Chapter 2: LITERATURE REVIEW

2.0 Introduction:

In this chapter, a detailed review of available literature on the subject is made. The chapter is structured into five sections. While the first section discusses the theoretical studies on retail evolution, the second section deals with empirical studies on retailing. This is then followed by the third section, wherein a review of case studies on the evolution and growth of retailing is made. The fourth section surveys the other studies on the evolution and growth of retailing. The fifth and final section gives the gap analysis.

2.1 Theoretical Studies on Retail Evolution

As mentioned in the introductory section of the study it is planned to study some of the significant theories of retailing, which have emerged in last fifty years. Many researchers have studied the evolution of organized retailing in developed economies like the United States of America and Europe. Researchers propounded various theories on retail evolution, which helped in studying retail evolution patterns in various economies. Out of the various theories, the author wishes to put a few of the theories, which are accepted as universal theories of retailing and are often found being quoted in further research studies. McNair (1958) propounded the Wheel of Retailing theory and Hollander (1966), the Retail Accordion Theory. Blake (1939) summarized the Dialectic Theory of Retail Evolution. Brown (1987) classified these theories based on their nature and grouped them as cyclic theories, environmental theories and conflict theories.

Later, researchers carried out studies on these theories to establish if they carry any insights for the future growth of retailing, whether any patterns of retail evolution occur as proposed in these theories and whether such patterns maybe found common across firms in the future growth of retailing. As India is witnessing the growth of organized retailing, an attempt to ascertain the relevance of these theories in the Indian context will be made.
2.1.1 Wheel of Retailing Theory:

McNair (1958) propounded the theory of the Wheel of Retailing. This theory explains a cyclic retail evolution pattern, which he had observed with the European and U.S. organized retail organizations. The Wheel of Retailing is the most frequently cited theory of subsequent researchers. The Wheel of Retailing theory states that the evolution process comprises three stages: entry stage, trade-up stage, and vulnerable stage. This theory is diagramed as a large wheel with three spokes dividing the wheel into three segments or stages. The entry stage of the Wheel of Retailing starts with offering limited merchandise with low prices and retail organizations as a strategy have low margins in order to increase penetration of the market. As the store progresses in its growth, the organization enters the second stage, which is the trade-up stage where the organization offers full services and a range of merchandise in full prices, without any discounts. According to the study by Bennett & Cooper (1984), these firms have the highest profits and a strong cash flow. In the third stage, according to the Wheel of Retailing theory, the wheel turns as the store matures in its growth and faces more competition too. As a retailer reaches this stage he will reduce prices and scale down services too in order to reduce operating costs. In this phase of evolution, the strategy is to drop prices and McNair calls this, “a vulnerable phase as competition may make easy inroads.” According to Bennett & Cooper continuous innovations and sound management practices will help the retailer to sustain growth in this phase. The consecutive cycles as depicted by the Wheel of Retailing (Gist, 1968), support the evolution of department stores, discount stores, supermarkets, shopping centers and even non-store institutions like mail order companies.

McNair’s theory is based only on the premise of merchandise pricing in retail organizations in the various stages of their evolution. Currently retail companies follow well researched pricing in accordance with the marketing strategies of the organization. Retail organizations like Big Bazaar in India have positioned themselves as discount stores with the advertising by-line “Is se sastha aur achcha kahin nahin” meaning that one will not get such good products at low prices.
anywhere else right from the inception of the retail concept and the theory of the
wheel of retailing will not be applicable in the current context of defined strategic
positioning. One may argue that within a discount store price point management in
product-lines may lead to the store beginning with lower price points initially and
later adding more categories at higher price points, thus allowing the cycle to begin
again with lower priced merchandise to increase the store’s volume growth. But such
price point management in merchandise categories are more often tactical
management decisions and hence cannot be related to the evolution of the retail
organization. Further, the theory will not be applicable to well defined retail formats
premised on specialized category mix like Ikea or on specialized service like
Nordstrom.

The Wheel of Retailing and Wal-Mart: The theory says that retailers have the
tendency to begin their operations at the low end of the market, and win customers at
the outset by offering very low prices made possible by highly efficient operations –
which Wal-Mart did in the 1970s through the 1990s. But over time, as purported by
the theory, retailers become increasingly "fat" by letting their costs and margins
increase. The new retailers' success leads them as a natural tendency, to upgrade their
facilities and offer more services, increasing their costs and forcing them to raise
prices. Eventually Wal-Mart was on an up-scaling trend in 2005, when the Wall
Street Journal reported, “Wal-Mart has created a store prototype with wider aisles,
lower shelves and more elegant displays of pricey products. The retailer once prided
itself on selling the first DVD player under $100. Now it also offers 42-inch flat-
panel plasma TVs for $1,648 to $1,998.” The new retailers thus become like the
conventional ones they replaced, and the cycle begins again when still newer types of
retail formats evolve with lower costs and prices. This theory explains the
organizational changes that take place when innovators enter the retail arena; a
discount retailer may expand and move up-market leaving room for another
discounter to move in; they undercut the first discounter but then move up-market
themselves and so the 'wheel' revolves. Gilmore (2007) is perhaps right in arguing
that the theory of the Wheel of Retailing seems to mirror Wal-Mart’s trajectory as it
tried to move into higher end apparel, electronics, and organics, with limited success
evolving from its original discount format. He says that it did let its inventory growth get out of control in 2004-2006, negatively impacting profitability! This clearly shows that the theory is not applicable to a retail organization strategically positioned as a discount format.

### 2.1.2 Retail Accordion Theory

Hollander (1966) propounded the Retail Accordion theory, which explained retail evolution as an expanding and constricting trend (like an accordion) in terms of the number of merchandise categories and product assortments. In this theory (which is also cyclical in nature), at the beginning of the retail operation, a retail organization carries a broad assortment of merchandise (i.e., various types of products or product classifications) but does not carry a deep assortment (i.e., various styles within one product classification). At this early stage, the retail organization is a general store. As time passes, the retail organization becomes specialized by carrying a limited line of merchandise with a deep assortment. At this point, the retail organization is a specialty store and at some point every retail organization returns to the inventory profile of the former operations with a broad assortment of many lines of merchandise. The number of lines (i.e., broad vs. narrow) and the depth of inventory (i.e., shallow vs. deep) expand and contract over time. Hollander used general stores, drug stores, supermarkets, department stores, and discount stores in the United States as samples of analysis for the theory (Kim, Sook-Hyun, 2003). He explained the historical changes of a merchandise assortment over time in these retail organization types, and noted that each evolved by following the steps of the Retail Accordion theory.

Stern and El-Ansary (1977) proposed a graphic model of Retail Accordion theory with breadth of merchandise line assortment changing across time. In the model, general stores, department stores and shopping centers, were the examples of organization types with broad merchandise lines and they have alternated over time with specialty stores and boutiques, which represent organization types with narrow merchandise lines. Some researchers have attempted to explain retail organization
type evolutions using the accordion theory (Brown, 1987; Hollander, 1966). Hollander mentioned that the general store, the most common retail organization type in the 1800s, exemplified a retail organization that followed the Retail Accordion pattern. These retail organizations became merchandise specialists (i.e., department stores) in the early 1900s and as U.S. department stores became more successful, they expanded their product lines to hardware lines, such as automobile products and electronic home appliances.

At the end of the 1900s, these stores, burdened with increased operating costs for extensive product lines, started removing non-profitable products, such as hardware lines from their merchandise assortments. Many of these stores eventually returned to a merchandise specialist offering only specific soft product lines such as household textiles and clothing. Davidson (1970) further supported this scenario of the Retail Accordion theory with the example of the retail trend in the 1970s, when broad and shallow (i.e., mass or general line of merchants) retail organizations became narrow and deep (i.e., specialty retailers) retail organizations, indicating the refining of the evolution of stores in the organized retail sector.

Alexander and Akehurst (1999) say, “The theories that have emerged within retail management studies have developed without the historical analysis, which would allow for their validation or contradiction. As Hollander has noted from a marketing perspective in the context of Accordion theory of retail change, it is not possible to acknowledge the universality of the wide assortment to narrow assortment alternation, which appears to occur within the retail environment or to prove that such an alternation exists because ‘there are no valid historical statistics on merchandise assortments.’ These thoughts echo Hollander’s earlier comments on the ‘wheel of retailing’, where he observed that historical data on such as ‘retail expense rates is very scarce’ and hence undermine the theoretical framework of the wheel theory.”

The accordion theory of retail change in its perspective of narrow to wide merchandise assortment alternation needs to be studied in the current context of category management where Stock Keeping Units (SKU) are managed at a micro
level in retail organizations. Frequent changes in assortments may impact store strategies targeted for specific customer profiles in modern retailing and hence the applicability of accordion theory may not be relevant to contemporary retailing.

2.1.3 The Dialectic Theory of Retail Evolution:

The Dialectic theory is based on Karl Marx’s Theory of Evolution. Blake (1939) briefly summarized the Theory of Evolution: The progress of change means that everything must decline to make way for new things, that nothing in nature or society is “fixed” or “sacred” since it must share the process of transformation. Dialectic means, specifically, that the phases of each development repeat former phases, but on a different plane. That is, each step is the negation of the previous step, and the next step must be a negation of that negation: it does not restore the original situation, but invariably creates a third situation, which is different because of the double process of negation. (pp. 639 - 640).

Gist (1968) replaced the “situation” from the Theory of Evolution with a “retail organization” in the Dialectic theory. He proposed that an existing retail organization (i.e., thesis1) is challenged by its competitor (i.e., antithesis1) because it has competitive advantages over the existing retail organization (i.e., thesis1). As time passes, the first retail organization imitates the characteristics of competitor to upgrade its existing characteristics and finally creates a new retail organization (i.e., synthesis1). In an alternative explanation of the process, while two retail organizations are in conflict, a new retail organization (i.e., synthesis1) is created, offering better characteristics than the existing retailer and its competitor. A new retail organization will become a traditional retail organization (i.e., thesis2) in the next evolution (Oren, 1989). The phases of thesis1 vs. antithesis1 and synthesis1/thesis 2 vs. antithesis 2 alternate in a stair step pattern over time. As a retail organization type moves along a step into the next step, the organization type passes through the stages of problem recognition, implementation of solutions, and emergence of a new retail organization type. Brown (1987) supported the Dialectic theory or Conflict theory of retail evolution.
After examining retail evolution during this century, Oren (2006) reaches the conclusion that the “dialectic process theory” offers the most encompassing, simple, and logical framework for the understanding of recent retail metamorphoses. He contends that there are two established retail forms offered: “traditional” (store-based) and “direct marketing” (home-based) and both these forms have been converging in recent years. As this convergence has taken place, a new retailing form has started to emerge: “electronic direct marketing.” In this system, the marketer uses computers, telecommunication, and video display technologies to reach consumers and to build an interactive relationship with them. Oren emphatically draws a conclusion that this emerging form of retailing will come to have a significant and lasting effect on future retail institutions in the United States.

Dixon (1982) studied retailing literature dating from the seventeenth century and he analyzed the areas of store location, store design, merchandise offering, promotion, and pricing. Dixon says that the basic principles of retailing have not changed very much. In his study of the history and development of retail thought over a period of three centuries he says that the right location, a good reputation, active turnover, and strong but honest selling have been recognized as the keys to success in retailing for over three hundred years.

The dialectic theory has an organizational approach and not a situational approach. Relating to strategies of retail evolution, this theory revolves around the only aspect of competition. It may not be relevant to every context that as newer organizations will emerge the older ones will become traditional. The characteristics impacting retail evolution in a relevant context will be more appropriate and the theory needs validation in the context of retail growth in India.

2.1.4 Environmental Theories:

Institutions in the evolutionary life cycle emerge, develop, mature and decline as an effect of environmental circumstances. The retail institutions, which have the ability
to adapt to the changes in the environment may survive, while those not able to adapt to such changes will decline. Among studies based on the environmental view, a few focus on specific elements of the environmental mix. The environmental view has strong influences from the Darwinian ecological perspective with natural selection and survival of the fittest. As the environmental theories in general, the environmental view of retail change has a strong focus on the environmental conditions and in some way neglects the different retail institutions own opportunities to initiate change regardless of changes in the environment (Brown, 1987).

2.1.5 Conflict Theories:

The conflict theories hold that retail organizational evolution is derived from inter-institutional conflict. Innovations in the retailing system force the established retailers to respond or adapt to the innovation. Responses could be of two major types, by imitating some or all of the characteristics or by differentiating the threatened institution from the challengers. Brown (1987) opines, “The nature of existing retailing techniques may thus be altered as a result of inter-institutional strife; so much so in fact that completely new forms of retailing may emerge from the conflict.”

Kim (2003) studied the evolution of organized retailing in South Korea and he has mentioned that research supports a combination of cyclic, environmental and conflict theories in the evolution of many forms of retail organizations in the USA. He however establishes that all these theories lack evidence of ‘generalizability’. Universality is a common limitation among retail evolution theories.

The theories of retail evolutions have been discussed in the context of the economy, evolved consumer markets where the dynamics of evolution have followed similar patterns and the purchase power parity. They relate to the evolution of retail by changes largely in terms of merchandise pricing and range characteristics. Pioneer retailers thrive well throughout the early stages of existence and organized retailing in India is just a decade old. The engagement of these theories in the context of a retail
organization’s responses to changes and innovations of new emerging retailers remains to be researched in India. The forces responsible apparently are some such as competition, adoption of technology, etc. in the current scenario. Such forces and their relevance may provide insights into patterns of organized retail’s growth in India.

2.2 Empirical Studies on Retailing:

Most of the empirical research on retailing relate to the study of relationships among customer satisfaction and store sales or profitability. These empirical studies revolve around the utilitarian studies of consumption and consumer satisfaction. Sulek et al (1995) have concluded that customer satisfaction positively affects sales per labor hour at a chain of 46 retail stores. Babakus, et al (2004) have linked customer satisfaction to product and service quality within retail stores and have found that product quality has a significant impact on store level profits. Corsten and Gruen (2003) have studied the relationship between variables such as inventory levels and sales. They have analyzed the root causes of retail inventory stock-outs and these when addressed improve sales. Krishnan et al (2006) developed a three stage econometric model to analyze the marginal effects of various execution levers on sales. In their study of various coefficients impacting retail execution they find that while managerial payroll has a positive impact on sales, employee knowledge and customer perception of stock availability in stores impact sales stronger. Literature on customer satisfaction and on operational attributes impacting retail sales is huge and elaborate.

Delphine Dion (1999), identified density influences on consumers and the processes underlying crowding related phenomena in a French retail store. The study differentiated social and the spatial dimensions of density and influences were analyzed which established a relationship to a physical and social environment, which exerts an important effect on buyer-behaviors.
Brown (1992) applied Reilly's Law of Retail Gravitation in Economics to retailing relating the distance between retail locations to the size of the stores impacting the process of gravitating customers. Reilly’s law states that larger cities will have larger sphere of influences than smaller ones, meaning people travel further to reach a larger city. The law presumes the geography of the area is flat without any rivers, roads or mountains to alter a consumer's decision of where to travel to buy goods, it also assumes consumers are indifferent between the actual cities. The law was developed by William J Reilly in 1931.

\[ BP = \frac{d}{(1 + \sqrt{\frac{p1}{p2}})} \]

The Balance or Break Point (BP) is equal to the Distance (d) between two places, divided by the following: Unity or Total (1) plus the Square Root of, the size of Place One (p1) divided by the size of Place Two (p2). d is distance and p1 and p2 are the sizes of the places between which the distance exists; the answer will give the distance from p2 - also called a break-point. What is the break-point? As an example: after leaving a store A, you remember something that you wanted to buy; it just so happens that you are headed towards an alternative store B. The break-point can be thought of as the point after which you would travel towards store B instead of store A because of its notional "gravity". This would happen sooner, for example, if store B is an equivalent store but with greater square footage, suggesting that you are more likely to go to store B for greater available utility. According to the study, this notional gravity can be influenced by a number of things, but square footage is simple and effective. Brown’s (1992) model in the retail evolution context says that the gravity model commenced as a simple conceptualization of consumer spatial behaviour and it became increasingly sophisticated through time, and thereby created conditions conducive to the reemergence of the basic interaction model. He opines that the wheel theory describes but does not explain the processes of change, and hence there is the need for a more comprehensive model of the evolution of retailing.

Many empirical researches have been done studying various models on retail location. Lea and Simmons (1995) have studied location – allocation models for retail

The empirical studies are done in the context of developed retail environments and all these studies suggest commonly an interplay of four specific areas - the customer gravitation to the store, space / location attributes, stock / merchandise related factors and staff related parameters and the impact of all the four categories on the store performance. The empirical studies have followed the use of regression analysis, time and data series and indices largely, for research. Empirical studies are extended and done among formats and models developed for application in various retail functions. The majority of empirical research done in retailing significantly points to the understanding of trends based on the use of historical data.

2.3 Case Studies on Retail Evolution

An attempt is then made to study few case studies covering how retailing revolution evolved in the world. This section helps in analyzing the evolving retailing environment in different countries and then analyzing the context on which the industry has evolved.

2.3.1 Evolution of Organized Retail in the United States of America

A research study following the survey method was done by Kurt Salmon Associates in 2004 on the evolution of the organized retail market in the USA. The study highlights how formats evolved in the USA in the 20th century. The study establishes that that till the 1940s American retail was primarily centered around the city ‘high street’ or down town areas, with an array of independent stores such as department stores, drug stores and coffee shops. Post world war 11 the key demographic trend was migration away from the city centre towards the suburbs. This led to the emergence of the shopping centre. The 50s saw the emergence of the closed shopping mall, providing an end-to-end shopping and entertainment experience from food courts, theatres to shopping outlets, according to the study. The last major
development in the American retail landscape was the discount stores along the lines of Wal-Mart and Costco, which are large stores with more than 100,000 square feet of space situated at a distance from the city centre or the suburb. These stores gain significant market share in a short while and they cater to the entire spectrum of household requirements such as grocery, apparel, household goods, do-it-yourself categories, books and financial services (Sanwalka, et al, 2005). This leaves us with the key thought Indian retailers whether or not will learn from such format experiences and leapfrog to the most successful formats.

2.3.2 Patterns of Organized Retail Evolution in China

Limited literature is available with reference to studies of organized retail evolution in China pre-nineties. According to the Global Retail and Consumer Study: From Beijing to Budapest (2004 / 2005), the retail boom has brought about a massive influx of new retail outlets in China and with the emergence of such organized retail formats, the fast moving consumer goods market has been growing at a staggering pace. Since 1999, consumption value in 43 major FMCG categories has risen by 36% in China’s 10 largest cities. The study says that since China opened up its economy to the outside world in the 1980s, its consumer market has been growing at an astounding speed. FDI in retail is allowed to the extent of 100% in China since 2004 and apart from the major retailers, the Chinese retail market consists mainly of small, individually owned stores and large state-owned stores. Organized retail formats such as large chain stores, super and hyper stores have emerged in recent years and are gaining in popularity. The impact of opening retail in 1992 through the joint venture route in China is significant and has resulted in China opening 600 hypermarkets between 1996 and 2001. After 1992, the number of supermarkets increased ten fold to over 150000. The traditional mom and pop stores also grew from 1.9 million to over 2.5 million. The KPMG study on Retail Outlook for China (2005) confirms that the high level of urbanization in China in the coastal regions has been one of the key drivers for success of modern retail formats in the country. In China both hypermarkets and supermarkets are perceived as food specialists and include fresh
food produce to cater to local tastes. Convenience stores have been another format that have done exceedingly well in larger cities (Sanwalka, et al, 2005).

The retail boom in China and some of the South-East Asian economies throws up some startling similarities to the evolution of organized retailing in India. A decade ago, China was a different story - very little organised retail, virtually no malls and a not-too-significant middle-class, with the average Chinese not exposed to foreign brands. Today, China's retail industry is worth upwards of $580 billion with more than 14 global mega retailers setting up shop in the last ten years (Sanwalka et al, 2005). The organized retail evolution in India is passing through a phase where large formats are set up and malls too are surfacing. India too has diverse demographics and purchase behaviour of consumers; the consumers are price and value conscious and there is an urban versus rural divide. Much of the retail evolution before the opening of FDI in China is similar to what currently happens in India in terms of the entry of multinational brands through joint ventures.

2.3.3 The Evolution of Various Organized Retailing Formats in India:

Furedy, Christine (1979) was a researcher who studied the early elite retail evolution in the colonial days of Kolkata (then known as Calcutta) between 1880 and 1920. Her research shows that retail businesses were established in India those days following the model of British shops, even though the early tradesmen were permitted to operate by the East India Company only under a bond system. However, according to her the peculiar conditions of society and economy in India soon called forth adaptations in the growing retail sectors so that colonial retail trading developed distinctive features. The large and stable retail firms which dominated the elite retailing in British India became a variant form of business organization although they shared many features of elite shops everywhere. Furedy studied the categorization of retail shops then. By the middle of the nineteenth century Calcutta's (Kolkata) commercial life was stratified into four main sectors: commercial firms, the European retail trade, Indian-owned, modern retail firms, and the bazaar sector of the city's markets and small-scale trade. Furedy in her research traces the sustenance
factors of modern elite retail stores during the colonial period to the British customers and she says, “Initially it was the British tradesmen's access to the manufactured luxury goods of Britain and Europe which enabled them to develop an elite trade independent of the bazaar. But even when Indian manufactured equivalents began to appear in some items, the prestige of imports was untarnished. Few persons believed Indian firms could produce goods of European standards.

The elite firms imported most of their wares directly from suppliers, whether these were in Britain, America or Europe. This was necessitated by the fact that the import broker firms of Calcutta and other Indian ports were geared towards the wholesale distribution of bulk goods for the lesser shops and the bazaars and not towards the handling of individual, small or specialized items which comprised a great deal of the trade of the elite shops. It was only by direct importing that the tradesmen could ensure that the distinct reputations of their shops could be maintained. This retail importing was done over vast distances and under difficult conditions of communication. Furedy’s research evidences the factors of transportation and development of communication in the colonial times in India to impact the evolution of modern retailing then. “The retail evolutionary changes were dependent upon the development of transportation and communications in India. Of prime importance was the railway. In 1855 there were 169 miles of railway in India; by 1920, there were 35,199 miles. Every extra mile was important to the Calcutta shops, many of whom filled more mail orders than "in-person" ones. Whether lines were built to connect areas of commodity production and the ports, for military purposes or to link major towns, they reached into pockets of European residence hitherto barely accessible to the coast-based traders. Tradesmen constantly pressed for the extensions of lines and better organization of the railway systems. Although the first line in India was from Bombay city (1853), Calcutta rapidly moved ahead as the hub of multiple lines. By 1870, Calcutta was linked to all the main cities of the north, west and south. Lines also reached into the plantation districts of Assam. The East Indian Railway was soon the giant of the system, carrying more persons and goods than any other line. The railway gave Indian-based retailers a distinct advantage over shops selling directly from Britain through mail orders for, although
both used the rails, the Calcutta retailers were, by close supervision of their railway trade, able to speed despatch of goods.”

Along with the development of the railways came the spread of the postal system in India. Furedy says that the concurrent development of postal services, particularly the parcel post and value payable post (VPP) which was introduced in 1877 impacted the retail trade a great deal. The importance of the VPP to retailers was stressed in the Annual reports of the Indian Post Office. In the 1890s half the entire VPP transactions of India were initiated from Bengal, with 90 per cent of these going out from Calcutta. From the beginnings of VPP through the period of Furedy’s study covering the period 1880 - 1920 the Calcutta tradesmen steadily increased their marketing by mail order.

Improvements in telegraphic communication, she records, also benefited the retailers. After Bombay was linked to London by submarine cable via Suez in 1870, the use of the telegraph for individual commercial transactions became feasible. After 1900, reductions in rates further boosted commercial use. Improved communications, including better and faster postal services, and increased newspaper circulation, made possible more sophisticated advertising by print. The tradesmen were convinced that advertising was significant in increasing business. The Calcutta shops had early been distinguished by their elaborate, illustrated catalogues with careful instructions for self-measurement and custom ordering. Furedy’s research of early modern retailing in Kolkata shows very clearly a few key pointers in pre-independence elite retail evolution:

- The Indian retail trade followed the British pattern of retail shops
- The retail evolutionary changes were dependent upon the development of transportation and communications in India
- Along with the growth of transportation innovative retail formats developed – Value Payable Post (VPP) was gaining significance in Indian retailing
- The format of mail order became popular as printing and newsprint developed in India.
Mail order retailing in the USA emerged in the 1900s and became popular as consumers in the United States grew in their concern about time for shopping consequent on the increased number of working women and working parents. The growth of the railway system and expansion of the US post office supported the mail order delivery system (Kim, 2003). The growth of telecommunications, courier service, aviation and other infrastructure support services may have a direct relationship in impacting the evolution of many unconventional forms of retailing in India, which need to be researched.

Focused on organized retailing in India, Furedy’s research is a study that has analyzed the evolution of retailing with its spatial limitation to Calcutta. Also, the relevance of Furedy’s research dates back to the pre-independence era, when the customers as the researcher has discussed are a mix of elite British and Indians. The current retail scenario in India since the year economic liberalization leaves a gap for research. While analyzing the deterrents to retail growth, Furedy’s research shows that the lack of government policies to govern elite retailing hampered its further growth in the pre-independence era. The impact of governance policies and regulations in the current context of organized retail evolution also has to be researched.

The availability of refereed literature on the evolution of various formats of retailing post independence is scarce and hence one has to rely more on published articles in the recent period of evolution of organized formats. The study of the history of retailing business in the last twenty years in India throws up the fact that in most economies organised retailing passes through four distinct phases in its evolution cycle. In the first phase, new entrants create awareness of organized formats and raise consumer expectations. During the second phase, consumers demand organized formats as the market develops, leading to strong growth. As the market matures, intense competition forces retailers to invest in back-end operating efficiency. Supply chain management attains top priority in the third phase of evolution. In the final phase, retailers explore new markets as well as inorganic opportunities as growth tapers off (Kumar, 2005). Organized retailing in India is growing rapidly, although it
commands just 5% of the overall retail market share, compared with 85% in the USA. Even in Asian countries such as Malaysia, Thailand and China, organized retail formats command a much higher proportion of the total relative to India – at 55%, 40% and 20% respectively. Thus there is a significant scope for organized retail format market-share growth in India. The retailing industry in India, estimated at INR 9300 billion (2003-04), is expected to grow at 5% per year and organized retailing is well on its way to becoming an INR. 350 billion market by the turn of 2005 (India Retail Report, 2005). The future of the evolution of retail formats in India needs to be studied.

2.4 Other Studies on the Evolution and Growth of Retailing in India:

It is planned to analyze specific studies that have a direct or indirect bearing on the evolution of retailing in India. The changes in various demographic measures and shifts in psychographics also have a direct impact on what consumers prefer and their retail choice behavior. These external factors build up context and provide links to explain the genesis of the retail growth in Indian economic system.

2.4.1 Studies on Growing Consumer Classes:

Rising incomes, changing demographics and consumer tastes are driving a growth of more than 30% for organized retail formats and the share of organized retail formats is expected to grow to more than 9% by 2010 in India (Singh, Princy et al, 2005). According to NCAER reports the number of ‘rich’ households, the target segment for organized retail stores is expected to more than double from 57m in 2002 to 107m by 2010 and that the proportion of India’s population that is less than 25 years of age stands at more than 50% currently, while more than 80% of the population is less than 45 years of age.

The following figures are the age-wise population of India according to the India Election Statistics (2004 fig):

- 0-14 years: 31.7% (male 173,869,856; female 164,003,915)
- 15-64 years: 63.5% (male 349,785,804; female 326,289,402)
• 65 years and over: 4.8% (male 25,885,725; female 25,235,905)

NCAER also forecasts the following income growth trends in Indian households:

### Growth Trends in Indian Households

<table>
<thead>
<tr>
<th>Income Band</th>
<th>2002</th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs.45,000</td>
<td>65</td>
<td>53</td>
<td>35</td>
</tr>
<tr>
<td>Rs.45,000 – 90,000</td>
<td>70</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Rs.90,000 – 1,35,000</td>
<td>26</td>
<td>34</td>
<td>49</td>
</tr>
<tr>
<td>Rs.1,35,000 – 1,80,000</td>
<td>13</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Above Rs.1,80,000</td>
<td>14</td>
<td>22</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: NCAER  
Table 2.1

The economy post liberalization is one of spending with a paradigm shift, taking place from a historically savings and investment driven economy. The Indian economy has shown a robust growth ranging between 5% and 6.5% per year consistently over the last ten years and more recently the GDP growth rate is 9.6%. In 2003, the growth was an extremely healthy 8.2%, the second highest in the world, after China, and for 2004 it is in excess of 7%. Indian consumer is therefore far more bullish about a spending outlook than her North American and European counterparts according to KSA Technopak’s Consumer Outlook 2005 report. The Goldman Sachs BRIC’s report states that India will be amongst the top five economies in the world by 2050 along with China and Brazil. A recent report discussing the growing consumerism in India remarks, “With the largest young population in the world we in India have over 890 million people below 45 years of age! India is indeed a glorious market with its over 480 million middle class. As the economy grows so does India's middle class too.

It is estimated that 70 million Indians earn a salary of over INR 800,000 ($18,000) a year, a figure that is set to rise to 140 million by 2011. The number of effective consumers is expected to swell to over 600 million by 2010 - sufficient to establish India as one of the largest consumer markets of the world.” No marketer can afford to
miss the India opportunity provided by such a promising nation. Between 2005 and 2006 domestic consumption increased by 8.7%. India has a total of 75 million households, called ‘consuming classes’ with an Annual Income Level between $1000-4800 in 2006 as compared to only 29 million such households in 1994-95 (TATA Group Economic Survey). These studies show that as income rises, there is a marked increase in domestic consumption. As the demographic profile of India is very young, attitudes are positive towards spending and thereby increasing consumption that may impact resulting in augmented sales at the retail level and this will play a major role in retail evolution.

The annual AT Kearney Global Retail Development Index (GRDI) ranks 30 emerging countries on a 100-point scale—the higher the ranking, the more urgency there is to enter a country. On the research parameters adopted for GRDI 2007, AT Kearney says that the countries were selected from a list of 185 based on the following three criteria:

- Country risk: more than 35 in Euromoney’s country-risk score
- Population size: more than two million
- Wealth: GDP per capita more than $3,000 (GDP per capita for countries with populations of more than 35 million is more flexible due to the market opportunity)

India has been topping the Global Retail Development Index in 2006 and 2007 in succession as the most attractive retail destination from among the 30 emerging countries studied by AT Kearney.

Goldman Sachs came up with the BRICs Report in the year 2004. The BRIC study assumes strong and stable macro-economic policies, stable political institutions, and high levels of education and openness as the fundamentals to the model used. The report on Brazil, Russia, India and China (BRIC) states that India will be the third largest economy, after the US and China by 2050. The Goldman Sachs global economics team released a follow-up report also to its initial BRIC study in 2004. The report states that in BRIC nations, the number of people with an annual income over a threshold of $3,000, will double in number within three years and reach 800 million people within a decade. This predicts a massive rise in the size of the middle
class in these nations. In 2025, it is calculated that the number of people in BRIC nations earning over $15,000 may reach over 200 million. This indicates that a huge pickup in demand will not be restricted to basic goods but impact higher-priced goods as well. According to the report, first China and then a decade later India will begin to dominate the world economy.

These studies lead one to analyze the cause and effect relationships of demographic and psychographic consumer profiles and spending of consumers to the evolution of organized retailing in India.

2.4.2 Brand Proliferation and its Impact on Retail Evolution:

Brand proliferation along with consumerism has helped organized retailing grow in India. Most of the world's leading brands, including like L'Oreal, Espirit, Louis Vuitton, Marks & Spencer, Tommy Hilfiger, Louis Phillipe, Levis, Pepe, Lee, Arrow, Dockers, Red Tape, Clairns, Hugo Boss, Tiffany, Bulgari, Ecco, Chambor, Revlon, Philips, Corelle, Magppie, Nike, Reebok, Parker, Ray Ban, Swarovski, Daks, Lego and Mattel, are now present in India. Before nineties the food industry in India was struggling to establish only the traditional food brands and there was very little or no effort to introduce new foods. In post liberalisation era we have host of new MNCs with superior marketing skill and bigger resource to their command have extended their brands to a wide variety of retailers. A few years ago we had 'Tata-salt' as the only refined iodised salt selling in the market and today we have Captain Cook, Kissan Annapurna and Catch (with dispenser) and more brands to come in. The consumer durable market in India has seen a proliferation of brands and product categories in recent years. All the major international brands from Japan, Korea, US, Europe and China have launched their product range in India. Tipnis, Nitish (2004) has made an expert observation that the proliferation of brands is also seen in branded grocery products. In an investigation of the relationship between brand proliferation and growth of retailing in India Kumar, Ashok (2005) has studied the factors that will drive the retail boom in India in future and has concluded that brand proliferation will play a key role in India’s retail growth.
2.4.3 Infrastructure, Transportation & Communication Development Impact the Evolution of Retailing:

The development of real estate and properties in India drives the evolution of organized retailing. The spread between yield on property and its financing cost has turned positive with the fall in interest rates. Attractive yields on investments have resulted in a sharp increase in property development. From 25 operational malls in 2003, and over 220 malls currently in 2009, the country is expecting to have a cumulative estimated space of 40 million sq ft and over 600 malls by 2012, with as much as 100 million sq ft retail space.

Mall development activity in the small towns is also picking up at a rapid pace, thereby, creating quality space for retailers to fulfill their aggressive expansion plans. Thus, the 'retail boom', 85% of which has so far been concentrated in the metros is beginning to percolate down to smaller cities and towns. The contribution of the tier-II cities to total organized retailing sales is expected to grow to 20-25%. The development of the Golden Quadrilateral – the expressways joining the major metros of Kolkata, Chennai, Bangalore, Mumbai, Delhi and Kolkata is nearing completion and the National Highway Programme will benefit the faster movement of goods in India. Civil aviation is said to carry 80% of the air cargo as it is currently connecting many cities in India.

2.4.4 Studies on Government of India’s Policies Towards Organized Retailing:

Mulky and Nargundkar (2003) have studied the changes in government policies with reference to modern retailing in India and conclude that major international retailer organizations will be watching for signals of policy change especially because China has permitted foreign investment in retail. In opening up the retail sector, according to the researchers, the government may consider various approaches such as insisting on joint ventures, limiting the foreign stake, or specifying the cities areas where investment is permitted.
Pro-active steps taken by the government permitting use of land for commercial
development in various cities, including Mumbai and Delhi, have also contributed to
increased availability of retail space in the country. Allowing FDI in property
construction to the extent of 100% also is expected to increase the availability of
retailing space through new developments. Availability of retail space is expected to
increase further whenever property funds and investment trusts on the lines of REIT
are permitted, which will help create a secondary market for real estate in the country
(Kumar, 2005).

2.4.5 Technology Impacts the Growth of Retailing:

India has its inherent technology strengths and advanced technology development in
retail can lead to India becoming the backbone and backend management of global
supply chain. ERP packages have been deployed in the top retailing companies in
India already and soon EDI efficiencies will be attained. Mandating UPC is in
progress in India and GS1 standards of barcoding will enable easier product
identification, product tracking and product replenishment processes. The
development of technology products and application software at a great pace will help
further the growth of organized retailing in India. A faster adoption of technology is
seen in the Indian retail space currently. Established retail players of the country such
as Pantaloons of Future Group, Shoppers Stop, and Spencers are among the first big
retail houses that have already deployed fully integrated core ERP applications. A
few of them have even initiated the pilot phase of next level IT deployments such as
Radio Frequency Identification (RFID), customer relationship analytics, etc. (Sekar,
2007).

Globally emerging technology has been a key enabler of multi-channel retail
evolution. Though e-commerce accounts for a small portion of overall global retail
sales, it has continued to grow rapidly averaging 40% over the period 2001-2004
(Achabal, Dale et al, 2006). As technology adoption becomes faster in Indian
organized retailing, multi-channel retail evolution may occur with the existing
retailers in India for optimizing customer reach and satisfaction.
2.4.6 Customer Convenience Factors Drive the Growth of Convenience Formats:

The development of convenience factors in retail formats such as saving time drives the evolution of organized retailing. With the emergence of organised retailing in the country and a growing demand from consumers for a superior shopping experience, convenience retailing has emerged as a key business area. Even petroleum companies in India have realized this and they are utilizing the available footfalls for conversion into retail business in their convenience stores. Organizations like Bharat Petroleum have already set up about 240 In&Out convenience stores* across India. The urban consumer today seeks convenience in shopping for their basic requirements so that their precious time is reserved for more fruitful pursuits. *Source: bharatpetroleum.com/retail

2.4.7 The Recent Organized Retail Developments in India:

The metros now have exclusive shopping areas and upcoming malls (Tata, Simone, 2002). Today Tata’s Westside has forty one stores across twenty two cities in the country. The K.Raheja group, primarily a real estate developing organization diversified into retailing through the department store format, Shoppers Stop in October 1991 with its first store opening in Andheri, Mumbai. Today it has 27 stores across India. The group has also diversified into book retailing through the acquisition of the Crossword chain of stores. Besides Shoppers Stop and Crossword, the group is working on a hypermarket format, Hyercity to be launched soon. Shoppers Stop's food venture will be positioned as the one-stop destination for on-the-move urban foodies. Among other things that the store is planning is a deli section, which will have imported foodstuffs such as pate and smoked ham and a selection of local and imported wines. Shoppers can also buy everything from a range of imported cheeses, premium conserves, ready-to-use pasta, curry sauces and salad dressings or head for the section which will have soups, salads and main courses for those in a hurry. The company is planning to kick-start its foray into food retailing with a pilot project at its Magrath Road outlet at Bangalore (Menon, Sudha 2005). Pantaloon Retail India Ltd has emerged as the leading retailer in India with its chain of Pantaloon, Big Bazaar and Food Bazaar stores. The Pantaloon group in retailing
has evolved from a single store apparel retail format at Calcutta. It was the first in line of Pantaloons family stores and was opened in August 1997. Now they have diversified into value formats such as big Bazaar and Food Bazaar stores.

The group also has ventured into its seamless mall concept, the Central malls in Bangalore, Pune and Hyderabad. According to Biyani, Kishore (2003), in India and US evolution of retail is different. For instance, Walmart started from the smaller towns and villages and in India retail growth is happening from Metros. Wal-Mart never went into the New Yorks' and the larger cities. In India everything has started from the urban centres. Departmental stores are now well settled. The apparel brand stores are also well settled. We have seen some specialty retailers like bookstores, music stores, etc. According to him, there is now an opportunity for the hypermarket and discount stores to come in. Currently, Biyani has 12 million square feet of retail space with over 1000 stores across 71 cities employing over 30,000 people. He has plans to double the size of his firm by 2012. Vishal Megamart started in 1986 as a one-store enterprise in Kolkata and in 2009 it is a conglomerate having 180 stores in 10 cities. In 2005 the discount store pioneer, Subiksha Trading with 145 stores in 31 cities in Tamil Nadu and Pondicherry. The company had plans to go national. It had planned to open over 450 stores in Gujarat, Andhra Pradesh, Karnataka, Mumbai and Delhi (Dua, Arti 2005). The firm did expand rapidly and grew to 1600 stores in 2008 with an annual turnover of nearly Rs. 4000 crores but it has currently gone into trouble with a high level of debt and the firm is waiting in the wings to raise further credit to resume its operations.
2.4.8 Key Factors Impacting Trends of Evolution of Organized Retailing in India:

A consumer research study, commissioned by Westside revealed that women in the south are smaller than those in the north. So the Westside store in Chennai stocks more small-sized garments. While retaining a common look and economies of scale across the country, you have to localize your products to suit the needs of customers (Tata, Simone 2002). Secondly, the ability to offer products and services understanding customer culture will become important for multinational retailers to become powerful as cultural preferences and tastes in India differ from the global economy. Given such diverse cultures in India, multinational firms have to develop and customize products specifically for the Indian market. For instance Domino’s have introduced pizzas with Indian cuisine toppings, and over a third of its revenues are attributed to such additions or McDonald’s with their ‘tikka’ fillings. As organized formats of retailing evolve in India the retailers will consolidate while they would attempt to differentiate as well by building their specific merchandise mix patterns. Thirdly, the power of retailers will be in an augmented proportion in respect of bargaining with manufacturers and suppliers in an effort to offer the best value to consumers as price will be the principal factor influencing consumer behaviour (Tata, Simone 2002). This will happen in the discount and hypermarket formats largely besides the evolving ‘cash and carry’ ones.

However the next stage of organized retail evolution will see global retailers like Marks & Spencer entering India. John Menzer, International President, Wal-Mart during his recent visit to India said, “if the FDI regulations aren't lifted any time soon, Wal-Mart is no longer prepared to wait but is prepared to make its foray into India with an Indian joint-venture partner to take advantage of this market while it's still developing." (Bhatnagar, Parija 2005).

In the context of the existing retailers, they will move over time to deliver a truly seamless customer experience across multiple channels. This will not be a dramatic, sudden transformation. It will necessarily take place over a period of years through continuous, incremental change (Achabal, Dale et al, 2006).
2.5 Gap Analysis and Research Questions Arising:

In this section, it is planned to find out the gaps and options on which future research can be conducted. This study will help define the scope of research and the future direction of research. The researchers argue that the procedure of evolution is interlocked with the variables that impact the evolution so that cause and effect are also difficult to ascertain. Therefore though theories have contributed additional information on the evolution of retail organizations, these previous works have several limitations that inhibit the applicability of these theories to the evolution of retailing in India. Hence there is the need for a more comprehensive research on the evolution of retailing and an attempt is made to study the relevance of these theories in the Indian context.

The studies on the evolution of organized retailing in the USA and China leave one with the key thought that Indian retailers whether or not will learn from such format experiences and leapfrog to the most successful formats and this needs to be researched further.

Furedy’s research in on modern elite retailing in Calcutta shows that the first phase of retail evolution happened in the pre-independence era and proved the relationship between the several factors of development such as telecommunications, railways and transportation and the evolution of various forms of retailing then, in India. In the current context of modern retail evolution there is no study that yet establishes any relationship between such factors and the growth of organized retailing in India. Furedy’s research shows that the lack of government policies to govern elite retailing hampered its further growth in the pre-independence era and this has evinced the need to research the impact of governance policies and regulations in the present days’ organized retail evolution.

In the present context of the study of the evolution of organized retailing in India, there is a tendency for a polarization of opinions. Organized retailing is evolving
rapidly with an explosion of formats and the factors responsible are clearly consumerism, brand proliferation, development of a demand-led supply chain, changes in the regulatory environment, infrastructure development and the benefits of convenience, comfort and value that organized retailing offers. A one-stop shopping experience is also evolving through the setting up of new rural retail formats too. The evolution trends in future may depend upon innovation and differentiation. Research limitations on the trends of format evolution in India which if studied will help the organized retail sector’s growth in India.

The evolution of organized retailing could impact the channel decisions of many manufacturing organizations and forward integration into retailing may be a strategic move. As seen from Furedy’s study of retailing in Kolkata during 1880 -1920, complementing non-store formats may evolve with the development of communication networks, technology, etc. as those days VPP and mail orders of custom-made products became popular retail formats of those existing elite retailers. It is hence appropriate to study the strategic implications multi-channel retailing and the factors governing the future of organized retailing evolution. In the current context of modern retail evolution there is no study that yet establishes any relationship between such factors and the growth of organized retailing in India. Furedy’s research shows that the lack of government policies to govern elite retailing hampered its further growth in the pre-independence era and this has evinced the need to research the impact of governance policies and regulations in the present days’ organized retail evolution. The evolution of organized retailing could impact the channel decisions of many manufacturing organizations and forward integration into retailing may be a strategic move. One would have liked to see the evolution of retailing in the current context of retail growth in India.

It is found that very limited study has been done with reference to the evolution of organized retailing in the last decade in India when the country sees an evolution of various formats. The study may seek to find the patterns and trends of the evolution of organized retailing in India in detail with specific reference to the apparel industry
so that the findings may help retailers expand and provide directions for those
foraying into organized apparel retailing in the country. From the review of literature
it is evident that the growth of organized retailing and its evolution may have many
ramifications. The above literature review and gap analysis help to identify and
translate the research problems into following research questions:

1) Is the Indian organized retailing following any patterns of retail evolution?

2) Is the evolution of organized retail formats in India having any regional or
geographic influences?

3) How are organized retailers evolving their various retail formats and
channels?

4) What are the retail format and channel preferences and choices of customers
in the context of organized retailing in India?

5) What are those factors that contribute to the evolution of organized retailing
and their relationship to the future development of organized apparel retailing
in India?

6) Are there any factors in common that may contribute to such a relationship to
the evolution of organized apparel retailing in India?

7) What will be the strategic and managerial implications for the future growth
of organized apparel retailing in India?

An attempt will be made to find answers to these issues arising, which will eventually
have implications for managerial practice in current and intending organized retail
firms to enable their rapid growth in India.

2.6 Summary

Theories of retail evolution have been propounded in the context of evolved
consumer markets and discussed in the context of the evolved economy, where the
dynamics of evolution have followed similar patterns and the purchase power parity.
The application of these theories to Indian retailing has to be explored in the Indian
context for a better understanding of the problem and to throw more light on the evolution of retailing in India. Pioneer retailers thrive well throughout the early stages of existence and organized retailing in India is just a decade old. The engagement of these theories in the context of a retail organization’s responses to changes and innovations of new emerging retailers remains to be researched in India. The forces responsible apparently are some such as competition, adoption of technology, etc. in the current scenario. Such forces and their relevance may provide insights into patterns of organized retail’s growth in India. There is the need for a more comprehensive research on the evolution of retailing.

The empirical studies are done in the context of developed retail environments and all these studies suggest commonly an interplay of four specific areas - the customer gravitation to the store, space / location attributes, stock / merchandise related factors and staff related parameters and the impact of all the four categories on the store performance. The empirical studies have followed the use of regression analysis, time series data and indices largely, for research. Empirical studies are extended and done among formats and models developed for application in various retail functions. The majority of empirical research done in retailing significantly points to the understanding of trends based on the use of historical data. The empirical studies do not explain the processes of change and hence there is the need for a more comprehensive model of the evolution of retailing in India.

The case studies and the other studies clearly demonstrate their inadequacies to explain any trend or patterns responsible for the evolution and growth of organized apparel retailing in India nor do they throw light on any factors proven to be responsible for the retail growth in India. The research questions arising out of the gap analysis clearly show that the research needs to be done in the current context of retail evolution in India. The methodology followed for the research will be elucidated in the ensuing chapter.