Established in the early 90's, retailer XYZ is a medium sized convenience supermarket chain with 100 outlets spread across Delhi, NCR, Haryana and Punjab. The retailer is primarily positioned on the platform of price and convenience. XYZ aims to operate with a 25% gross margin on its products, though it manages only 12-15% currently.

50% of its stores were setup in the early 90's with long term leases and average rent of Rs 55 per sqft pm (Stores A). 30% of the total were setup prior to 2007 with average rent of Rs 90 per sqft (Stores B), while 20% of its stores are at average Rs 150 per sqft (Stores C) rental per month. The locations of all the stores are similar as the company goes for just-off residential locations in Tier 2 towns and cities.

The average sales per sqft for the 1st 50% (Stores A) of its stores comes to Rs 500 per month, with average ticket size of Rs 250, whereas for the remaining it comes to Rs 600 per sqft per month with average ticket size of Rs 200. All stores are at average size of 6000 sqft.

The company has drawn up an ambitious plan of expanding its format into South & West India in next 3 years by opening 100 new stores. However, with the entry of large corporates like Reliance Fresh, Birla's and Wal-Mart, XYZ is expected to face tremendous competition in the near future. Plus the retailer is not sure if its current 100 stores are stabilized enough to venture out for more. Current profitability is a key concern.

1. **Give 3 areas of concern for company XYZ with its current business model?**
2. **How do you think he can increase his gross margins?**
3. **Do you suggest that he consolidate with the current stores, or expand further? Give reason on why.**