Chapter 1:

Introduction: Concept of Retail, Organized and Unorganized Retail Formats and Consumer Behavior in Retail

1.1 Introduction to the Concept- Retail
1.2 Retail Conceptualization as an Industry- Phases of Evolution
1.3 Concept of Organized Retail and Unorganized Retail
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1.5 Vital Role of Consumers in Retail Business
1.6 Linkage between Consumer Behavior and Indian Retail
Retailing as an activity can be traced back to the times when human beings stopped producing all their requirements by themselves and trading came into existence.

**Origin of word Retail:**

The word retail is derived from the French word “Retaillier”, which means to cut of a piece or to break bulk. Therefore a retailer may be defined as a dealer or trader who sells goods in small quantities. In simple terms this means a firsthand transaction with the consumer.

Retailing thus might be understood as the final step in the distribution of merchandise for consumption by the end consumers. It consists of all activities involved in the marketing of goods and services directly to the consumers for their personal, family or household use.

Retailing involves a direct interface with the consumer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the consumer. Retailing forms an integral part of the Marketing Mix. In Retail Marketing Mix Place refers to the distribution and availability of the products at the various locations. Consumers are first introduced to the product through the retail stores. Organizations sell their products and services through these stores and also simultaneously get a feedback on the performance of the product and the consumer’s expectations from the product. Retail stores also serve as the communication hub of the consumer.
Retail is the final stage of any economic activity. By virtue of this fact, retail has occupied an important place in the world of economy. The retail transaction is at the end of the supply chain. Manufacturers sell large quantities of products to retailers, and retailers attempt to sell those same quantities of products to consumers. It is also known as retailing, retail sale, retail transaction, retail business, retail trade, retail industry.

According to Philip Kotler, "Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sale volume comes primarily from retailing.

According to North American Industry Classification System (NAICS), the retail trade sector comprises establishments primarily engaged in retailing merchandise and rendering services incidental to the sale of merchandise.

Retailing broadly involves:

1. Understanding the consumers' needs
2. Developing good merchandise assortments
3. Display the merchandise in an effective manner so that shoppers find it easy and attractive to buy

The retailing concept is essentially consumer oriented. The retailing concept covers the following four broad areas:

1. **Consumer orientation**
The retailer makes a careful study of the needs of the consumers and attempts to satisfy those needs

2. **Goal orientation**
The retailer has clear cut goals and devises to achieve those goals

3. **Value driven approach**
The retailer offers good value to the consumer with attractive merchandise, keeping the price and quality appropriate for the target market
4. Coordinated effort

Every activity of the firm is aligned to the goal and is designed to maximize its efficiency and deliver value to the consumer.

*In an age where consumer is the king and marketers are focusing on consumer delight, retail may be redefined as the first point of consumer contact.*

1.2 Retail Conceptualization as an Industry-Phases of Evolution

Pre- Eighties .................Phase of Traditional Formats

Historically all types of trading was being done through barter system in India. Retail in India has evolved to support the unique needs of India. Traditional formats of weekly markets like Mandis ,Haats/Melas and vendors have been a part of the Indian retail landscape at its inception stage. They still continue to be present in many parts of the country and form an essential part of retail trade in various areas.

➢ Traditional formats as weekly markets

**Mandis**

Mandis are very traditional formats of unorganized retail catering to urban and rural masses. Mandis are physically located at different regions to enhance convenient shopping. The sellers are involved in selling products like eatables, vegetables and fruits, pulses, cereals, spices etc. The most prominent of them are sabzi mandis found in most of the localities across India.

**Village Haats/Melas**

Village haat is a tradition form of retail which is operating in rural areas where buyers and sellers gather once in a week or month from nearby villages and small towns to cater their livelihood and leisure needs. These haats area source of entertainment and socialization among rural masses.
Push Cart Vendors

Push cart vendors are categories of vendors roaming from door to door in various localities selling fruits, vegetables, and other eatables, from which mostly housewives make purchases.

- Traditional formats as neighborhood/kirana stores

Kirana Shops

Kiranas are food and non-food neighborhood counter stores, also called ‘mom and pop stores’ in western countries. These are big chunks totaling to around 12 million stores across India and forming the unorganized retail segment of Indian retail industry. They are family-owned and family-run retail outlets.

- Traditional formats as Government supported shops

PDS (Public Distribution System)

The PDS (Public Distribution System) is the single largest retail chain existing in the country addressing supply of grains. The evolution of the PDS of Grains in India has its origin in the “rationing system” introduced by the British during world war II. The system was started in 1939 in Bombay and subsequently extended to other cities and towns. The system was abolished post war but however attaining independence, India was forced to reintroduce it in 1950.

Towards the end of the first five-year plan (1956), the system was losing its relevance due to comfortable food grains availability at this point in time through other sources. Then PDS was reintroduced and other essential commodities like sugar, cooking coal, and kerosene oil were added to the commodity basket of PDS. Thereafter there was rapid increase in the ration shops (Called the Fair Price Shop or FPSs).

Thus, by the end of the Second Five Year Plan, PDS had been changed from the typical rationing system to a social safety system, making available food grains at a 'fair price' so that access of households to food grains could be improved. And such distribution could keep a check on the speculative tendencies in the market.
CSD (Canteen Stores Department)

The Canteen Stores Department (CSD) and the Post Offices in India are also among the largest network of outlets in the country reaching population across the country.

KVIC (Khadi & Village Industries)

The KVIC (Khadi & Village Industries) had been set up post independence. The cooperative movement was championed by the government, which set up the Kendriya Bhandars in 1963.

From the 1950s to the 80s, investment in various industries was limited due to low purchasing power in the hands of the consumer and the government’s policies favoring the small scale sector.

Between Pre 80s and Mid 80s—Transitional phase of unorganized towards organized retail

Exclusive showrooms - Initial steps towards liberalization were taken in the period of 1985. During this phase many restrictions on private companies were lifted and the Indian economy slowly progressed from being state led to becoming market friendly. The first attempt at organized retailing was noticed in the textiles sector in the form of exclusive showrooms. One of the pioneers in this field was Raymond’s which set up stores to retail fabric. Raymond’s distribution network today comprises 20,000 retailers and over 256 exclusive showrooms in over 120 cities of the country. Thereafter other textile manufacturers also set up their own retail chains namely Reliance set up Vimal showrooms and Garden Silk Mills set up Garden Vareli showrooms followed by companies like Bombay Dyeing, S Kumar’s and Grasim. Thus it can be said that with these textile players the emergence of retail chains started taking place into Indian retail industry.

Later Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches. Liberalization of the Indian economy led to the dilution of stringent restrictions. Due to changing profile of Indian consumers and increasing wages of the employees that led to high purchasing power, Indian retail
industry became attractive. Entry of retail chains by domestic retailers like Cotton World (Mumbai), Nirula's (Delhi) and Viveks and Nilgiris in the South had been witnessed during this phase.

Mid-80s...Early 90s...Late 90s....2000 onwards ......Phase of Modern Formats

The mid 80s saw a fresh wave of entrants with a shift from Manufactures to Pure Retailers. For e.g. Food World, Subhksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books. 1995 onwards saw an emergence of shopping centers, mainly in urban areas, with facilities like car parking targeted to provide a complete destination experience. It was the phase of emergence of hyper and super markets trying to provide consumer with 3 V’s - Value, Variety and Volume

Industry evolution can be put into the following developmental phases

Figure 1.1 : Evolution of Indian retail industry

Source: KSA Technopak study (2005)
Shift of retail industry from unorganized to organized

**Unorganized retail:**
Unorganized retailing refers to the traditional formats of low-cost retailing. For example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

**Organized retail**
Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, departmental store, discount stores, drug stores, factory outlets, and also the privately owned large retail businesses.

Source: Indian Council of Research in International Economic Relations (ICRIER), 2007

1.3.1 Description of Unorganized retailing/Traditional Retailing

According to the National Accounts Statistics of India (NASI) ‘the unorganized sector includes units whose activity is not regulated by any statue or legal provision, and/or those, which do not maintain regular accounts.

**Characteristics of unorganized retail**

- Products or services may be sold or offered out of a fixed location and the number of people employed could range between 10-20 people.
- Nearly two thirds of the stores are located in rural areas. Rural retail industry has typically two forms: “Haats” and “Melas”. Haats are the weekly markets: serve groups of 10-50 villages and sell day-to-day necessities. Melas are larger in size and more sophisticated in terms of the goods sold.
• Small-store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour and little or no taxes paid standard quality of items sold

• It is generally family run business, lack of standardization and the retailers who are running this store they are lacking of education, experience and exposure.

• They generally keep Moderate pricing, personal and one-to-one customer contact, sale few items on credit and payment is collected at the end of the month

• Unorganized stores are widely small in size with high spread. The unorganized grocery retail stores are averaging 217 sq. ft. of size including the storage area, into this textiles and clothing shops having a higher average size of 256 sq. ft. and along with fruit and vegetable shops occupies an average size of 129 sq. ft.

1.3.2 Description of Organized Retailing/Modern Retailing

Organized retailing is an organized form of retail activity which is typically a multi-outlet chain of stores or distribution centers run by professional management

• Professionalism in decision making like merchandising, store operation and aligned centrally in respect to Merchandise/Manpower/Planning/Touch & Feel Display Alignment and Technology integration.

• Consolidation and emergence of big players with multi chain stores

• It is a large format retailing where shopping experience can be made complete to the extent possible

• It is positioned as one stop shopping destination along with entertainment zones

• They appeal to consumers, in an ambience that is encouraging for shopping

• They keep Integrated and dedicated distribution system where information technology is the key enabler
1.3.3 Basic Differentiation Organized v/s Unorganized

Differences between organized and unorganized retailers are given as under

Table 1.1: Key characteristics of Organized and Unorganized Retail in India

<table>
<thead>
<tr>
<th>Basis of Comparison</th>
<th>Organized retailers</th>
<th>Unorganized retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average size</td>
<td>4000sq.ft.</td>
<td>300sq.ft.</td>
</tr>
<tr>
<td>Average number of SKUs</td>
<td>5000</td>
<td>1200</td>
</tr>
<tr>
<td>Service format</td>
<td>Self service</td>
<td>Over the counter</td>
</tr>
<tr>
<td>Customer expectation</td>
<td>Predominantly experienced based</td>
<td>Pre-dominantly need based</td>
</tr>
</tbody>
</table>

Source: KVS Madaan (2009), Fundamentals of Retailing

Retail consumer:

A retail consumer is a person (or group) who pays to consume the goods and/or services provided by a retailer. The person to whom the retailer’s sales are the final players in buying the goods and services. Basically retailer deals with identifying end users or final consumers promoting them, motivating them and activating them to enter the shop and attract them to a particular set of goods or commodities or services which they will buy for their ultimate consumption

The existence of the consumer is integral to the existence of the retailer
Consumer behavior and consumer preferences:

Consumer behavior is all about understanding how people choose to spend their money and time in buying and consuming various goods and services that they desire.

Retail shopping behavior is the act of identifying the store and purchasing the product. This behavior of shoppers differs according to the place where they are shopping and their involvement level with the act of shopping.

In the retail context, marketers would specifically be more interested to gain an insight into the consumers’ shopping behavior, which involves an understanding of decision variables regarding when, which and what to shop.

An integral part of understanding consumers and their behavior in retailing includes:

- Identifying consumers for the product or service i.e. Target segment and the demographics of this segment including life cycle stage and socio-economic factors.
- The range of merchandise is perhaps the most important reason for consumers to patronize a particular outlet. The initial curiosity of the store may draw a consumer to a retail store, but converting him into a buyer and retaining him over a period of time is largely dependent on continuous satisfaction delivered through the quality and the range of merchandise offered by the store.
- Understanding the reasons for consumers choosing or patronizing a store.
- Analyzing the range of merchandise as a reason to patronize the store.
- Analyzing the depth of element of overall convenience i.e. Timings.

Such decision variables determine the consumers’ preferences that should be considered by retailers while framing their business strategies.
As discussed earlier, the existence of the consumer is integral to the existence of the retailer. Indian economy is witnessing paradigm shifts into the consumer base which includes the following

**Consumer is becoming knowledge and information seeker**

Today the consumer is becoming knowledgeable and demanding. Consumer habits are shifting as economic uncertainty, technological advancements, and evolving demographics all push shoppers in a new direction. Today's consumer judge retail brands by how they engage shoppers based on whether retailers are listening to consumer preferences, understanding what consumers want to buy and when they want to buy. Consumers want retailers to offer them ideas for future purchases based on their "personal" preferences.

**Consumers are spreading their reach**

The consumers’ expectations are changing as they adapt and become more connected. They are constantly connected to the internet through smart, portable and highly usable devices. They are in control of the technology they use and also expect the latest technology from retailers.

**Consumers have started keeping stake over retailers**

The consumer is now an essential part of a retailer's marketing strategy, as no matter what retailers do with above or below-the-line advertising. If retailers' products or services are poor or not meeting consumers' expectations, it gets instant communication on preferred social media outlets as it provides a platform to share their views with the world. This openness of consumers always keep retailers on their toes to satisfy the consumers and remain in good books to get positive word of mouth.
Consumers keep on increasing their expectations

As consumers become savvier, they are increasingly taking charge of their own shopping experience, identifying and leveraging many different sources of information and channels to optimize the different elements of their shopping journey. Today’s consumer has vastly different and more sophisticated expectations of product, service, value and environment than before.

Consumer expectations of the shopping journey in store are evolving

- **Learn/Share:** Consumer expects the store to enable an experience which online cannot deliver
- **Find/Select:** Consumers now expect and value a personalized service and guided shopping experience which responds to their needs, allowing them access, browse and select a broader range
- **Purchase/Pay:** As consumers increasingly adopt innovative payment methods, they expect retailers to provide a simple, secure, quick and flexible payment process in the store
- **Pick up/Delivery:** More and more consumers expect high levels of convenience, flexibility and immediate delivery of their shopping
- **Return/Service:** Consumers expect returns facility in the form of product swap, straight refund, credit that can be used in all channels. Consumers expect personalized and consistent customer service at all touch points

“The consumer may always be right, according to the old age, but the consumer may not always be profitable”. The changing role of consumer is a challenge to all retailers to convert consumers into profitability driven segment. This is the reason that retail companies are today rethinking their consumer strategies. The retailer needs this knowledge to stay ahead of his competitors and build competitive advantage.
During recent years, the entire concept of retailing has been redefined in terms of both its structure and also the fundamental changes in consumer behavior on account of demographic, psychographic and socioeconomic factors. The changing pattern of consumer behavior is influencing retailing in India, especially organized retailing.

Today, retailing is much more than merchandising. It is about reflecting consumer desires and aspirations and forging long-lasting relationships with them. As the Indian consumers evolve, they expect much more each time they step into a store. The concept of shopping has undergone a change in terms of format and consumer buying behavior, ushering in a revolution in shopping.

Retailing is going through a transition, not only in India, but the world over. The research showed that today’s savvy consumers demand increasingly creative and more importantly interactive strategies, to entice them into stores. Challenge lies in discovering what makes consumers think and buy from certain stores.

The Indian consumer has undergone a remarkable transformation. Just a decade ago, the Indian consumers used to save most of their income, purchase the bare necessities and today, they are armed with higher income and credit cards. Due to exposure to the shopping culture of the west and a desire to improve the standard of living, the Indian consumers are spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets are fueling this addiction. As a matter of fact, personal and social factors such as needs, perceptions, attitudes, interests, opinions, activities and lifestyles mostly influence consumer behavior in a rapidly changing retail environment. Traditional shopping habits are changing in the current scenario.
A key challenge faced by the retailer is creating products and services which would be successful in the market. The retailer in order to stay in the market and face the competition need to understand consumer shopping behavior. An accurate understanding of consumer needs helps the retailer create a product that is likely to be successful in the market. It even further helps to develop unique consumer insights and customize products to local needs. This is possible by analyzing the factors that are affecting the behavior. With several modern retail outlets and malls opening and closing presenting high volatility and the historical dominance of kirana stores in the country, consumer behavior assumes special significance in the Indian retailing context.
Consumer understanding and their buying behavior is the starting point of strategy creation. It is not only important to understand what consumers know about a product, but also what they do not know. This helps in determining the channels of communication and the products that need to be created to cater to the needs of the consumer. Understanding consumer knowledge can also help a firm assess how well it has achieved its product positioning goals. The firm needs to study consumers to see how its product is perceived, if there is a good match or not, and then, the positioning strategy can be deemed a success.

Retailers need to develop an understanding of how consumer behaviors are evolving and the impact of these changes on consumer expectations both in and out side of the physical retail location. The role of the store needs to evolve to become one part of a much more complex relationship between the retailer and consumer, it needs to find a new balance between providing inspirational and emotional engagement while offering new ways of experiencing the breadth and depth of the range.

To satisfy consumer needs, retailers must thoroughly understand how consumers choose retailers and merchandise to buy. The buying habits of the consumer are greatly affected by their thought process and their feelings experienced. Marketers understanding of the drivers of consumers buying behavior may help them to serve consumers effectively and efficiently and attract new base of consumers.

When the retailer understands consumer behavior he is able to make an objective analysis of internal strengths and weakness. This analysis may reveal certain startling facts and provide direction for future differentiation strategies. Thus Marketers need an in-depth knowledge of the various dimensions that link retailing and consumer behavior.
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