

Everyday Low Pricing as a Structural, Not a Promotional, Choice: A Qualitative Case Analysis of DMart's Cost Leadership in Indian Value Retail

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Abstract

Everyday low pricing (EDLP) is conventionally studied as a pricing decision — a choice between a stable low price and a high–low promotional cycle. This paper argues that in the Indian organised value-retail context, EDLP is more accurately understood as a downstream consequence of an upstream cost architecture, and that firms which adopt the price format without first building the cost structure cannot sustain it. The argument is developed through a qualitative single-case analysis of Avenue Supermarts Limited, operator of the DMart chain, selected as a revelatory case in Yin's sense. The analysis is deliberately non-financial: it examines the configuration of decisions — property ownership rather than leasing, cluster-based geographic expansion, deliberate assortment restriction, accelerated supplier settlement, minimal advertising, and a no-frills store environment — through which a low cost position is constructed, and then applies a VRIO assessment to determine which elements of that configuration are genuinely difficult to imitate. The paper finds that no single element of the model is proprietary; the defensibility lies in the mutual reinforcement among elements, which imposes on an imitator the burden of adopting the whole configuration rather than selecting from it. The paper further considers whether the configuration remains defensible against quick-commerce entrants whose competitive logic substitutes delivery speed for price, and argues that the threat is segment-specific rather than general. Implications are drawn for retail strategy research and for the study of competitive advantage in emerging-market organised retail. As a qualitative case study drawing on publicly available strategic information, the paper offers analytical rather than statistical generalisation, and its propositions are stated in a form open to subsequent empirical testing.

Keywords: everyday low pricing, cost leadership, organised retail, DMart, VRIO, competitive advantage, case study

1. Introduction

Organised food and grocery retail in India occupies an awkward strategic position. Margins are structurally thin, the unorganised kirana sector retains substantial share on the strength of proximity and informal credit, real estate in the metropolitan centres is expensive, and the consumer is, by most accounts of the market, acutely price-sensitive. These conditions have proved inhospitable: several well-capitalised entrants have expanded aggressively into the category and subsequently retreated, restructured or exited.

Against this background, the sustained expansion of the DMart chain, operated by Avenue Supermarts Limited, presents an analytical puzzle worth examining. The chain competes principally on price in a category where price competition is normally value-destructive, and it has done so while expanding rather than contracting its footprint. The question this paper addresses is not whether DMart prices low — that is observable — but how a low-price position is rendered survivable.

The argument advanced here is that the conventional framing of everyday low pricing (EDLP) as a pricing-format decision is misleading. In the retail pricing literature, EDLP and high–low (Hi-Lo) pricing are typically modelled as alternative promotional strategies with differing implications for consumer search, store choice and margin arithmetic (Hoch et al., 1994; Bell & Lattin, 1998). This framing treats the price format as a decision variable that a retailer may set. The present paper argues that in value retail the price format is better understood as an output of a cost configuration rather than an input to strategy — that a retailer can announce EDLP but cannot sustain it unless the cost architecture has been built first.

Three research questions follow. First, what specific structural decisions constitute DMart's cost architecture? Second, which of those decisions satisfy the conditions for sustained competitive advantage under a resource-based assessment? Third, is the resulting configuration defensible against entrants whose competitive logic is not price-based? The paper addresses these through a qualitative single-case design, and states its findings as testable propositions rather than as verified empirical claims.

2. Literature Review

2.1 EDLP and Hi-Lo as Competing Price Formats

The comparative study of price formats has a substantial pedigree. Hoch, Drèze and Purk (1994), in a controlled study of store-level price manipulation, found that EDLP generated volume increases insufficient to compensate for margin sacrifice, concluding that Hi-Lo was the more profitable format for the chain studied. Bell and Lattin (1998) refined the picture by showing that format preference is segment-dependent: large-basket shoppers, for whom the cost of price search across stores is high relative to basket value, prefer EDLP, while small-basket shoppers can profitably exploit Hi-Lo promotions through cherry-picking.

Levy, Grewal, Kopalle and Hess (2004) surveyed emerging pricing practice and noted the persistence of hybrid formats, while Ellickson and Misra (2008) demonstrated empirically that format choice exhibits strategic complementarity — retailers tend to mirror the format of geographically proximate competitors rather than choosing independently. Collectively this literature treats the format as a decision taken with reference to demand-side conditions and competitor behaviour.

What receives less attention is the supply-side precondition. If EDLP requires a sustained sacrifice of the promotional margin cycle, the retailer must recover that sacrifice elsewhere in the cost structure or accept structurally lower profitability. The literature acknowledges this implicitly through discussion of operating-cost differences, but rarely treats the cost architecture as logically prior to the format decision. This paper takes that inversion as its analytical starting point.

2.2 Cost Leadership and Its Preconditions

Porter (1980, 1985) positions cost leadership as one of three generic strategies, cautioning that it is defensible only where the cost advantage derives from structural sources — scale, proprietary process, favourable input access, location — rather than from margin compression. Porter further warns of the “stuck in the middle” condition, in which a firm pursues cost leadership and differentiation simultaneously and secures neither. The value-chain framework directs attention to the specific activities in which cost is incurred and to the linkages between them.

This linkage concept is analytically central to the present argument. Porter’s observation that competitive advantage frequently resides in the coordination between activities rather than in any activity considered singly anticipates the finding developed in Section 5.3 below.

2.3 The Resource-Based View and VRIO

The resource-based view holds that sustained competitive advantage derives from resources that are valuable, rare, imperfectly imitable and organisationally exploited (Wernerfelt, 1984; Barney, 1991). Barney’s treatment of imitability is particularly relevant here, as it identifies causal ambiguity, path dependence and social complexity as barriers to replication. A configuration assembled over two decades of incremental decisions may be path-dependent in precisely this sense — fully visible to competitors, and nonetheless not available to them.

Applied to retail, the resource-based lens raises an immediate difficulty: retail operating practices are highly visible. Store layouts, assortment breadth, pricing and supplier terms can be observed by any competitor willing to walk the aisles. The VRIO assessment in Section 5.3 therefore concentrates on whether visibility is sufficient for imitability, and concludes that it is not.

2.4 Research Gap

Scholarship on Indian organised retail has examined store-choice behaviour, format preference and the organised–unorganised interface (Sinha & Banerjee, 2004; Sinha & Uniyal, 2005). Studies of DMart specifically have tended toward financial-ratio analysis or descriptive strategy summary. What is largely absent is a configurational analysis — one that treats the firm’s cost decisions as an interlocking system and assesses the system, rather than its components, for imitability. This paper addresses that gap.

3. Research Methodology

The study adopts a qualitative single-case design. Yin (2018) identifies the revelatory or critical case as an appropriate basis for single-case research where the case permits examination of a theoretical proposition not readily observable elsewhere. DMart qualifies on this criterion: it represents a sustained low-cost position in a market environment generally hostile to such positions.

Data sources are documentary and publicly available: corporate disclosures and annual reporting, industry and trade commentary, and prior academic literature on Indian organised retail. Analysis follows a within-case pattern-matching logic, in which observed structural decisions are matched against the theoretical expectations generated by cost-leadership and resource-based frameworks (Eisenhardt, 1989; Yin, 2018).

Two methodological limitations are stated at the outset rather than deferred to the conclusion. First, the analysis is deliberately non-quantitative. No financial ratios, growth rates or margin figures are computed or reported. The study addresses the logic of the cost configuration, not its measured outcome; readers seeking quantitative confirmation of the propositions advanced here should regard them as hypotheses awaiting testing. Second, single-case designs support analytical generalisation to theory, not statistical generalisation to a population (Yin, 2018). The propositions in Section 7 are framed accordingly.

4. Case Background

Avenue Supermarts Limited operates the DMart chain of supermarkets, established in the early 2000s with an initial store in the Mumbai metropolitan region and subsequently expanded across western, southern and parts of central and northern India. The chain positions itself explicitly on value, offering food, non-food fast-moving consumer goods, and general merchandise and apparel, with the assortment weighted toward regularly purchased household staples.

Two features of the firm's development are relevant to the analysis. First, geographic expansion has proceeded by cluster rather than by dispersion: the chain has historically deepened its presence within a region before opening in a distant one. Second, the firm has favoured ownership of store real estate over leasing to an extent unusual among Indian organised retailers. Both features are examined below as components of the cost architecture rather than as incidental operating preferences.

5. Analysis

5.1 The Cost Architecture

Six structural decisions constitute the configuration examined here.

- **Property ownership.** Owning rather than leasing store premises converts a recurring operating expense that escalates with market rents into a one-time capital outlay. The strategic consequence is that the firm's cost position improves in relative terms precisely when commercial rents rise — that is, when competitors relying on leased premises are experiencing cost pressure. The decision imposes a slower expansion rate and a heavier capital requirement, which is the price paid for the advantage.
- **Cluster expansion.** Concentrating stores within a region permits shared distribution infrastructure, denser delivery routing, regionally concentrated brand familiarity that reduces the need for advertising, and managerial supervision economies. The alternative — dispersed national presence — forfeits each of these.
- **Assortment restriction.** Carrying a narrower assortment than a full-line hypermarket concentrates purchase volume on fewer stock-keeping units. The immediate consequence is improved per-unit negotiating leverage with suppliers; the secondary consequences are faster inventory turnover, reduced working-capital absorption and lower shrinkage and obsolescence exposure. The cost is the loss of the customer whose purchase requirement falls outside the carried range.
- **Accelerated supplier settlement.** Paying suppliers on shortened terms is, considered in isolation, a working-capital sacrifice. Considered as an exchange, it is the purchase of a lower acquisition cost: the supplier, receiving payment sooner, is willing to concede on price. The transaction converts a balance-sheet position into an income-statement advantage — and, critically, it is available only to a retailer whose cash conversion cycle permits it, which returns the analysis to assortment restriction and inventory velocity.
- **Minimal advertising.** Where price itself performs the communicative function, expenditure on brand advertising becomes partially redundant. Word-of-mouth within a geographically concentrated catchment substitutes for paid media. This decision is contingent on the cluster strategy; a dispersed retailer could not make it.
- **No-frills store environment.** Functional fixtures, restrained store design and high space productivity reduce both capital cost per store and ongoing maintenance expense. The decision is coherent only where the customer's expectation is priced accordingly — a value-positioned retailer may adopt it; a premium-positioned one may not.

5.2 EDLP as Output Rather Than Input

The six decisions above precede rather than follow the pricing decision. Each independently reduces the cost of delivering a unit of merchandise to the shelf; jointly they establish a cost floor sufficiently low that a permanently low shelf price remains commercially viable.

This supports the paper's central claim. A retailer whose cost structure has not been so configured may nonetheless announce everyday low prices, but will fund them from margin rather than from cost, and the position will be temporary. The EDLP format is therefore not a strategy but a symptom of one — the customer-visible manifestation of an architecture assembled well upstream of the shelf. The corollary is that studies comparing

EDLP and Hi-Lo performance across retailers without controlling for cost architecture may be comparing outcomes of different underlying strategies rather than outcomes of the format choice itself.

The formulation also resolves the apparent tension with Hoch et al. (1994), whose finding that EDLP underperformed Hi-Lo was obtained by manipulating price format while holding the retailer's cost structure constant. On the account advanced here, that is precisely the condition under which EDLP should be expected to underperform.

5.3 VRIO Assessment

Applying Barney's (1991) framework to the principal resources and capabilities identified above yields the following assessment.

Table 1. VRIO assessment of DMart's principal resources

Resource / capability	Valuable & rare	Costly to imitate	Competitive implication
Owned store real estate	Yes — removes rent escalation from the cost base	Partially — capital is available to rivals, but early-acquired locations are not	Temporary to sustained advantage
Cluster density	Yes — yields distribution and supervision economies	Yes — path-dependent; requires sequenced accumulation	Sustained advantage
Assortment discipline	Valuable but observable	No — replicable in principle	Parity, unless combined
Supplier settlement terms	Yes — converts cash position into purchase-cost advantage	Yes — requires a cash cycle rivals may not possess	Sustained advantage
Low-cost operating culture	Yes	Yes — socially complex, causally ambiguous	Sustained advantage
Private-label portfolio	Valuable; not rare in the sector	No	Parity

The assessment yields a finding that is at first counter-intuitive. Considered individually, most of the elements are imitable: any competitor may restrict assortment, purchase property, or shorten payment terms. The barrier is not secrecy — the model is entirely visible — but interdependence. Shortened supplier settlement is affordable only because inventory velocity is high; inventory velocity is high because assortment is restricted; restricted assortment is commercially tolerable because the catchment is dense; the catchment is dense because expansion proceeded by cluster; cluster expansion was feasible because property was acquired ahead of price appreciation.

An imitator must therefore adopt the configuration in its entirety, in approximately the correct sequence, and accept the slower growth that ownership-led expansion imposes. This is Porter's point about linkages and Barney's about path dependence arriving at the same conclusion from different directions. The defensibility of the model lies in the system, not in any of its parts.

A further implication deserves note: an incumbent that has already expanded through leased premises cannot retrofit the configuration, since its cost base is contractually committed. The advantage is thus protected not only by the difficulty of imitation but by the sunk commitments of those who would imitate.

5.4 The Quick-Commerce Challenge

The most substantive challenge to the configuration comes from entrants whose competitive logic is orthogonal to it. Quick-commerce platforms compete on delivery immediacy rather than on price, operating from dark stores with restricted assortment and, in the general case, accepting losses on delivery economics in pursuit of share.

The threat is real but, on the analysis offered here, segment-specific. Quick commerce addresses the small, urgent, top-up basket — precisely the segment that Bell and Lattin (1998) identify as least attached to EDLP, since the small-basket shopper's price-search economics differ from the large-basket shopper's. The planned monthly or fortnightly bulk purchase, which is the value retailer's core occasion, involves a basket whose delivery cost under a rapid-fulfilment model is difficult to absorb.

Two qualifications weaken this reassurance. First, if quick-commerce basket sizes expand over time, the segments converge and the insulation erodes. Second, the value retailer's own response — developing a digital order-and-fulfilment channel — risks importing a cost structure incompatible with the configuration that produced its advantage, since fulfilment labour, packaging and last-mile delivery are precisely the expense categories the physical model was designed to avoid. The strategic question is therefore whether a digital channel can be operated as a distinct cost system rather than as an extension of the existing one. This paper does not resolve the question; it identifies it as the material strategic issue facing the firm.

6. Discussion and Propositions

The analysis supports four propositions, stated here in testable form for subsequent empirical work.

- **P1.** In value retail, the sustainability of an EDLP format is a function of upstream cost architecture; format adoption without corresponding cost configuration produces a temporary and margin-funded price position.
- **P2.** The imitability of a retail cost-leadership model should be assessed at the level of the configuration rather than the individual practice; component-level assessment systematically overstates imitability.
- **P3.** Ownership-led store expansion trades growth rate for cost-base insulation, and the resulting advantage widens as commercial rents appreciate.
- **P4.** Quick-commerce entry displaces value-retail demand at the small-basket margin rather than at the planned-purchase core, and the degree of displacement varies with the entrant's basket-size trajectory.

For retail practice, the analysis suggests that competitive responses to a configured cost leader through selective imitation — matching prices, or copying assortment discipline alone — are unlikely to succeed, since the elements are mutually load-bearing. For theory, it suggests that the retail pricing literature's treatment of format as an independent decision variable warrants revision when applied to markets where cost structures differ materially across competitors.

7. Limitations and Scope for Further Research

The study is qualitative and single-case. It reports no financial measures, and its propositions are consequently unverified. Three extensions would strengthen the argument materially: a comparative multi-case design incorporating value retailers that adopted EDLP without the corresponding cost architecture, which would test P1 directly; a quantitative examination of the relationship between property-ownership ratio and cost-base sensitivity to rent inflation across Indian organised retailers, testing P3; and a consumer-side survey of basket composition and channel choice, testing P4. The present paper is best read as the conceptual groundwork for such work rather than as a substitute for it.

8. Conclusion

This paper has argued that everyday low pricing in Indian value retail is misconstrued when treated as a pricing strategy. The DMart case suggests that the visible price position is the terminal output of a configuration of structural decisions — property ownership, cluster expansion, assortment restriction, accelerated supplier settlement, advertising restraint and operating austerity — each of which is individually imitable and which collectively are not.

The theoretical contribution is the shift of analytical attention from the price format to the cost architecture, and from the component to the configuration. The practical implication is that competitors seeking to contest a configured cost leader on price alone are contesting the symptom rather than the cause. Whether the configuration remains defensible against competitors who decline to compete on price at all is the open question, and the one on which the firm's next decade will turn.

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