CHAPTER VIII

MAJOR FINDINGS, SUGGESTIONS

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8.1 Introduction

Almost every major Indian business house is either getting into the retail space or consolidating and expanding their presence in the retail space at a feverish pace. The food and grocery retail sector, which had been a slow starter, is currently attracting the maximum attention.

The chapter presents an outline of the findings, followed by a discussion of the study's results as related to the statement of the problem, purpose of the research, and the research question. On the basis of analysis of data from the previous chapters specific conclusions are drawn. Limitations of the research study are then discussed, followed by recommendations for future research.

The thesis paints a verbal picture of the impending retail boom likely to happen sooner than later. The signs are all over the place. For few years retailers will have the role of facilitator to standardize the business and to unify customer's preference across the country. The competition will help to increase the quality of service of the existing local retailers and greater customer satisfaction in Indian society. Concept of self employment will vanish and sustainable small industries will be roped with the big chains. This study gives a glimpse of the evolution of retail market over the years. A concise description of the drivers of this phenomenon was discussed. The likely positive and negative impact of this revolution is enumerated.
8.2 Summary of Major Findings

Previous studies have focused on the growth of organized retailing, strategies adopted by organized retailers, shifting consumer pattern, and future plans of organized retailers. This study contributes to the body of scholarly knowledge by providing new findings that specifically outline the key areas that impact the unorganized retailers due to the operation of organized retailers.

Proceeding from the above, it is important to emphasize that the study mainly derived its findings regarding the key areas impacting unorganized retailers from the literature review. In this backdrop the primary data served the purpose of testing these key areas in the sense of exploring their validity from the viewpoint of unorganized retailers and on the other hand comparing with unorganized retailers from the control sample. In order to analyse the nature of these key areas, the study proposed six research questions and eleven hypotheses. The findings of the study may be summarized as the validation of the hypotheses. To reiterate these findings in more concise format, the study developed relationship between the unorganized retailers operating in the vicinity of organized retailers and those who are far off.

The study revealed that, despite the increasing presence and power of large retailers there is still room for small retailers in a highly fragmented and inaccessible geographical setting. Despite the fact that small retailers continue to suffer from tough competition, the market share of large modern retail outlets is steadily increasing. The traditional importance of neighbourhood stores is disappearing and small retailers are losing loyal customers in upper- and middle-income areas. Small retailers are fighting
back and developing new strategies to survive. They are forming voluntary business associations and are also adapting new marketing techniques and product ranges.

To reiterate, the best thing for India is to learn from the past experiences of other developed and more importantly, developing countries in order to develop its own strategies, laws and regulations that would be in the best interest of the country. The quantitative impact analysis finds mixed statistical results for various performance indicators of traditional markets, such as profits, earnings, and employee numbers. Out of these performance indicators, supermarkets only statistically impact traditional markets through the number of employees hired by the traditional traders. The results indicate that traditional traders hire fewer employees the closer they are to a supermarket and vice versa. However, it should be noted that the coefficients are exceptionally small. The major findings of the study are summarized as below.

**Major findings of the study:**

- There was partial decline in employment of unorganized retailers as a result of the entry of organized retailers. There was decline in employment majorly for hired personnel. On an average 7.6 percent and 11.4 percent difference in employment of hired personnel was observed between treatment and control sample for F&G and apparel retailers respectively. Correspondingly 4.2 percent and 7 percent difference in employment of family members was observed between treatment sample and control sample for F&G and apparels respectively. Also significant difference in the change of employment percentage was observed for both F&G and apparel retailers between the treatment and control sample.
• There was decrease in the customer base of unorganized retailers operating in the vicinity of organized retailers. 55 percent of the variance in customer base of unorganized retailers was accounted by operation of organized retailers. Customers were attracted to organized retailers because of the unique services and lower switching costs. On an average 83 percent and 30 percent more decrease in the number of treatment sample customers as compared to control sample customers was observed for F&G and apparel retailers respectively.

• Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit after the entry of large organized retailers. 11 percent of the variance in sales of unorganized retailers was accounted by operation of organized retailers. 31 percent of the variance in profit of unorganized retailers was accounted by operation of organized retailers. On an average 33 percent and 30 percent more decrease in the sales of treatment sample customers as compared to control sample customers was observed for F&G and apparel retailers respectively. Similarly an average of 39 percent and 30 percent more decrease in profit of treatment sample customers as compared to control sample customers was observed for F&G and apparel retailers respectively.

• There is competitive response from traditional retailers through improved business practices and technology upgradation. Small retailers have been extending more credit and offering unique services such as home delivery to attract and retain customers. On an average 27 percent and 20 percent more increase in improvement of facilities of treatment sample customers
as compared to control sample customers was observed for F&G and apparel retailers respectively. Similarly an average of 32 percent and 92 percent more increase in improvement of services of treatment sample customers as compared to control sample customers was observed for F&G and apparels respectively. There was significant difference in the facilities and services of unorganized retailers for treatment and control sample. Also it was noted that many retailers are planning to improve the facilities and services shortly.

- The rate of closure of unorganized retail shops on account of competition from organized retail during the study period is found to be 11 percent which is much lower than the international rate of closure of small businesses as per the earlier studies.

- There is clear evidence of a competitive response from traditional retailers who are gearing up to meet the threat from organized retailers. The major strategies adopted by food and grocery retailers can be classified into

  Services (credit facility, convenient timings, increased working hours, introduced self-service, improved home delivery), Strategic Moves (form retail associations, backward integration, lobbying with government associations, formation of farmers’ co-operatives, tie up with financial institutions), Policy decisions (reduced expenses, reduced staff, technology upgradation/ investment in technology, increased store space) Merchandise mix strategy (added new product lines, discontinued some product lines, increased number of brands, better display) and Price

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promotion strategy (reduced prices, more promotional offers, value for money)

Similarly apparel retailers have adopted strategies as below,

Policy decisions (reduced expenses, reduced staff, employee behavior, technology upgradation/ investment in technology, increased store space),

Merchandise mix strategy (added new product lines, discontinued some product lines, increased number of brands, better display), Price promotion strategy (reduced prices, more promotional offers, value for money, and increased price for some consumers) Strategic Moves (tie up with national brands, form retail associations, tie up with financial institutions), Services (returns and exchange, convenient timings, increased working hours)

- Most unorganized retailers are committed to remain independent and few retailers preferred to become franchisees of organized retailers. These results are not indicative of the countrywide scenario, but only of mega-and mini-metro cities around a limited number of organized retail outlets. The results of the control sample survey conducted for the study indicate that traditional retailers are not affected adversely in the cities, away from organized outlets. For the country as a whole, unorganized retail is growing at a reasonable rate and will continue to do so for many years to come. Yet it is clear that the growth in demand for retail business is likely to substantially exceed any possible supply response coming exclusively from the unorganized retailers.
8.3 Implications of The Study

With a marked stepping up in the scale of international investment during the 1990s and as the process of internationalization gathers pace, it is vital to understand what retailers have learned from their experiences. Retailers have started giving significant importance to the strategic decisions. Major strategies adopted by mass merchandise retailers are being followed by small players. With the change in the FDI policy, retailers have major expansion plans. But the economic meltdown has affected the sector badly. Few organized players have winded up loss making units and also phased out fresh recruitments temporarily. Despite all this, some players have not changed their strategies and reserved expanding. They are of the opinion that, the time is right to get the resources at a competitive price, especially the real estate and manpower. The unorganized apparel market is affected to some extent, due to the customer retention strategies adopted by big players. The food and grocery vendors don’t expect to be effected as compared to apparel stores. With all these changes happening, customers are most benefited as wide choice is made available at a competitive price.

Unorganized retailers, being in a better position to interact with their customers on a regular basis, can provide a more personalized service by recognizing the individuality of their customers. They can personalize their service delivery to better compete against large retailers. Weisbrod and Pollakowski, (1984)\(^\text{213}\) suggests, apart from internal improvements, unorganized retailers can complement their efforts

through retail community improvements. Small retailers must focus on prompt service and pay personal attention to enhance responsiveness.

Normally unorganized retailers focus on narrow, well known segments, carry a narrow breadth of product lines, offer greater depth within the offerings, and do not utilize modern technology. Earlier studies suggest that it is not practical for small retailers to compete with large retailers, (Taylor and Smalling-Archer, 1994)²¹⁴, so they should improve service, and tailor product selection (Welles, 1993)²¹⁵. This is achieved by offering personalized service with human touch (Suprenant and Solomon, 1987)²¹⁶. Our study also supports these observations, wherein personalized service is one of the major strategy used by small retailers to retain customers.

Paromita Goswami, (2008)²¹⁷, the results suggest kiranas would do best to try and upgrade in order to survive. Given that modern trade outlets have deeper pockets and can afford to make mistakes and get away with it in the short term, kiranas have to stay alert, try to upgrade and continue to serve customers well, while concentrating on innovating, evolving and remaining efficient on retailer productivity scores.


²¹⁷ Paromita Goswami (2008), Would Kiranas in Urban India Survive the Modern Trade Onslaught?Insight from Efficiency Perspective, Advances in Consumer Research, 8, 344-345
In their study on “The impact of mega-retail stores on small retail businesses: the case of Sudbury, Northern Ontario, Canada”; Cachon, Cotton and Virchez identify some areas where small retail business can excel to even the playing field. These include: Solve Customers Problems (Competence of salespeople, Availability of salespeople, Service quality to clients); Treat Customers with Respect (Treating customers with respect, Courteous salespeople); Connect with Customers’ Emotions through the retail experience (Cleanliness of the store, Choice of products, supply chain, value chain, Quality of products); Set the Fairest (not lowest) Price (Fair pricing, Avoiding hidden charges for customers); Save Customers’ Time.

At the micro-level, the triggers were as varied as entrepreneurial desire to provide better service, providing better price to the masses, capitalizing on emerging business opportunity, increase footfalls in existing non-food formats.

To recapitulate organized retailers have not been successful to provide services that match those of kirana stores. The reason the same being, the business capacity of the kirana shop owners and buyers is high in India. These stores already have a model that is preferred by consumers and is also cost efficient. The large stores are still trying to get their model right in providing an alternative to neighborhood retailers who offer convenience, credit and personalized service.

8.4 Suggestions

On the basis of the results of the survey and the review of international retail experience, the study makes the following major suggestions. The policy
recommendations ensure thriving traditional market environment that revolve around increasing the competitiveness of the traditional market. This involves several steps.

- Unorganised retailers need to turn their attention towards employee productivity to boost sales. They need to understand how to retain their most desirable staff while ensuring their future development. This becomes a major concern as costs are under pressure. As unorganised retailers are losing employees due to operation of organised retailers, they should adopt the following strategies to be competitive. They should offer better salary package, provide better work conditions, fix working hours, reduce work hours, go for part time employees to reduce cost of employment. Unorganised retailers can employ 7th or 5th pass persons, which is not possible in case of organised retailing. They need not necessarily possess computer knowledge. In case of unorganised apparel they can depend on ladies staff who accept lesser salary.

- In today's world of internet technology, globalization when everyone is connected and well informed; retailers have to ensure that they continuously understand the pulse of their customers and design their offerings accordingly. This requires not only in-depth understanding customer requirements but also thinking laterally to come up with innovative solutions which would make the retailers stand out of the crowd. As customers are shifting to organised retailers, unorganised retailers should focus on customer retention strategies. These may include the existing services like free home delivery, taking order over phone, and
credit facility. They should offer better quality products, fresh stocks, lower prices and more choice of brands. Additionally they should maintain cleanliness, and focus on providing parking facility, and better ambience.

- As unorganised retailers are losing business, they should focus on the strategies to retain regular customers, this can be done by highlighting their unique attributes such as credit sales, loose items, home delivery, convenient timings, proximity, goodwill, bargaining and taking order over phone. They should offer other services such as mobile currency recharge, selling common drugs (amrutanjan, vicks, paracetamol tablets). In order to sustain in the business, they should depend on one of their unique service, selling small quantity grocery as per the requirement of the customers, which is not possible in case of organised retailers. To retain the profit they should procure directly from the manufacturer, by reducing the intermediaries, they can also procure from organised retailers.

- Unorganised retailers are adopting various facilities and services as observed from the study to compete with organised retailers. They should focus on these strategies to be competitive in the retail market. The major ones are computerised billing, air conditioning and offering credit cards.

- In order to avoid closure of business the only way to unorganised retailers is to innovate their business practices as discussed earlier and provide better facilities and services to both customers and employees.
• Unorganised retailers should form co-operatives and association of retailers for direct procurement from suppliers and farmers. Like e-choupal as in the case of ITC. In this scenario, while the government could provide tax incentives and capital subsidies, equity support should be avoided. The government can assist the formation of co-operatives or associations of kirana stores, which in turn can undertake direct procurement of products from manufacturers and farmers. By eliminating intermediaries, kirana stores can obtain their supplies at lower prices, while farmers get better prices for their produce. Additionally the government can actively encourage setting up of co-operative stores to procure and stock consumer goods and commodities from small producers. This will solve the dual problem of limited promotion and marketing ability, as well as market penetration for the retailer. The government can also facilitate the setting up of warehousing units and cold chains, thereby lowering the capital costs for the small retailers.

• Unorganised retailers need to modernize the traditional markets through public-private partnerships. This can be accomplished by improving the infrastructure in the traditional markets. The areas of improvement include ensuring proper hygiene, sufficient cleanliness, ample lighting, and an overall comfortable environment. The present two-story market building design is not popular among traders because customers are unwilling to go to the upper floor. In order to do this, local governments and private traditional market managers must go beyond considering traditional markets only as a source of income. They must actually invest in the
upgrade of traditional markets and set a minimum standard of services. This also entails appointing qualified people as market managers and giving them enough authority to make decisions. It is also important to enhance the performance of market managers either by providing training or by regular evaluation. Furthermore, the market manager should consistently coordinate with traders in order to achieve better market management. A joint venture between local government and the private sector might also be a solution to increase the competitiveness of traditional markets.

• Unorganized retailers need to tie up with financial institutions to ensure better credit availability from banks and micro-credit institutions through innovative banking solutions. This recommendation pertains to the traders themselves. Most retailers have no option but to pay their suppliers with cash and use their own capital for the business. This poses a constraint for business expansion as well the traders have to undertake all the risks associated with doing business. In the situation, the traders are vulnerable to even a small shock as it is not common practice to insure a business. Hence it is worth investigating the types of insurance suitable for retailers and assist them to understand their financial requirements for their expansion. Make available credit at reasonable rates from banks and micro-credit institutions for expansion and modernization of traditional retailers. While a liberal branch expansion for Indian and foreign banks would help, the study recommends the promotion of innovative banking
solutions for unorganized retail like Syndicate Bank’s lending for small business linked with the collection of daily or weekly pigmy deposits.

8.5 Conclusion

Indian retail was virtually in the hands of the traditional sector with over 95 percent share of the market. In the absence of any significant competitive intensity, manufacturers dictated terms and retailers were only at the receiving end. Organized retailers were too few and mainly in selected segments. It was only after the liberalization the international giants started entering the Indian market with superior products that serious competition came into existence and consumers began increasing their expectation. This environment augured well for the development of organized retail which started growing and the rate of growth accelerated during the past decade.

Despite fast pace of growth of organized retail and the entry of some of the big Indian corporate into retail, the traditional small and medium retailers continue to dominate Indian retail controlling about 95 percent of the retail business in the country. The perceived threat from modern retail to the small players is far from real. In fact, there is a clear movement from the smaller retailers to improve their stores in many ways while otherwise retaining their traditional practices, which give them the unorganized label.

Retail is known as a high-volume low-margin business. Indian corporate foraying into retail may have made some inroads, but most of them are bleeding with huge losses.
However deep their pockets may be, it is important understand that they are answerable to their shareholders and it is not clear how long they can or would continue to service the losses of their retail business from earnings out of their other profitable businesses.

A small to medium sized retail outfit, run a family business, operates with very low overheads and thus gets a fair return which fulfills their expectations. They get away by paying poor wages to the limited number of people they employ. They hardly spend any worthwhile money on advertising and promotion. Their other expenses are closely controlled. Above all, they provide personalized service to customers with whom they have long standing relationship, which big retail chains will find hard to replicate.

We have home grown retail chains, which have started as small retailers and built their own retail chains over a long period. While they do pay better than the small owner retailers, they continue to be conservative when it comes to matching the high wages employees of big corporate get. Their overheads are higher than the small retailers but they are well under control and compensate for this by their ability to command better margins from suppliers because of larger volume of purchases. Small or big, it is important that retail businesses operate with affordably lower overhead levels.

Employment cost is one of the major elements in the operating costs of a retail business. Corporates diversifying into retail, are used to offering big pay packages to their employees, will necessarily find it difficult to significantly cut wage levels in their retail activities. Their overhead levels will consequently be higher than what
they can really afford, and will thus eat into their margins. This will push down their net earnings from retail business, even when they start making profits.

Suppliers play a key role on the retail economics through the discounts they offer to the retailers. The big retail players would offer much larger volumes to the suppliers and thus push for significantly higher discounts on their purchases. Even assuming that big businesses can pressurize suppliers to part with higher discounts, the additional discount will be more than eaten up by the higher overheads, denying the opportunity to their bottom-line through this route. At the same time, the trend of several smaller retailers joining hands for collective sourcing is increasing. This enables them to get better margins from the suppliers and thus enhances their ability to compete. The other point to consider is, to what extent the suppliers will go to woo the bigger businesses with big discounts when they are aware that organized retail is still a very small part of the total retail market. They can ill-afford to ignore the strength of the traditional sector, which controls Indian retail. Also, while they can continue to control smaller players with stringent terms and conditions of business, they would find it difficult to dictate terms with the bigger players. Seen in this light, the suppliers would perhaps find it more convenient and profitable to continue their support to the smaller retailers and are unlikely to allow themselves to be intimidated by the big players.

If we look at the composition of Indian consumers, we have a mix of consumer segments exhibiting different characteristics. There is a segment which, in the Indian context, is small and mainly concentrated in the metros and to some extent in large cities, and this segment will perhaps be the ideal target of any large player in modern retail. The predominant segment of Indian consumers is one which looks for good
quality at low price and likes personalized service including credit facility, monthly payment system etc. This segment would continue to patronize the traditional retailers.

It is the home grown retail chains, which are likely to stay and succeed in Indian retail. And it is to be seen how Ambanis, Tatas and Birlas would look at this segment of business in the longrun. Whatever the outcome, the small retailers who know the onions of the business, and have mastered the art of retailing over a long time, have no reason to feel threatened. In fact, there is clear evidence of small players expanding from single to multiple outlets notwithstanding the growth of the big players. They have even realized the importance of understanding and fulfilling customer expectations, as also the necessity to progressively upgrade their store to bring a semblance of modernity which their customers would welcome. It will not be surprising if Indian retail continues to be dominated by the smaller players for a long time to come.