 257.90              | Increased as a result   |
| Mc value (Klongkum) | 517,617         | -94.80             | 530,690       | 628.92              | Increase as a result    |
| SCB Park            | 442,271         | 13.42              | 440,210       | 120.45              | Did not meet the result |

The table 1 shows the results of the experiment are compared between the amount sold and the amount predicted from the MAI model in 2018. These results are parts of all branches.

## 5. Conclusion

The objective in this research studies consumer glasses selection. This research uses sale information from 49 eyewear stores in Bangkok between 2012 and 2015. Many techniques are used to create the Modern Artificial Interdisciplinary (MAI) model such as the first derivative equation, the second derivative equation and the first order condition (FOC). These techniques can forecast trends of future sales. In addition, the MAI model can quickly process. The MAI model can save time and high accuracy. This research has predicted the amount of glasses sold between MAI model and actual data (in 2018). The results of the experiment, it was found that the MAI model can predict the amount of eyewear sales as close to the actual sales volume. In addition, the moving average value is not more than 15 percent when comparing in any branches.

However, sales are much or less depending on the number of people. In addition, the factors for buying are depend on glasses price and glasses popular. Then, some branches can not sale glasses in store. Moreover, the economic in the present is a cause to decide glasses buying of people.

## 6. Suggestions and problems

Amount of sales and sales volumes depend highly on the number of people using glasses in the area. About the product, consumers make decision after the beautiful and modern style of the glasses. Then about the material, people mind the most about the quality of the material that match with the price. Then considering the details of each topic, consumer purchases glasses mind the factors of price matches with quality the most, and then many prices options provided.

About sales channels, consumers decide to buy after the factor of clean and modern shop and its decoration, and the following up factor is the good store location and the parking lot. About promotion, consumers decide to buy after the promotion such as buy 1 get 1 free and 50% discount on price. The following up is the membership card (with discount), and delivery service.

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## Le Normandie, where two stars shine in the Thai market

*Charoenchai Agmapisarn<sup>1</sup>*

### **Abstract**

In 1958, Le Normandie, the first fine-dining French restaurant in Asia, opened at the Mandarin Oriental—a historic hotel in Bangkok. At the helm of Chef Arnaud Dunand Sauthier—a 37-year-old native Savoie-born French person, Le Normandie has won two Michelin stars for two consecutive years since Bangkok welcomed the Michelin Guide in 2018. Le Normandie is the only fine French dining restaurant in Bangkok, having won prestigious awards. French cuisine was added to the list of the world's intangible cultural heritages by UNESCO in 2010. Despite the fact that French cuisine is acclaimed to be gastronomically prestigious, it has not become popular among Thais. Even last year, of the top best fifty restaurants in the world, only one French restaurant was listed in the top ten by the World's 50 Best Restaurants. This crisis is mainly because of the growing influence of Asian-European fusions and Italian cuisine over the last decade. For many Thais, French cuisine seems too traditional, in a not particularly good way. In this respect, this case study wonders how Le Normandie can retain the aspects of French culture through its cuisine in the Thai market.

**Keywords:** French Cuisine, Le Normandie, Gastronomy, Chef, Fine Dining

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<sup>1</sup> This case was written by Charoenchai Agmapisarn, a lecturer in the Graduate School of Tourism Management (GSTM), National Institute of Development Administration (NIDA). This case is based on personal interview with Chef Arnaud Dunand Sauthier and also funded by National Research Council of Thailand (2019) under IRB# SWUC/E-160/2562 Email: roenbkk@gmail.com

## Introduction

On April 11, 2019, before a long holiday for the Thai people arrived, a 37-year-old French man, named Arnaud Dunand Sauthier, entered the Arthur Lounge, while the main entrance through the Mandarin Oriental lobby was under significant renovation as one sign in the hotel showing the “River Wing Renovation.” He was attending the first meeting before going back to work at his restaurant, where he has passionately worked for seven years. With his friendly smile and humble personality, Chef Sauthier, aka “Chef Arnaud,” sat in the lobby at Author’s Lounge, one of most photographed places in Bangkok, in the early morning with a few customers having breakfast at the lounge because of the renovation. At Le Normandie, a fine-dining French restaurant, Chef Arnaud has been acclaimed as a contemporary French chef and a master of classic French cuisine, and his restaurant has been awarded Michelin stars. Unlike other Michelin-starred chefs, Chef Arnaud left his education at 14 to become an apprentice in the kitchen of Marc Veyrat, one of the famed innovative chefs in Paris. Since then he has worked at several restaurants with his self-taught skills before joining the restaurant team at Mandarin Oriental, Bangkok.

As a famous chef at Le Normandie, a two-Michelin-star French restaurant, Chef Arnaud oversees and is a veteran of several prestigious French restaurants. He stated the following about his work at Le Normandie: “I have been a chef at Le Normandie for seven years, and it is the first time for me to work here after I worked at a Michelin-starred restaurant in France for 15 years” (A.D. Sauthier, personal communication, April 11, 2019). Becoming a Michelin-star chef is a prodigious success for a culinary artisan. However, working as a chef in a Michelin-starred restaurant requires academic training in order to obtain the necessary business skills and knowledge. Chefs that take this route with an educational background tend to be more confident compared to those that take the apprenticeship route. Chef Arnaud, however, is a self-taught chef, who now works at a Michelin-starred restaurant. Any restaurant with a Michelin star will raise its revenue around 20-30 percent, but once losing it, the restaurant’s profit will dramatically be declined by almost 80 percent (Eaton, 2017). However, one study revealed that owning a Michelin star does not guarantee that the restaurant will gain profitability, as nearly half of the restaurants are deemed not to be cost-effective (Johnson, Surlemont, Nicod, & Revaz, 2005).

The Michelin Guide, known as the “Red Book,” was established in 1926 and now presents its selection of the best restaurants in all comfort and price categories (Haddaji, Albors-Garrigós, & García-Segovia, 2017). Before Chef Arnaud became the chef de cuisine for Le Normandie, he worked for a handful of French restaurants in his country. Le Normandie is the first position he had abroad. His inspiration for being a fine-dining chef began when he was a child when his father took him out to a two-starred Michelin restaurant. His father has many friends working in the eatery industry.

## Le Normandie

Wikipedia explained that French cuisine became influential in the 20<sup>th</sup> century because of Auguste Escoffier, a contemporary fine-dining chef, along with the support of “The Guide Michelin” under a gastronomic tourism policy, and this had a massive influence across global with its diversity. French cuisine was then recognized by UNESCO (“French cuisine,” n.d.).

With its signature dishes “caviar oscietre et oursin” (caviar, sea urchin and potato with champagne sauce) and “pigeon mial de bresse” (roasted pigeon, endive, pear and cocoa), Le Normandie, established in 1958, offers an adapted type of French cuisine, which combines high-quality ingredients through sophisticated cooking techniques turned into rich textures and distinctive flavors in each dish.

Le Normandie is the name of a distinguished fine-dining restaurant, and Chef Arnaud explained that the customer has a different attitude towards the restaurants in the Mandarin Oriental: “When customers come for dining at “Lord Jim” (one of the reputable restaurants in the Mandarin Oriental), they say that they come for a Mandarin Oriental restaurant, but if they come for Le Normandie, they say that they come for Le Normandie.” Le Normandie is the first fine-dining restaurant in Asia and was refurbished in 2015 with distinctive elements. To illustrate, there are floor-to-ceiling windows where guests can see a view of the Chao Phraya River and the restaurant is filled with local flowers. The Mandarin Oriental opened in 1876 on the banks of the Chao Phraya River.

As the first fine-dining restaurant in Asia, Le Normandie offers 50 seats with 2 VIP dining rooms and is located at the 10-story garden wing of the Mandarin Oriental, the longest-standing property in the Mandarin Oriental Group. Le Normandie is like a dining room framing dazzling views of the Chao Phraya River, which sparkles at night. With the yellow color decorating the dining room, the material in yellow radiates out across the ceiling from the centerpiece crystal chandeliers. Le Normandie has tablecloths in yellow along with classic French furnishings, all in yellow, including blinds and cushioned chairs. The incomparable decoration with lavish arrangements, including big fresh flower bouquets in big vases, are imposing in the middle of the room (Adams, 2018; Theeraphong, 2016).

## The Emergence of “nouvelle cuisine”

The phrase “high culture” in classical cuisine began in post-revolutionary France in 1789. Classical cuisine was first developed by chefs that were former employees of the aristocracy that were displaced by the French revolution. Those chefs started restaurants what were viewed as “temples of gastronomy” and were patronized by a gastronomic aristocracy that could acquire status by dining at fine restaurants (Ferguson, 1998). Until the 1970s, this distinguished cuisine formed an organized system of French gastronomy. According to French gastronomy, the name of the dish is related to its cooking method and ingredients. As for the soup categories, consommés are clear soups, potages are thick soups, cremes are cream soups, and veloutés are soups made with a white sauce.

This structured classical cuisine was codified in Escoffier's cookbooks—noticeably *Le Guide Culinaire* (1903), in which he formalized classical French cuisine in its modern form, creating thousands of menus, and this haute cuisine became the principles of French gastronomy (Escoffier, 1993). As Clark (1975, p. 36) mentioned, la grande cuisine turned into gastronomy, relocated in the market, and moved from the *hôtel particulier* to the restaurant. The establishment and production of cuisine were transformed from a trade to a profession and an art, while its consumption designated status for the consumers.

During the late 1960s, a group of young French chefs led by Paul Bocuse, Michel Guerard, the Troisgros brothers Jean and Pierre, and Alain Chapel discovered a new free-form style of cooking called “nouvelle cuisine.” Their style disregarded the codification of Escoffier and reinstated it with philosophy rather than a structured system of rules, creating not a school but an anti-school, in reaction to the French grande cuisine (Rodolphe, Hayagreeva, & Philippe, 2007). The elemental characteristics of nouvelle cuisine comprised the replacement of stocks and cooking liquids; the serving of novel combinations in tiny quantities artistically arranged on a big plate; a return to the concern for the purchasing of food; and infinite attention to texture and detail. In this regard, nouvelle cuisine created dishes that avoided creamy sauces and lengthy cooking times, and its creative and inventive practitioners aroused interest and passion in gastronomy and restaurants. Perhaps nouvelle cuisine is a Pandora's box for French cuisine because it declares that there are no more regulations, and it allows chefs that are trained in its culinary schools to contest the system and to develop their own national haute cuisine. During the 1980s, these group of chefs eliminated the foundations of their local cuisine, and the chefs that they trained continued this work. For these reasons, this concept has prospered and became more prevalent in the 1990s, and now all French cuisine globally has become more multipolar and is no longer under the ruling concept of Escoffier (Beaugé, 2012).

### **The “Red Guide” and Michelin Guide**

The “Red Guide” another name for the “Michelin Guide” has had a significant influence on the restaurant industry in Europe. A highly-respected institution in the haute cuisine industry, this guide is extensively accepted as a reference for gourmets of French cuisine in Europe and its control on restaurant choice is undeniable. Then the “star system,” a crucial element of the Red Guide rating system, for example, one, two and three stars, possibly not only signals the institution as being part of the haute cuisine sector but also has a massive impact on restaurant turnover and profitability (Johnson et al., 2005).

Established in 1900, the Red Guide was first created by the Michelin Tyre Company to assist motorists by providing various technical advice. In the beginning, the guide included information as diverse as locations of garages for automobile repairs and the list of doctors operating in most cities of France (Karpik, 2000). After that, the guide developed into a handbook for tourists with advice regarding areas and places worth visiting. In 1933, the Red Guide its name to “Michelin Guide” and it became a guide for hotels and

restaurants. By 2002, the Michelin Guide had globally expanded into ten countries with 1.2 million copies being sold.

At that time, the Michelin Guide had 1,500 pages with a selection of almost 10,000 restaurants (10 percent of the total restaurants in France). Since 1933 the Michelin Guide has created the “Michelin star system” with one star for the restaurants that represent “une bonne table dans sa categorie” (providing a good meal in this sector); two stars for those that “merite le detour” (are worth a detour); and three stars for the elite group that are “vaut le voyage” (worth making a specific journey). However, only 5 percent in restaurant business occupied the Michelin star system, and by 2002 only 44 restaurants worldwide were awarded “three stars.” As a consequence, owning a prestigious star was viewed as duly-deserved recognition of accomplishments and excellence in the cuisine industry (Surlemont & Johnson, 2005). Due to the influence of the Michelin star system, a chef holding a star signals his or her creativity and perfectionism through the dishes as haute cuisine since haute cuisine is the symbol of art, where creativity and perfection interact as driving forces.

### French Cuisine in the Thai Market

As stated, in terms of the history of fine French dining, it became influential in the 20<sup>th</sup> century by Chef Auguste Escoffier as modern *haute cuisine*. Chef Escoffier published “*Le Guide Culinaire*” in 1903, while he worked at Paris’s Ritz and London Hotel Carlton, and now it remains the bible of “*classique*” French cuisine today (Abrams, 2013). Nevertheless, Escoffier left out much of the local culinary character to be found in the regions of France, and his menus were considered difficult to execute by home cooks. Gastro-tourism and the Michelin Guide helped to acquaint people with the wealthy bourgeois and peasant cuisine of the French countryside in the 20<sup>th</sup> century. The Michelin Guide, among several guides, has been considered the most influential tastemaker and occupies a powerful position in the fine dining industry (“French cuisine,” n.d.). One study claimed that French cuisine is the symbol of stature and authenticity in gastronomy (Théry & Le Bail, 2017).

The Michelin Guide still portrays both symbolic and material power over chefs (Lane, 2013). More importantly, knowledge of French cooking has also contributed to Western cuisine, whose criteria are used in Western cookery schools and culinary education. In November 2010, French gastronomy was praised and added by UNESCO to the list of the world’s intangible cultural heritages (“French cuisine,” n.d.). French cuisine is defined as “a festive meal bringing people together for an occasion to enjoy the art of good eating and drinking” (Iverson, 2010). Regarding French eating habits, the pattern of eating includes portion control; a lot of basic meal ingredients such as eggs, butter, bread, and potatoes; fast foods; plethora on fish, fruits, vegetable, and full-fat dairy; and structured family-central meals. However, a new report revealed that 30 million people in France—nearly half of the country’s population—would be obese by 2030 (Henley, 2018). Even though the French restaurant is supposed to be one of the great wonders of the world, in the prestigious World's

50 Best Restaurants awards in 2013, produced by Restaurant magazine, not a single French restaurant was in the top-ten list (Farrell, 2014).

Although French cuisine has been recognized and listed as one of 178 cultural practices by UNESCO (Samuel, 2010), French cuisine is quite challenging for Thai people to understand because Thais prefer not to eat Western cuisine, either French or Italian, on a daily basis. These cuisines are often seen as too fatty and greasy. Even after two visits by King Chulalongkorn to Europe in 1897 and 1907, he brought his own food supplies with him when he was on tour. This shows that food habits are one obstacle as Thais want rice, not bread (Wongyannava, 2009), as Chef Arnaud said: “They (Thais) are not ready for French cuisine. Some are ready but not enough yet. The market will be small” (A. D. Sauthier, personal communication, August 17, 2019). Rumors circulate that Le Bouchon, the first casual French restaurant in Thailand, which opened in Bangkok in 1996, will be closed.

Chef Arnaud also added that a French meal might not be the favorite food for Thais or even the Chinese as they do not understand French cuisine. However, often Japanese people do enjoy it because it is precise. Regarding ethnic food in the United States, French food is one of the most popular among ethnic and elite foods: Chinese, French, Japanese, and Italian. Further, as foreign cuisine, French cuisine is posited in the higher rank of the cultural hierarchy, one of the most elite cuisines with an expensive brand (Park, 2017; Zelinsky, 1985).

In 2018, of the world’s 50 best restaurants, there was only one French restaurant ranked in the top ten, *Arpège* (also a three Michelin-starred restaurant) (Liao, 2018). Nowadays, trends have moved towards the exotic "ethnic" flavors of South American and Asian cuisine, driven by millennials' ongoing quest for spicy and authentic foods. Typically, these cultures prefer to have the meals quickly prepared and instantly recognizable (Johnson, 2016). Comparing the French and Thai cuisine under the Michelin-starred award, Thai restaurants are more popular and are always fully booked (A. D. Sauthier, personal communication, April 11, 2019).

In any discussion about French cuisine in the Thai restaurant industry, Bangkok is the only place for French cuisine because it is a metropolitan area, as Chef Arnaud stated: “No other place in Thailand can serve the fine-dining restaurant market for French cuisine, except for Bangkok, and even in Phuket, many French restaurants are just simple ones.” Even though the market for French cuisine in Bangkok is very narrow, there are five French restaurants with a Michelin star: *Elements*, *J’AIME* by Jean-Michel Lorian, *L’ Atelier de Joel Robuchon*, *Savelberg*, and *Le Normandie*. Only Le Normandie has two Michelin stars, while the rest have been awarded only one star (Michelin Guide Thailand, 2018).



## Brigade de Cuisine in Michelin-Starred Restaurants

“The award of two Michelin stars for Le Normandie was for our team, not for me,” Chef Arnaud stated. To achieve this, *Brigade de Cuisine* or *kitchen brigade* and the chef have to cope with high tension and have to deal with stress while cooking in a *haute cuisine* kitchen (Giousmpasoglou, Brown, & Cooper, 2018; Lane & Lup, 2015). Chef Arnaud explained that there is sometimes stress among his kitchen crew: “to build up the team is the key management, and now we are 15 people in my kitchen. I have a little bit of turnover amongst my staff. I do hire young people between 20 and 25 years old with motivation, and they can’t be afraid of doing something new. In the kitchen, I am perhaps rude to my staff, but fair.” Since 2012 when Chef Arnaud started working at Le Normandie, he has had only seven staff members on his team. Now his *brigade de cuisine* has increasingly expanded with his own training. One study (Johnson et al., 2005) found that Michelin-starred restaurants use a set of team behaviors and skills, like teamwork, in the kitchen, which improves productivity, enhances teamwork, and maintains high standards of service delivery (Noall, Maxwell-Armstrong, & Baxendale, 2015). Chef Arnaud stated the following: “As I remember I had only seven staff members that had no cooking experience, but I do train them personally. Now my sous-chef has become more professional and skillful.” To recruit employees into his kitchen, he prefers to hire an inexperienced person or someone without any experience in the fine-dining kitchen: “I do not trust a person who graduated from a cooking school here, and the cooking schools in Bangkok are also not good.” In France, the cooking schools are exceptional and cheap while in Bangkok they are so expensive, yet people with a degree cannot cook. Meanwhile, an experienced cook is not the first choice to be recruited because it is quite hard to develop and educate for being a cook at Le Normandie, as Chef Arnaud pointed out.

In terms of kitchen atmosphere, research by Haddaji et al. (2017) claimed that Michelin-starred restaurants are still principally male dominated and are influenced by the tradition established in the French cuisine described as “brimming with machismo” and “perpetually mustached kitchens.” This restaurant culture is because of the industry’s masculinity and what implications this has on work practice and what is seen to be the norm. In the Le Normandie kitchen, most of the kitchen team members are male. After Le Normandie was first awarded two Michelin stars in 2017, Chef Arnaud told the press the following: “I am very honored and humbled to have such a great team to work with me. I am not only delighted for Le Normandie and the team, but I am also proud to be representing Bangkok as one of the world’s most premier dining destinations. I want to express my deepest thanks and appreciation to Le Normandie’s fans and supporters; we shall continue to grow and enhance the legacy of Mandarin Oriental, and I feel very privileged to have such wonderful support. This accomplishment is the pinnacle of my culinary journey!” (The Nation, 2017).

The Michelin-starred kitchen system is male dominated, and a three-Michelin-star female French chef, Dominique Crenn, gave an interview with a British newspaper, *The Guardian*, in which she spoke out against this system. After her French restaurant, *Atelier Crenn*, located in San Francisco, was awarded a Michelin star, she began to speak out because several high-profile chefs were being accused of sexual harassment and abuse. This was the first alarm from the *brigade de cuisine* when male Michelin-starred chefs were being accused of sexual harassment against the female employees. Earlier in her career, Crenn was harassed by a colleague. When she reported it, she was told to either put up with it or leave. Chef Crenn stated the following: “It’s almost in a way like I was a burden for them being a woman in the kitchen.” She further explained that she has to be reliable. Female chefs often must work even harder than men to succeed in an industry already notorious for their relentless work ethic and unforgiving hours (Bryant, 2019). In this case, Crenn was named “best female chef” by the World’s 50 Best Restaurants in 2016.

### **Chef Arnaud Dunand Sauthier**

“As I remember that my inspiration for cooking is from my childhood through what I see around me, such as the market, nice painting, and even music,” Chef Arnaud (personal communication, August 15, 2019) stated. Amid his culinary travels, he has gone through more than 15 years of preparing French cuisine. Chef Arnaud has worked with a few of the foremost culinary connoisseurs, including Guy Martin, Marc Veyrant in *L’Auberge de L’Eridanand*, and Emile Jung at *Crocodile*. He also worked at *Maison Lameloise* in Bourgogne, after he went to *Le Crillon* in Paris, where he trained beneath the administration of Jean-Francois Piège. In 2012, all of Chef Arnaud’s diligence paid off, and he was given an executive chef position in *Le Normandie*’s kitchen. It was there that his boundless energy concerning modern French food began to prosper. For him, it is meaningful to have new gastronomic heights, introducing this new generation of culinary pioneers to the skills of his native French fine-dining cuisine.

Because of his passion and hard work, he spends 15 hours a day at *Le Normandie*. Every day he must find solutions for the problems that come up in the kitchen. He has only one day for his family. He said, “You would not see him around any function; most of my time is devoted to my work and family. On Sunday, I spend my time with my two kids” (A. D. Sauthier, personal communication, April 11, 2019). One study (Johnson et al., 2005) indicated that to become a successful chef at a Michelin-starred restaurant, professional and culinary hardship is a pivotal part of every aspect of the restaurant business, including *brigade de cuisine* teamwork, the quality of proper preparations, and the quality of service. Culinary tribulation drives the procurement of produce, which is still customarily done personally by the chief cook as well as the development of menu items and cooking techniques.



Many clients love his cooking, as one client posted on TripAdvisor after visiting Le Normandie on May 2019: “I ‘d chosen to have lunch at Le Normandie after juggling several other dining options in Bangkok to combine time available with lunch and dinner. I chose the set lunch menu option, which has a variety of dishes but chose to accept the kind offer of the recommendations of Cedric, *Maitre d'hotel*, which when paired with the recommendations of the sommelier Charles concerning the wine offerings, made for a fabulous experience. Chef Arnaud was present and met with the diners, which was a pleasant touch. For me, the standout dish was the sea urchin and potato foam with caviar and champagne sauce, whose taste and aroma immediately transported me to the coast with the smell and taste of the sea. Simply spectacular. The *crepe suzette* conjured up by Cedric at the table made for a fantastic finale. I'll return later for the degustation menu for dinner. Superlative staff, fabulous food, and wonderful wines are a winning combination” (Luxurious lunch, 2019).

In line with this, a recent study by Cain, Busser, and Kang (2018) showed that the executive chefs that view their jobs as a calling might receive additional personal and professional benefits associated with a work-life balance. Calling is defined as chefs “who [pursue] their deepest passions” or that in order to achieve the pinnacle of gastronomic superiority, one must be “driven by a compulsion that few would fee.” More interestingly, one research (Lee, 2016) found that individuals with a calling [the word calling is related to “work commitment” or “the relative importance of work to one’s sense of self” (Cain et al., 2018:2289)] had lower levels of absenteeism, worked longer hours, and were more satisfied with their health, work, and life. Additionally, the benefit of having a calling does increase career satisfaction and strengthens the pursuit of skills and knowledge for higher personal development and performance to achieve career success in the serviced industry. In contrast to this, another research (Parsa, Self, Njite, & King, 2005) showed that many chefs have struggled with their family and work in balance. Family sacrifice is a crucial factor that all restaurateurs have confronted. Even for the successful ones, they are either good at balancing their family and work lives or are single.

### **Le Normandie Patrons**

“Most of my customers are tourists, who are coming for lunch,” Chef Arnaud stated. Le Normandie is the first fine-dining restaurant in Asia that specializes in modern French cuisine: “I do use top-quality and organic ingredients from France to make the dishes, so it is a good value for the money,” he added. Before any dish appears on the menu, it has been tasted by his kitchen crew approximately 25 times. Because of this, Le Normandie has been effusively praised by vast numbers of customers and has been posted on TripAdvisor. One customer posted that “Le Normandie is one of the rare genuine 2-star restaurants to be a real fine-dining French restaurant. The food is superb. The service is friendly and professional. The river view is spectacular. Wine pairing is excellent. Worth every penny to dine there!” (Celebration, 2019).

Nowadays many visitors are quite picky and also increasingly use the Internet as a means of expressing their frustrations over services that do not meet their expectations through apps such as TripAdvisor (Silva, Paulo, Coelho-Costa, & Perinotto, 2018). To illustrate, few customers complaining regarding their restaurant experiences and posted on TripAdvisor in 2018 that “I would say your experience depends on where they seat you—fabulous river view or depressing street blocks (in front of the kitchen). If you don't get the table overlooking the river, I'd suggest you not to go there. I had a great experience at Le Normandie with my family and friends in the past, several memorable moments. However, I went back today with very important friends. They placed us on the depressing street side and in front of the kitchen (so I heard the Chef yelling constantly). It was my fault that I underestimated the restaurant and didn't request the river view. Food used to be much better when it was just ‘Le Normandie.’ Today was my first time back thereafter they received Michelin stars. Highly disappointed though. Staff was nice as usual; nothing can fault that. So today was my last time at Le Normandie. *Au revoir!*” (Pick Your Table Wisely, 2018).

Chef Arnaud mentioned that sometimes clients there (Le Normandie) late since the restaurant is closed at 10 p.m. Some stay until midnight, and all of the staff must stay up until late at night because of late arrivals from customers, so this would be very frustrating. He said, “I used to have some customers staying till midnight and must ask my team to stay till they leave.”

### Social Etiquette

Guests are strictly required to dress formally. For example, ladies are asked to dress elegantly, and gentlemen are requested to wear a smart shirt, long trousers, and closed shoes. A jacket is compulsory for gentlemen during dinner (Mandarin Oriental, 2019). As a luxury dining room, featuring floor-to-ceiling windows, a grand piano, massive crystal chandeliers, and a vaulted ceiling covered in butter-toned Thai silk, Le Normandie has served politicians, celebrities, and even members of Thailand's royal family often dine there. Some fine-dining French restaurants, for example, Daniel—a two-Michelin-starred restaurant in New York, still requires customers to be dressed up, John Winterman, a *maître d'* at Daniel stated (Dangremond, 2016). “On the record, yes,” he said. “If someone comes in making an effort and looking fabulous and glamorous and they know they're in for a premium experience at a premium price, you give them a fabulous table in the middle of the room. And people react to that when they see a crowd that's well-dressed and beautiful and sparkling.” Franz (2007) argued that in several fine-dining restaurants there are more and more people that prefer not to wear jackets—especially on the weekend and nowadays everything has loosened up.

One commentator regarding the issue of taking photographs while dining in an upscale restaurant stated the following: “As someone who regularly takes pictures in restaurants, I'm perplexed by the perceived controversy over this issue. If I'm sitting in my seat, taking pictures without a flash, why should it matter to anyone else in the restaurant? Is such activity really intrusive to other diners? Or is the issue simply a matter of control and those who feel compelled to exert it over others? If a restaurant doesn't want pictures taken in the dining room, that's another matter. It's their house, so their rules should apply. But the fact is, most restaurants are happy to have diners take pictures of their meals because, more often than not, those pictures—after being shared online with others—generate interest in the restaurant and additional business” (Franz, 2007).

At Le Normandie, even the dress code is compulsory for patronizing the restaurant; many customers enjoy taking photos of themselves during their dining. One customer posted on TripAdvisor the following: “Listed as a must-visit in Les Grandes Tables du Monde 2017, this restaurant truly offered me an impeccable fine dining experience with fresh ingredients and elaborately-cooked French cuisine in Bangkok, and its 4-course lunch menu along with amuse-bouche and after-meal beverages was reasonably priced. Besides impressive gourmet (e.g., amazing taste and adorable food presentation) and considerate staff (e.g., professional introduction to each course and satisfactory photo shooting service), this restaurant also allowed me to easily enjoy stunning views over the Chao Phraya River through its floor-to-ceiling windows while I was leisurely tasting my souffle and latte, so don't forget to book a window-side table in advance due to its limited availability! Showing its hospitality and appreciation towards each guest, this restaurant also prepared for me a mini box of macaron as a gift when I was ready to leave. Such an exceptional dining experience encourages me to surely patronize again when I visit Bangkok next time” (Fantastic French cuisine with stunning river view Beside, 2017). Nonetheless, table etiquette might influence the diners' attitudes toward food consumption (Wu, Raab, Chang, & Krishen, 2016), in particular, the fine-dining experience.

### Case Study Problems

As Le Normandie is one of the top-notch French fine-dining restaurants in Bangkok, it has been under pressure with new competition emerging. Even though fine dining is usually associated with French dining, the fine dining restaurant refers to a full-service restaurant with a premium price for excellent food. It is essential that Le Normandie understand its own brand. In this point, Le Normandie, as a service brand, represents a point of reference for an intangible offering in the fine-dining business. That is, a strong brand would reduce the risk for clients and serve as an indicator of quality and a source of differentiation. Since Le Normandie opened in 1958, it has been a luxury brand for fine-dining restaurants in Thailand. As such, fine-dining restaurants are characterized by a high level of employee-customer contact. Patrons typically spend an extended period there and continuously interact with staff for a high level of service. It is thus reasonable to expect that employees might be a crucial factor in the restaurant's branding. Specifically, restaurant employees could be a source of differentiation by providing excellent service beyond the

expectations of patrons. Therefore, fine-dining Michelin-starred restaurant brands need to realize that their employees represent their brand.

More interestingly, one article in The Guardian discussing the future of French cuisine indicated that despite French food being listed at the top gastronomic rank, the level of cooking is sometimes “lamentable.” Although *haute French cuisine* is still regarded as the best in the world, with a revival in traditional French food, there are more French restaurants struggling abroad (AFP, 2018). Similarly, one columnist (Bittman, 2014) wrote in the New York Times newspaper about French cuisine, stating that in France, many “*grande cuisine*” French restaurants are much alike everywhere, and sometimes the taste of their French food is very disappointing. Because of this, French people seem to have lost faith and even interest in dining out. Now they spend most of their restaurant dollars at chains, and they no longer trust that restaurants in France make a majority of their dishes themselves.

However, one illustrious French chef, Joël Robuchon, the world's most Michelin star-decorated chef, claimed the stars were financially transformative: “With one Michelin star, you get about 20% more business. Two stars, you do about 40% more business, and with three stars, you'll do about 100% more business” (Heighton-Ginns, 2018). In the case of Le Normandie, as two Michelin stars are guaranteed, one wonders how the restaurant can retain its business when French cuisine now is not so popular among local Thai people, only foreign tourists. Nobody knows the future of French fine dining, as at Le Normandie, even Chef Arnaud. So, what is the future of Le Normandie brand as well as French fine-dining cuisine? It depends on many factors and how the management under Chef Arnaud Dunand Sauthier’s helm will tackle the new trend of restaurant patrons. How long will this service brand last since not many Thais prefer to dine out, and the trend of the diners has dramatically changed?

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