CHAPTER V

LITERATURE REVIEW
Chapter V

Literature Review

5.0 Background:
Organised Retail has emerged to be one of the interesting areas for research in the recent years. There is enormous scope for research in this area as far as India is concerned since it is growing rapidly. Though very limited research is available in the diverse areas, an effort was made to explore the available literature on Retail Industry, Profitability in the organised retail industry and its impact on the Marketing Strategies. Review of the literature from International Journals, Magazines Books and Reports was done extensively which is presented in this chapter.

5.1 The Present Retail Scenario
Indian Organized Retail Sector is on the threshold of expansion mode. It is imperative that this growth is likely to substantiate in the years to come. The Indian Retail Sector is growing at the compounded annual growth rate of 7.8%. This growth is substantiated by the ever growing urban population which was 27.8% according to the 2001 census. Although it is also known that the organized retail in India is at a very nascent stage which stood at only 7% penetration level in 2009. Clothing Textile and Fashion Accessories segment takes a maximum share of cake in the organized sector which is estimated to be 40%, followed by Food and Grocery at 19%. (CII-AT Kearney, Retail Landscape of India, 2006). As per the Economic Survey of India (1998) about 35% of all enterprises were from the retail sector. Whereas this proportion is further high at 43% in the urban India. About 18.5 million people were employed in 10.69 million retail enterprises. This proves that employee per outlet ratio is less than two persons. As per AT Kearney development index (2006), India was ranked at number five in terms of retail destinations among the developing countries.
5.2 Indian Economy:

India is witnessing a very peculiar trend as far as demographics are concerned. According to the India Retail Report 2009, (Images Retail, 2009), the Indian economy is on the fulcrum of an ever increasing growth curve. It has emerged to be one of the fastest growing economies among emerging market economies in an environment of macroeconomic and financial stability. Further, as per the India Retail Report 2009, (Images Retail, 2009), high economic growth regime has resulted in the real earnings of Indian household which have roughly doubled over the past two decades. It has given birth to the concept “Great Indian Middle Class”. The upper tier of the middleclass with the income between Rs. 6.25 –Rs.12.5 lakhs is growing at the rate of 18% annually. The share of rural middle class is also growing rapidly. The report also reveals that Indian consumers are spending more on transport and communication, recreation, furniture and home appliances. Some facts about India as per the India Retail Report are,

- Second Largest Labour Fource
- Fourth Largest Economy in Purchasing Power
- Foreign Exchange has risen from US$ 5.8 billion in 1991 to US$ 308 billion in 2008.
- GDP growth was 9.4% in 2006-07
- Occupies 2.4% of the world land area, supporting over 17.5% of the world population. Around 1/3rd of the population is below 14 years of age. The median age is around 25.1 years.
- Total branded and packaged Consumer Packaged Goods market size, as per Nielsen Retail Index, stood at Rs. 83,000 Crore in 2007 and registered 16% growth in value terms
- It is a land of 8.2 million neighborhood stores which sell any of the consumer products (food, non-food and OTC)
- Second highest penetration of mobile phones (287 million connections as of June 2008) and still counting. Every month approximately 8 million connections are getting added.
• The consumer electronics witnessed double digit growth for the period June 08 over June 07. The south has major share in the case of audio systems, DVDs and air conditioners. The Northern region is dominating in the case of CTV, Refrigerators, Washing Machines and Microwaves.

• Around 10 million Indians can buy the world’s most expensive brands.

5.3 Consumer Behavior
At the same time, Consumer Outlook by Technopak (Vol. 2, March 2009) details out the impact of recession on consumer behavior. It is observed that People are saving up and paying cash rather than whipping out the credit card, and waiting for the annual sales rather than buying on impulse. While the middle class always valued promotional offers and could be swayed by them, today even affluent consumers are carefully scrutinizing on-pack information to opt for better value deals. Discount retailers are already talking about an upswing in their footfalls and sales levels. Many retail firms including the Future Group are talking about expanding the network of discount stores in their chains.

The India Retail Report 2009 (Images Retail) also makes some salient observations with respect to the Modern Trade and the change in consumption pattern.

• Shoppers are shopping at supermarkets more frequently than a year back and the average basket size per trip is also increasing.

• The local grocer/general store, although still supreme, is seeing a steady erosion of customer base and spend.

• Wet Markets, at present have managed to retail their customer base.
• The modern format is no longer catering to only the upper socio
economic groups. The SEC A demographic now comprises less
than half of the customer base with both SEC B and more so,
SEC C seeing an increase in the proportion.
• The male youth (15-24) now constitutes 10% of the supermarket
customer base.
• Among women, the 25-34 segment constitutes a relatively
higher segment for supermarkets than traditional grocers.

5.4 Organised Retail Sector:
Mohan Guruswamy et al in their article titled FDI in India’s Retail Sector
More Bad Than Good? describe organized retailing as, the retail
trading activity undertaken by the registered licensed retailers who are
registered under sales tax, income tax etc. These are normally backed
by corporate houses or privately owned large retail businesses.
Unorganized retailing refers to the small traditional formats which
involve in low cost retail activity.

Though the organized retail is growing at rapid pace, there are certain
hurdles which need to be crossed to ensure the rapid growth.
According to Mulky, (Retail Sector in India, European Retail Digest)
Indian Retail Sector is considerably influenced by Geodemographics of
the country. Most of the Indian population does not use mechanically
propelled transport. In the cities, the population density is very high due
to which roads are often blocked due to traffic congestion. This results,
in the consumer shopping only in nearby retail outlets instead of
travelling long distances. Hence for the retailer to succeed, it is
imperative to spread over various locations with smaller formats rather
than being present in a few locations with very big formats. This is
again supported by the India Retail Report 2009 ( Images Retail) with
the finding that the attributes that a customer looks for while selecting a
store also are locational convenience still supreme followed by
perceived value for money, range and quality of stocking.
5.5 Retail Barriers

As per the report titled Impact of Organised Retailing on the Unorganised Sector, (Indian Council for Research on International Economic Relations, May 2008) the organized retailer has to obtain number of licenses and clearances from various central state and local authorities. Moreover in case a new building is being constructed for use in retailing, the organised retailer has to obtain “no objection certificates” from the different state authorities in charge of traffic, electricity, water, fire, and pollution control. Zoning restrictions are also applicable to the organized retail outlets. Shrivastav R.K. in his research paper titled Changing Retail seen in India, states that the major challenges posed for organised retail are numerous. To name a few, Taxation, underdeveloped supply chain and integrated IT management, lack of trained work force rapid price changes, constant threat of product changes or line extension are some of the hurdles that Indian Organised Retail Industry needs to cross.

There also is a great deal of challenge with respect to logistics. According to CII AT Kearney Report 2006, there is no reliable national cold chain. This leads to enormous wastage in the rural India amounting to as enormous amount as Rs. 50,000 crores in food sector alone. Vikram Gupta in his article India at 60: Retail and the Indian Economy mentions that the major challenge for Indian organised retail is real estate rents. The rents are sky rocketing and hence offset the profitability of organised retail. There also are challenges posed by the poorly developed infrastructure in terms of roads, electricity and logistics. According to Pankaj Gupta of Tata Strategic Management Group, the major challenges for Indian Retailers are, human resource and real estate to build scales. Investment in human resource and long term perspective towards real estate planning are keys to success. Although Halan Deepak believes that small retailer are to stay in spite of the huge entry of organized sector. They only need to be trained to be better organized and tech savvy to face the competition.
5.6 Retail Profitability

According to the CII-AT Kearney Report, one very big issue which has gone unnoticed is very high stamp duty rates ranging between 5%-14% which are world’s highest. Countries like UK have much lower stamp duties ranging between 0-4%. Moreover, metros and cities lack visionary town planning due to which there is always a scarcity of commercial space leading to a highly speculative environment. As a consequence the real estate costs contribute as much as 10-15% to net sales. According to CII, the addition of better and affordable retail space would enable retailers to deliver more better-quality products and services to the consumers, resulting in increase in operational efficiencies and decline in costs for the supply chain. India is one of the complex real estate markets in the world due to the large degree of variation and inconsistency in the market practice and regulatory norms.

Rangarajan et. al, in their Research paper titled Stop Getting Strangled by your Supply Chain, express that 75% of the cost of a product is towards getting the product to the end users. Out of this retail cost, major contribution is towards transportation losses due to reduction and shrinkages. On the contrary, most retail outlets are spending heavily on IT costs. It is observed by Prater et al in their research paper titled Future of RFID on e-supply chains in grocery retailing, that automated replenishment decisions can save on enormous costs for the retailers since the managers are saved of taking long walks through the floor checking the shelves to decided on replenishment. This time saved can be better utilized for in store customer service. Xavier et al state in their research paper that, the logical tracking of customer data through a CRM package can contribute a rise of 6-12% to the sales over the period of 6 months. Moreover improved inventory systems which can closely monitor the slow moving items can add 2-5% to the profits. According to Gopal
V.V., reducing clutter of the shelves by consolidating product categories is a smart solution for cutting inventory carrying costs.

5.7 Financial Indicators

As per Mathur Vivek, (Business Line January 2002), a small footprint store (1000-5000 sq.ft.) may break even in three to nine months whereas a large format (20,000-30,000 sq. ft.) may require 12-24 months to break even. He also observes that the operating profits at 100% efficiency are estimated to be 16-17%. He further mentions that, too large a store in a low potential market increases the burden of fixed costs and requires enormous stocks to fill the stores, leading to markdowns. Hence a right strategy is to roll out formats which are scalable, to address the potential of each relevant market. This requires some customization on size and assortment to match the expected throughput without diluting value proposition to the customer. Aufruetter et al, (Engine of success in retailing, The McKinsey Quarterly, 1993) state that rising complexity in retail formats directly reflects upon the selling, administrative and other operating costs. In operations terms, lower sales, slower inventory turns, and lower gross margins occur when buyers cannot cope with the complexity of their business. For the better productivity, Retail organisations need to focus on the Inventories, Marketing expenses and the power and fuel expenses according to Agarwal Reeti et. al. It is further stated that Marketing and Advertising expenses are the major determinants of productivity. Moreover, the increase in Advertising Expenses decreases PBIT. Whereas increase in Inventory, Marketing Expenses and Power and Fuel expenses have positive impact in PBIT. One important aspect of contribution of flyers in retail profitability is elaborated by E. Gijsbrechys et al. It is found that appearance of offers in the front page of the authors find 3% to 5% increase in the footfalls and ultimately profitability. According to Guercini and Runfolla, More specifically in clothing retail, since garment retailing is characterized by intense competition and short product life cycle, the retailers should focus on cost effective sourcing strategies for better margins.
It is also mentioned that complexity in supply chain can restrict the retailers from dealing with full range of products. In order to decrease time to market, retailers may choose sourcing alternatives that may not bring the cost advantage of a cheaper supplier but do offer the advantage of diminishing logistics costs and lost sales.

Barton M. Bigs, in Christmas is coming, Financial Analyst Journal (1965) states that, Retail Profitability essentially depends upon the fixed costs viz. lease rentals, Electricity and Overhead Interest. This observation in peculiarly applicable to India at the moment since Indian Retail Industry is passing through a phase which was experienced by the US in the mid sixties.

According to the article titled Avoid California’s Nightmare, Ron Eigenbrod in Chain Store Age (2001) Energy Consumption, if not controlled can lead to a big burden on the financials of a Retail Outlet. This again is very relevant to India considering the present energy crisis the nation is facing. Hence reduction in the energy consumption of HVAC can be useful to prevent heavy electrical expenses.

Productivity has been substantiated very well by Berman and Evans in their book, Retail management A strategic approach. According to them, productivity can be enhanced by improving employee performance, sales per foot of space and other factors by upgrading training programmes, increasing advertising and so on. Another route to enhancement of productivity is by reducing costs by automating, having suppliers to do certain tasks etc. The second option can fire back if it upsets the consumers and bring a feeling of not getting value for money.

As per the research of Chetan Bajaj et al, (Retail Management, Oxford Higher Education) Location is a major cost factor due to huge capital investment, the impact it has on the transportation costs and human
resource costs. On the contrary it also is a major revenue factor since it influences the footfalls which are directly related to the volume of business. According to Vinay Bhatia of Pantloon retail, the key challenge for retail sector is real estate. Customer Value is largely affected by the rising rentals and developmental costs. Findings of Benjamin, Boyle, and Sirmons’ further reveal that the retail profitability largely depends upon the rentals charged. It is also observed by Fisher and Lentz (1990) that the existing retailers tend to renew the lease agreement at a much higher rate as compared to the new retailers which proves the importance of going concern value. It is further observed by Duan and Mela that, capacity constrained firms set prices on the basis of location, demand and costs. Firms develop maps of latent demand patterns across the market in which they compete. This results in additional locational expansion leading to dip in profits. Further to add to this finding, Rosiers, des et al, express that, store size is the most prominent determinant of shopping center rents. 10% increase in the area results in a rent discount of roughly 4%. It is also observed that, longer the lease duration, higher will be the lease rent. It is also established in this paper that age of the retail space influences in bringing the rent downwards. Lease rent also tends to adjust with the inflation rate. Landlords are able to capitalize the business enterprise value generated due to the long established tenants. The base retail rents are also observed to be lower in the densely populated retail areas. Writankar Mukherjea substantiates that Shop in shop model costs atleast 25% less than running a standalone outlet of the same size.

According to Lal Rajiv and Bell Devid Frequent Shopper Programmes in grocery retail may not be as profitable if not implemented carefully. The purchase mainly is oriented towards share of wallet and hence it may be difficult to change the consumer behavior.

Retailing Management by Levy and Weitz (Tata McGrowhill) describes, cost implications on the profitability of a store. Apart from the labour scheduling issues, important costs include store
maintenance and energy management. If exterior and interior facilities are maintained effectively, sales generation can be escalated and at the same time cost of running the store can be controlled. Though maintenance is a costly affair, it reduces the possibilities of breakdowns and improves the useful life of assets. The authors further detail out the shrinkages. Shrinkage is the difference between the recorded value of inventory based on merchandise brought and received and the value of the actual inventory in stores and distribution centers divided by retail sales. For any format, shrinkage varies between 1 to 5% of sales. Any loss due to inventory shrinkage translates into lost profits. Indian organised retail sector is facing major challenge in terms of Theft, Shoplifting and Employee Pilferage. To reduce this more than 2% of the organized retail revenue is being spent on the technology for fraud management. (The Great Indian Retail Story, Ernst and Young, 2006). As per Gopal, poor infrastructure management (cold storage, warehousing methods, bad roads, intermediaries and development of third party logistics) has a cascading effect on the final price. Moreover according to Sharma and Vyas, (Vikalpa 2007) need for Decision Support System is realised by the retailers but is not correctly implemented due to lack of trained manpower resulting in high cost of implementation.

Jhon Ferni et al believe that, transportation costs are ever rising in India and to make it effective, the logistics efficiencies will need to improve to give way for the additional costs. This is confirmed again by Shapiro and Wagner that, apart from the inventory holding costs in-transit delay costs add to the transportation costs. Storage costs are associated with the space availability at Distribution Center. Sinha and Uniyal in their book Managing Retailing state that latest technology such as RFID can be used for effective management of inventories in store and in transit. The information in RFID readers can be shared on the internet. This exchange of information may save between 20-40% in inventory and out of stock costs. Edmond Prater et al., believe that
RFID is necessary to control shoplifting which in turn will save retail industry lot of money. Shoplifting is a serious problem in the retail industry. Every year, organized retail crime causes retail loses of $12 billion to $35 billion according to Hayes and Roberts. Furthermore Holli Higgins et al., believe that the lack of adequate cold-chain infrastructure and transportation facilities in India hamper proper handling, storage and transportation of the imported foods in the vast number of retail stores spread across the country. Gupta Vikram also substantiates this finding in his article titled India at 60: Retail and the Indian Economy, that about 35% to 40% of the fruits and vegetables go waste during transportation because of the lack of cold storage facilities. A large number of importers depend upon third-party-logistics (TPL) companies to hire services for cold chain and transportation. Indian TPL companies are limited and often lack resources to fulfill clients expectations in terms of timely handling of consignments. Due to a dearth of players in the logistics sector, maintaining an imported product’s cold-chain integrity can be costly. Fernie John elaborates that with ever increasing fuel prices and transportation costs rising, efficiency is absolutely vital. The savings can be brought in with better load fill or cleaner driving. Itena Vida et al., believe that those retailers who have specific expertise in logistics in domestic markets tend to do well in international environment also.

Wyner (The ROI Toolkit, Journal of Marketing Research, Fall 2004) elaborates on the marketing profitability. The marketer tend to focus on the revenue side of the organisation. If financial value is assigned to the marketing initiatives, consumer preference and choices can be translated in to financial outcomes. It is summarized in Delloit Consultants’ report that, Retailers need to ensure that drive for value does not mean reducing quality, environmental or labor standards. Retailers ensure productivity not only for cost containment but also by taking care of important issues such as quality, traceability, ethical sourcing, safety and reliability.
Global Retail: Time to change (KPMG 2009) states that, retailers will now focus on the Tier II and Tier III cities in India since the Tier I cities are facing cut throat competition.

5.8 **Service Quality:**

Service quality is a critical issue in Retailing Industry. It is elaborately explained by Gilbert in his book Retail Marketing Management that, service quality should be viewed as a long term benefit rather than cost element. Continuous improvement in service quality is not the cost but is an investment in the customer who will return more profit in the long term. Continuous improvement in quality leads to increased value contributing to repeat loyalty which provides increased volumes. Increased volumes result in reduced costs and increased margins ultimately. According to Prasad and Reddy, consumer looks for huge variety and quality products, offering self service, pleasant ambiance, and store services such as assistance, baggage, credit facility, promotions etc. Due to this, controlling the overheads of a retail outlet is an uphill task. This finding is further strengthened by Parikh Darshan. According to him, consumer is on the lookout for avenues that will give him maximum value for the money and time spent.

5.9 **Marketing Strategies:**

According to Sanjeevan and Jain, Loyalty programme is an instrument which shows the trust of consumers in the enterprise. Rao and Jain suggest that loyalty programmes need not be linked to price discounts alone. It can also be associated with the entire shopping experience that a loyal customer can expect. This requires the retailer to adopt a multifaceted approach. It also proves that loyalty programmes cannot solely contribute to the profitability of a retail outlet.

Rust, Roland et al believe that the firm should have a business model that tracks how marketing expenditures influence what customers know, believe, and feel and ultimately how they behave. It is important for the marketers to know how non financial measures of marketing
effectiveness drive the financial performance measures such as sales, profits, and shareholder value in short run as well as long run. It is observed by Kusum L. Ailawadi that the Marketing promotions help consumers buy the products and pile up for future consumption and not necessarily escalated the demand. Moreover promotions can lead to price sensitivity. Though of course, the long term impact on sales can be positive since consumers are more likely to buy the brand when it is being promoted that otherwise

Dutta Devangshu, (India Retail Report 2009) feel that Indian retailers have to make realistic demand estimates. Store productivity is very critical for the survival in steep competition. Moreover pace of growth must be monitored while expansions take place. Further it is also stated that the Human Capital development is also a key issue for present Indian retailers.

In the research paper titled “The Retail Power Performance Conundrum: What have we learnt?” by Kusum L. Ailawadi, Journal of Retailing (2001), it is discussed whether, retail brands contribute towards profitability, more than the manufacturers’ brands. The results of the research indicate that though retail brands are important contributors to the profitability, one cannot do without the manufacturers’ brands. To add to this finding, as per the study of Sorensen, it is not enough to get the All Commodity Volume (ACV) in the outlet. The retailer needs to ensure this ACV is made visible at the area where shoppers visit. Instead of expecting the shoppers to find the merchandise, or attracting them towards the merchandise place the right products in front of right shoppers. This brings in an issue of effective utilization of floor area. Similarly according to Cinda Baxter in her article titled Profit Partners extends her thought that, buyers are now very demanding while they scan the shelf and have one clear question in their mind, whether Retailers is working for them or the they are working for the retailer.
In the research paper “It’s All At The Mall : Exploring Present Shopping Experience by Lather Anu Sing and Tripat Kaur, it is discussed as to what is the most important criteria for store choice. The findings suggest that, Product offering and Ambience play an important role while selecting a retail outlet. This brings pressure on the retail organization to provide excellent ambiance and enhance the product offering continuously which results in extra burden on the financials. Ch. J. Prasad, et.al., are of the similar opinion. The store choice is largely dependent upon the variety of quality products, offering self-service, pleasant ambience, and store services like assistance, baggage, promotions, credit facilities etc.

According to Kusum L. Ailwadi, retail brands fetch more margines as compared to the manufacturer brands. Average Gross Margins are greater for retail brands because, a successful retail brand threat allows retailers to bargain for a price cut with the competitive manufacturer brand. However it is also true that retailers cannot push store brands too much at an expense of national brands, since the later are major traffic builders. Reduction in National Brands may make the store less attractive to most profitable shoppers. The researchers also believe that non price promotions result in more positive purchase feedback than price promotions in the long run. As far as cost of promotion is concerned the practice of comparing promotion prices to the highest list price to determine the cost of promotions may unfairly exaggerate the promotion cost. The solution is the lower price that the manufacturer will charge during promotions should be used as a base for calculating cost of promotion.

Hughes, further elaborates on the lifetime value of customer. According to him 5% increase in retention rate can add 10% to the market basket and lifetime value can rise by about 16%. Sinha Plysh Kumar et al also confirm the finding in their research paper that, the women tend to choose a store depending upon the availability of merchandise. Moreover proximity is the most important factor in grocery retail and
pharmacy. In case of consumer electronics perceived risk for chosen outlet was observed to be minimal. This is further supported by the working paper titled Decision Support System in organized retail sector, by Sharma Ankush and Vyas Preeti. The authors have inferred that, with the growing use of plastic money retailers will use various loyalty programme to grab the larger share of consumer wallet.

To sum up according to Reddy, Unorganized Retailing will coexist with Organised formats in the time to come. The unorganised retailers will get a facelift due to the rising competition. Since urbanisation is inevitable, the organized retailers can expect a promising growth where as it cannot totally eliminate the unorganised sector any way. Distribution Infrastructure is a major challenge for Indian Retailers. It is summarized in Delloit Consultants’ report (2006) that, Retailers need to ensure that drive for value does not mean reducing quality, environmental or labor standards. Retailers ensure productivity not only for cost containment but also to take care of important issues such as quality, traceability, ethical sourcing, safety and reliability.