CHAPTER-3

ORGANISED RETAIL & CONSUMER BEHAVIOR

3.1 Organized Retail – An historical perspective

The percentage share of organized retail in developed countries is much higher than developing countries like India. Data reveals, in 2006, the total share of organized retail in the United States (US) was around 85%, in Japan it was 66%, in the United Kingdom (UK) it was 80%, and if we look at the developing countries like India, China and Russia it was 6%, 20% and 33%, respectively. It is noteworthy that the concept of organized retail came much later in developing economies than the developed economies. Modern day retail as we see it today came into existence in three major movements. The initial movement took place in the early to mid-1990s in South America, East Asia excluding China, North Central Europe and South Africa. It was followed by the movement that appeared during mid-to-late 1990s in Central America, Mexico, South-east Asia and South Central Europe. The final and major movement started in the late 1990s and early 2000 in some parts of South-east Asia, China, India Africa, Central and South America, and Russia and continues to grow at a rapid pace. The researcher named this wholesome movement as “TRINITY IMPACT PHENOMENA”.

The modern Indian retail is expected to increase its share in the total retail market to 22 per cent by 2010. Data reveals that Organized retail in India raked in US$ 25.44 billion turnover in 2007-08 as against US$ 16.99 billion in 2006-07, a whopping growth rate of 49.73 per cent (according to the Credit Rating and Information Services of India). Organized retail has increased its share from 5 per cent of total retail sales in 2006 to 8 per cent in 2007. India enjoys the privilege of having the largest numbers of retail outlets in the world. Of the 12 million retail outlets existing in the country, nearly 5 million sell food and related products. Even though the market is flooded by unorganized players, the entry of domestic and international organized players is set to change the business
environment in India. India's per capita retailing space is the lowest in the world. Per capita retailing space is about 2 sq. ft (compared to 16 sq. ft in the U.S.). Around 7% of the population in India is engaged in retailing, as compared to 20% in the USA. With an estimated market size of US $ in 2011, India’s retail sector is at peak of its appeal for international and Indian players. Being the second largest employer after agriculture, this sector is expected to grow to US $ 785b by 2014, ensuring that the retail sector continues to be one of the mainstays of the Indian economy. Modern retail accounted for approximately 6.5% of the total retail market in India in 2008-09. This share is expected to increase to approximately 9.4% by 2013-2014 with the entry of a number of corporate organizations into segment.

3.2 Regulatory scenario

The government of India has allowed up to 100% foreign direct investment (FDI) under the automatic route in cash-and-carry wholesale trading and export trading. Where as 51% FDI is allowed with prior government approval is permitted in retailing of “single-brand” products. Data reveals that the global retail industry is witnessing a compound average growth rate (CAGR) of 5.5% and has grown at the same rate till 2009. The graph 3.1 shows an overall trend of the global retail revenues.

Graph: 3.1

Global Retail Sales Trend
3.3 Factors contributing retail growth

3.3.1 Increase in working population

After China, India is the second-largest country on the globe in terms of population, and is the biggest consumer markets in the world due to its favorable demographics. In 2008, India’s working population (in the 15-49 years age group) constituted around 53% of the population as compared with 48.6% in the UK, 49% in the US, and 53% in Russia. It has been further witnessed that there is a sharp increase in the number of working women that has fuelled the growth in sales of discretionary items. There has been a 20% increase in the number of working women in the last decade refer Figure 3.1 which shows the increase in the female population.

Figure: 3.1

Changing demography of India (age in years and population in ‘000s)
3.3.2 Spurt in urbanization

The top 20 Indian cities, which though accounting for only 10% of the country’s population, generate as much as 60 percent of its surplus income and 31 percent of its disposable income. These 20 large cities, which accounted for nearly USD $100 billion of consumption expenditure in 2007 – 08, are categorized in three groups; Mega cities (8), Boomtowns (7), and niche cities (5). These 20 cities for the next eight years (2008 – 2016), will grow at a healthy rate of 10.1 percent per annum, compared to other cities growing at 7.9 percent per annum. The changing household demographics will no doubt bring about a major shift in demand pattern of different classes of goods. There is a 52 percent increase in spending as household’s graduates from low – middle class segment. History shows that the cities and towns have been the driving force of overall economic and social development of any country. At present over 335 million people of India reside in cities and towns, which constitutes to approximately 30% of the total population. The researcher feels that the exponential growth in urbanization has fueled the organized retailing in India, and has led to the speedy movement of population into
major tier I and tier II cities, which have a considerable share in the retail sales of the country. The urban population’s contribution in India’s GDP shot up from 29% in 1951 to 60% in 2001 and has risen to approximately 70% in 2011. Graph 3.2 represents the percentage of urban to total population. The “Y” axis shows the growth in percentages and the “X” axis is representing the particular year.

Higher income opportunities provided by these metro stations that has led to the migration of individuals to these epicenters, moreover the infrastructural, technological etc development has invariably attracted substantial inflows of capital from domestic as well as from foreign investment have led to the transition of urban areas. As the Indian organized retail is mainly concentrated in the urban areas, its growth (urban areas) is imperative for the organized retail in the country.

Graph: 3.2

It may be noted that the urban areas in India are the growth centers and they are growing rapidly over the last many years in contrast to the global average as well countries like Brazil, the US and UK among others. In the years 1995-2000, annual
urban growth in India was 2.35% as compared to the world average of 2.07%. Furthermore, the annual urban growth in India would touch 2.6% during the years 2020-25, while globally it would fall consistently to reach 1.6%, as far as China is concerned it has seen a fall to 1.36% from 3.1% during 1995-2000, followed by Brazil to 0.82%. In India the percentage of urban population to total population is 29% as compared against the global average of 48.6%, while that of Brazil is 84%, that of China is 40%, US had 81% and Russia had 73%, it is to be noticed that total Indian urban population was far more compared to the total population of the US in 2005. It is expected by the researcher that India’s total urban population would constitute around 6.7% of the total global population by the year 2025. Undoubtedly this will emerge as the India’s largest organized retail market and is therefore the challenge for the organized retail players to encash the full potential of growing urban areas.

Graph: 3.3

The steep growth of infrastructure in major tier I, II and III cities is attracting many rural inhabitants towards these metro cities, which has increased the urban per
capita income and along with it offers the unbound opportunities for the organized retail segment. Growing globalization has also played a major role in the growth rate of urban areas.

3.3.3 Credit Facility – An attraction to Indian consumer - a boon for organized retail

There are about 20 million credit and debit card users in India the number continues to multiply. Credit/debit cards have significantly impacted the spending patterns of customers. Credit cards plays a significant role in impulse purchase and also provide the customers with a convenient way of transactions. The regulatory policies have kept the card frauds in check and have further increased their usage. Plastic money is an attractive concept that has boosted the growth of the organized retail sector. Moreover, the boost to the Indian organized retail industry has been seen because of the spurt in issuance of credit cards and loans by both Indian banks as well as from foreign banks. According to the RBI, as on FY09, the total number of outstanding credit and debit cards in India was 24.7 million and 137.4 million respectively. It has fuelled the purchasing power of the young Indian population. Further more the penetration of credit cards in Indian market has also accelerated the growth of organized retail sector. Another observation by the researcher is that the organized retail industry is still in nascent stage and is growing at a very high rate. Constituted 5.9% of the total retail industry in 2007.

Graph: 3.4
Figure: 3.2

Population versus proportion of total retail market
This segment attempts to capture key trends and provides insights into the Indian organized retail sector through two sub sections. In each section, D&B India presents the insights derived from a detailed analysis of data gathered through primary and secondary
sources. The first section presents operational insight and the second section presents the impact of economic slowdown on the Indian retail sector and the way forward. The insights are derived from the 123 eligible companies for which more than 80% of the information sought was available.

### 3.3.4 Economic boom lures more retail players into the sector

Economic growth means a consistent increase in per capita national output over a long period of time; it states that the rate of increase in total output must be greater than the population growth. Human resource (HR), natural resource, capital formation, technical development, political and Social factors are the five most important determinants of economic growth. Referring to the above factors, it could be easily visualized that the organized retail sector reached its glorious period post-economic reforms, when economic prosperity encouraged many Indian players to enter the sector.

**Graph: 3.6**

![Evolution of retail companies in India](image)

Source: D & B Survey

Out of 123 eligible companies that responded to the survey. The *survey* is being conducted by D&B India. The initial set of companies screened for the inaugural edition of Dun & Bradstreet India’s (D&B India) publication, ‘*Indian Retail Industry:*
Challenges, Opportunities and Outlook’, was compiled by using D&B India’s internal database. Companies with more than two retail outlets or having a combined retail floor space of 1,000 sq. ft and above were considered. It was found that 23% were established before the year 1990. Nilgiris, Tribhovandas Bhimji Zaveri and Bombay Swadeshi Stores, are the players that have been successfully running over the last 10 years. Over the past five decades many of today’s retail majors like Vijay Sales, Khadim’s, Fabindia, Rhythm House and Apollo Pharmacy made headway for the sector and mostly operated only in the metros; however, the scenario changed dramatically post-liberalization.

As surveyed, many of the players has experimented their luck into the Indian retail sector in post-liberalization era. It is found that by years 1990 to 2000, 34% of the respondents had already established their organized retail business in Indian market and also opened stores in various parts of the country. Pantaloons, Spencer, Shopper Stop and Viveks are some of the organized retail companies that has established their setup in this sector during 1900-2000. The researcher has further observed that the Indian organized retail sector has witnessed a drastic change with the advent of new players. Collaboration with Indian companies has opened the entry of foreign players like McDonalds and Dominos in the Indian market and their presence opened a new chapter in the highly unorganized sector. Refer graph for different types of companies operating in Indian retail market. It has been noticed that development during this period, was in the form of the emergence of new retail formats like hypermarkets, supermarkets and departmental stores that gained nationwide popularity. After the year 2000 organized retail sector emerged as one of the fastest-growing sectors in India. Over 43% of the surveyed companies started their retail operations after 2000; some of these companies are renowned names today – Liberty Retail Revolutions, Welspun Retail Ltd, Hypercity Retail (India) Ltd and METRO Cash and Carry India Pvt Ltd.

Graph: 3.7
According to the survey it was found that 55% of the respondent companies were private limited companies followed by public limited companies (24.5%) and proprietorship & partnerships/JV companies account for the remaining with 12.8 percent and 7.4 percent respectively.

### 3.4 Franchise model gains popularity

A retail franchise is a business model in which an entrepreneur or investor buys the right to use the name and business format of an existing company. A franchisee replicates a business already proven successful by its founders and operators, and he must follow a set of rules set forth by the franchiser.

More recent research shows that the organized retail players principally operate under a direct business model; however, over the last many years, researchers experienced that players have started operating on both franchisee and direct models, and only few retail companies are operating exclusively under the franchise model. Apart from the leaders in foreign retail brands, rest of the players operates through the franchisee model. In India 100% FDI is not allowed in the segment. There are over 1,00,000 franchisees (across sectors) in India today. The total annual turnover achieved by franchised business in India is in range of Rs 8000 – 10,000 crores. Though recently centre government has allowed 100% FDI but with a clause: that it is going to be the
right of respective state to permit them for FDI in their respective areas. There are companies who have formed master franchises with Indian companies to leverage their foreign brands in India. For instance, a number of global brands such as McDonalds, Pizza Hut, D’damas are operating in India under the franchise or joint venture model with their Indian business partners. Most of the retailers are going for the franchise model; lower capital expenditure and higher flexibility are the key constituents of the franchise model which help them present in the market. Researcher experienced that this concept is rapidly catching up in India, as the country offers ample growth opportunities in the organized retail market.

3.5 **Big companies also join the fray**

Many retailers have observed that strengthening of economic fundamentals along with change in lifestyle and favorable demographics etc. are contributing to the sectors growth rate. As already discussed globalization has a supportive hand to retail sector, gradual liberalization in the existing laws for investment etc has undoubtedly benefited the retail sector. 51% Foreign Direct Investment (FDI) is allowed on single brand through foreign Investment Promotion Board (FIPB) route and 100% FDI is allowed on cash and carry format. Despite of the fact that 94-95% of the Indian retail sector is unorganized. Another reason for getting attracted towards Indian retail space include the evolution of shopping centers, multi-storied lifestyle malls, giant complexes that offer shopping, food and entertainment concepts in tier I, II and III cities and they are not only attracting the companies but also forcing them to invest in the rapidly growing Indian organized retail market. Increasing the footprints is the key concern with the rapidly evolving retail formats such as hypermarkets, supermarkets, departmental stores, convenience stores, specialty stores; as a result, investments in the Indian organized retail sector have risen exponentially. Leading business houses in India like Reliance Industries Ltd, Aditya Birla Group, Tata Group etc have also been operating in the sector from more than five years. Another mode of entering in to Indian retail sector has been presented by Aditya Birla group when they notified their presence in the market by acquiring existing retail player i.e. trinethra supermarket. Researcher observed the
similar trend being followed by India bulls when it acquired pyramid retail limited. This method of entering into sector is defined as “Inorganic route” by many researchers.

**Graph: 3.8**

![Graph showing the contribution of top 10 companies](http://www.dnb.co.in/indian_retailIndustry/Insight.asp)

*Note:*
1. The top 10 retail companies are in descending order of floor space.
2. Total floor space is the cumulative of all retail companies who responded to the survey.

The top 10 players in terms of floor space (Refer Graph 3.8) accounted for 77.2% of the total floor space of the respondent companies and operated in multi-segments and different formats spread across major cities in the country. Researcher highlights the coincidence that majority of the top 10 companies are concentrating in the food, grocery and beverages segment, and the apparel and textile segment. Apart from this more recent research shows that, the consumer durable and electronic goods segment is evolving very fast and is another important segment for retail companies to get into. Major retail players like Reliance Retail (Reliance Digital), Pantaloon Retail Ltd (eZone and Electronic Bazaars), Videocon (Next Retail Ltd), Tata Sons (Croma), Sumaria Appliances and Vijay Sales are retailing in this space.

In the process to maximize returns on average floor space and store, most retail companies are going for various sales promotions schemes like promotional/discount activities to retain and to persuade and to attract new customers, especially in the current
economic slowdown. The rapid changing trend of lifestyle especially in metros and inclination of many consumers towards western culture has helped alliances with foreign brands which ultimately benefits both parties as they get to leverage on each other’s reach and brand.

3.6 West-based companies constitute lion’s share of the total floor space

Recent studies, has divided the country into four regions namely East, West, North, and South. Further companies from the western region had the highest share (67.1%) in the total floor space in India, followed by companies from the north (19.1%), south (7.8%) and east region (6.0%), respectively (refer graph below). Similarly, in terms of average floor space per store, the western region had the highest space at 5,345 sq ft as compared with the national average of 3,491 sq ft, while the southern region was second at 2,789 sq ft, followed by the northern region at 1,894 sq ft and the eastern region at 1,872 sq ft. It has also been observed by the researcher that most of the companies in the western region are based in Mumbai, the commercial capital India.

Graph: 3.9

![Region-wise percentage share of the total floor space](image)

Source: D & B Survey
If we talk about region-wise contribution to total retail outlets, the western region again had the largest share at 43.1%, followed by the southern region with 24.1% share, and the northern and eastern regions at 20.7% and 12.1%, respectively (see chart below). Majority of the retail stores are specialty stores, convenience stores, supermarkets/hypermarkets that are spread across the country; further majority of marketers has observed that in order to cater to the needs of all sections of the society, the retailer has to focus on various types of retail formats. Recent research stresses on the fast changing consumer behavior leading to the innovation in existing strategies, structures etc. by the leading retail stores.

**Graph: 3.10**

![Region-wise percentage share of the total stores](http://www.dnb.co.in/indianretailIndustry/Insight.asp)

Source: http://www.dnb.co.in/indianretailIndustry/Insight.asp.

### 3.7 NCR, Gurgaon and Noida emerges as the preferred location for retailing

The northern region is also popular among most of the companies. Studies says that 35.6% of the companies preference to have their retail stores in the northern region. This region has been riding high on the success of the Information Technology (IT) and ITeS-BPO companies operating in the region, especially the NCR that has witnessed a sharp revolution in the development of shopping malls, which seems to be the primary
reason for the region’s increasing preference among retailers. Refer table which shows Delhi, Gurgaon and Noida, all three from the northern region, contributing to 5.7 percent, 4.0 percent and 4.2 percent of retail outlet centers respectively.

**Figure: 3.3**

Region wise percentage of retail outlet centers

<table>
<thead>
<tr>
<th>Sr No</th>
<th>City</th>
<th>Region</th>
<th>% of retail outlet centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mumbai</td>
<td>West</td>
<td>7.0</td>
</tr>
<tr>
<td>2</td>
<td>Bengaluru</td>
<td>South</td>
<td>6.5</td>
</tr>
<tr>
<td>3</td>
<td>Kolkata</td>
<td>East</td>
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</tr>
<tr>
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<td>Delhi</td>
<td>North</td>
<td>5.7</td>
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<tr>
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<td>Hyderabad</td>
<td>South</td>
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<td>Ahmedabad</td>
<td>West</td>
<td>5.4</td>
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<tr>
<td>7</td>
<td>Pune</td>
<td>West</td>
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</tr>
<tr>
<td>8</td>
<td>Chennai</td>
<td>South</td>
<td>5.0</td>
</tr>
<tr>
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<td>North</td>
<td>4.2</td>
</tr>
<tr>
<td>10</td>
<td>Gurgaon</td>
<td>North</td>
<td>4.0</td>
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<td>11</td>
<td>Vadodara</td>
<td>West</td>
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<td>Chandigarh</td>
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<td>2.4</td>
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<tr>
<td>24</td>
<td>Bhubaneshwar</td>
<td>East</td>
<td>2.4</td>
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</tbody>
</table>

Each city’s share is calculated on the cumulative shares of all cities served by the respondent companies.

3.8 Retail – an important employment generator

Since the birth of retail industry, the retail segment has set a new paradigm in employment opportunities in India. Particularly the organized retail segment has benefited the young Indian generation in terms of job prospects. Employment pattern seen in retail industry as observed by researcher shows that approximate 84 percent of the employees were employed on a fulltime basis and the remaining on contract basis.

Graph further highlights the opportunities provided to the undergraduates & graduates. The researcher experienced that the sales executives positions in different organized retail outlets are being hold by the undergraduates, a big moral support for the Indian young generation and a boost-up to the Indian economy. Further the recent studies revealed that 56% of the employees employed by the companies are undergraduates (Refer graph). This is followed by graduates and post-graduates with 36% and 8% respectively. Positive aspect seen by researcher is that the graduates and post-graduates can handle daily work while acting as a key personal in retaining and attracting consumers, as they could better understand consumer needs and interact with them. Recently, many leading retailers have also tied up with various educational premier institutions keeping in view the rapid changing consumer expectations to provide specialized courses in retail management.

3.9 Target market of the organized retailer

Today’s generation is more dynamic than the previous generations because their consumption is driven by wants rather than needs. Thus, the organized retailing, which thrives on lifestyle products, is expected to receive a boost because of the young population by 2020.

The survey revealed that a majority of the respondent companies (48.1%) cater to age group of 25-40, followed by 41% of the companies catering to the age group of 18-25 (Refer graph 3.11).
Graph: 3.11

Retailers preference for age group


Graph 3.12

Retailers Preference for Income Group

Recent studies has also revealed that a majority of retail companies, 33.6%, cater to the customers falling in Rs 100,000 to Rs 500,000 income bracket, followed by 26.2% companies catering Rs 500,000 to Rs 1,000,000 income brackets. From the data it could be well defined that middle income group is contributing maximum to the organized retail market in India. As per the definitions of NACER middle income group lies between Rs 2,00,000 to 10,00,000.

3.10 Private labels gain importance

It has been observed that Private labels generally offer 5-7% higher margins to retailers compared to rest and are therefore considered a very safe and profitable option to carry on. According to Business Definition, Private Label is defined as; Brand owned not by a manufacturer or producer but by a retailer or supplier who gets its goods made by a contract manufacturer under its own label. Also called private brand.

The reasons defined to the offer higher margins is the exclusions of the middlemen and other related charges. Besides, these labels also offer many more benefits to Indian organized retailers, which are along the lines of building consumer loyalty, consumer retention improving market position and more variety to end consumers. The researcher highlights the relevance of distribution channel along with the key mantra for the survival of organized retail shops in the well competitive Indian retail market (refer graph 3.13).

Graph: 3.13
It can be well seen that 56% of the total is being represented by the apparel segment had the maximum representation in private labels and had a 40% share in the private label’s pie, followed by the food and grocery segment that had a 12% share.

**Graph: 3.14**

A quick glance at the graph 3.14 shows the share of private labels in the total sales of the respondent companies revealed that for a majority of companies, 34%, private labels constituted 10-25% of the total sales followed by 25-50% and more than 75% share for 22% companies each.

Researcher experienced that in the long run, private labels are going to take the front position in a retailer’s basket; further more the Indian retail companies are looking at increasing the share of private labels from the current rate to 20-40%. While following the trend carried out a western country plays like Walmart etc.

3.11 Retailers attribute their success to a thriving economy

According to Technopak, the organized retail industry is set to reach US$ 94.4 billion by Financial Year 2012 and India has enough potential to support this growth. The Indian economy has been the one of the fastest-growing economy in the world and has shown resilience when the major economies of the world were facing difficult times, by staging a decent growth. As per revised estimates of Central Statistical Office (CSO), India’s Gross Domestic Product (GDP) at factor cost has recorded a growth rate of 6.7% in Financial Year (FY) 2009 and is around 6% in FY10. As per the data increasing disposable incomes and young population are rated second and third growth drivers, respectively.

Graph: 3.15
3.12 Impact of organized retailing on our economy

While there is a lot of debate going on the impact of organized retailing on unorganized sector, there is little we know of how it will impact our economy in general. Common sense says that perhaps it will help the economy (every better looking thing is good for the economy. Call centers that brought outsourcing to us helped in fueling the feel good factor. Same is for IT/BT companies, so similar should be the case with these retailers)

Surprisingly there are not enough reasons to contest this belief. No matter what communists say or Mayawati does in UP, or what short term glitches we witness on Sensex or in US economy, organized retailing is here to stay and grow at a breathtaking place. So when it is so, I tried to look at it form a holistic point of view and no matter how much I desist to say this but yeah, I ultimately ended up with a PEST analysis. Here are the main points from that (I might post the complete version sometime later but before that I myself want to refine this and include the reaction that I get, if any)

3.12.1 Political
Even though the government is yet to give the sector an Industry status and we see aggressive political protests, some aspects of the Government’s policy have been favourable on other fronts. For example- let’s take Delhi, NCR and Mumbai. In Mumbai, the Government is releasing unused textile mill land for retail development. In Delhi & NCR, the Government has released large tracts of land for retail development. Overall in politics, those in opposition will always oppose, so is there any point in talking about this?

3.12.2 Economical

Although the organized retail sector constitutes only 4-5% of the USD 350 billion Indian retail market, it is expected to grow 400%- from USD 12-15 billion currently, to over USD 30.0 billion by 2010. There is hectic activity in the sector in terms of expansion, entry of international brands and retailers as well as focus on technology, operations and processes. All these present a tremendous opportunity in this new high growth industry. A large portion related to economic impact has already been covered in the previous sections

The important thing is that the growth of this sector will create a totally new demand in our economy. Households across India are now exposed to products and services they had never seen before, the tempting value proposition and an inviting atmosphere is making them purchase these items. Without the new stores the same money would have been sitting idle in some bank lockers. But now the money is out in market, helping the manufacturers to come out with new and innovative products. A great aggregation is also taking place now- you can go and buy as much low quantities that you want, and the systems assist you in this because no one is bothered.

*Imagine what happened in the Shampoo sachet market in India, prior to the entry of Velvet which later transformed the industry landscape ..no one was catering to the huge demand of affordable hair care solution. And today sachets hold 76% of the total shampoo market in India.. that means at least 60% more demand generation.*
There is no doubt in my mind that we are seeing something similar in the case of organized retailers though the extent of this demand expansion and its wholesomeness can be debatable.

3.12.3 Social

There has been a demographic shift in India, emergence of a larger middle and upper middle classes and the substantial increase in disposable income has changed the nature of shopping in India from need based to lifestyle dictated. In addition to this, facilities like credit friendliness, availability of cheap finance and a drop in interest rates have changed consumer markets.

Organized retail increases the efficiencies in the agriculture sector by removing intermediaries in the food chain; as a result, farmers are getting better prices for their produce. The private retail players can actually introduce new technology, seeds, and thus encourage farmers to improve their productivity.

Unorganized retail is feeling the heat of the emergence of the organized retail due to the changing trends of the Indian consumers. Antagonist lobby claims, “In the last four years, an estimated two crore traders have been rendered jobless due to the opening of big shopping malls in the country”. However there is no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. According to the ICRIER survey, the unorganized sector witnessed a closure rate of 4.2% of which only 1.7% closures were attributed to competition from modern retail.

Large retailers like Wal-Mart can never impact small kirana stores in India. This is largely due to India’s socio-cultural heterogeneity and consumer choice. The consumer wants small retail. The ‘kirana’ store and the paan shop are seen as part of community life. Anyway it’s a long discussion and deserves a separate post in itself.

3.12.4 Technological

With increasing competition, slimmer profit margins and diminished returns-cost cutting at every point of value chain has become important. Today’s global retail business
strategies utilize technology. Ecommerce, Customer Relationship Management (CRM) software, Enterprise Resource Planning (ERP) and Point of Sale (POS) systems are all vital to retail businesses. Using these technologies retailers can actually gain key insights to further gain market share and increase revenue.

Indian retailer would feel the need for technology only when he wants to grow beyond a certain point. This is one of the reasons why the traditional grocery is here to stay, with 90% of sales in India done through them.

3.13 **Issues & Challenges faced by Indian retail sector**

3.13.1 **Economic slowdown pinches retail sector**

The economic slowdown has been affecting the global retail sector significantly, both from the demand side and supply side. The global demand has been falling consistently over the past one year after the crisis in the US mortgage market. The resultant job losses and the fall in income have aggravated the impact on consumer demand. Besides, job uncertainty (in anticipation of job losses) is another reason that has led to drop in consumer spending. The global economy, especially the developed economies, has been witnessing contraction in GDP growth over the last couple of years; the other side of coin i.e. the supply side, has seen the similar pattern; many retailers had put their expansion plans on back burner and many real estate developers were falling behind schedules in their shopping mall projects, considering the unavailability of credit. The global Gross Domestic Product (GDP) growth rate has contracted approximately by 2.9 percent (%) in 2009. The economic slowdown has sea effect on the Indian organized retail sector in terms of decreased retail sales growth, decreased footfalls, slow store expansions, less employment rates and most importantly, low profitability.

*Graph: 3.16*
According to this D&B survey, approximately 88% of the respondents opined that economic slowdown has affected the retail sector badly, while the remaining 12% respondents feel that the slowdown has not affected their business. Further it is relevant to be quoted that the 12 percent of the respondents who feel that there is no impact of slowdown on retail sector are operating in food and grocery segment. Where as most of the respondents who felt that they were affected by the slowdown was operating in the apparel and textile segment.

Another point that is revealed from the survey is, fighting the economic slow down, understanding consumer behavior and customer retention are the other major issues and challenges that the Indian retailers face. Studies defined that most of the retailers are concerned about decreasing consumer spending, as consumers are delaying their purchases, and the sector is witnessing a paradigm shift from, what is being called, ‘conspicuous consumption to conscious consumption’. Moreover, any dip in customer footfall and weak conversion ratio has an impact on retailers’ inventory turnover, which increases their working capital requirements.

Graph: 3.17
3.13.2 Strategies to combat the slow down

Consumer is king is a very common saying in marketing as every thing revolver around the consumer. Customization is the outcome of the very phenomenon only. But another set of research depicts that “employee is the king” these days as retention of employees, recruitment and selection, training etc are very costly affairs. Along with it to have maximum out of an employee is really a difficult task. But a question could be raised that why do we need to have best work force with us?. The answer is quiet simple, it is what we wish to satisfy the needs/ wants and demands of all end consumers. So ultimately we again reach to the conclusion that consumer is king. So keeping this in view majority of the retailers has prioritized the inventory management as one of the important tool to overcome the current slowdown. Proper inventory management helps retailers to have a better understanding about their stocks in the store; therefore, retailers can utilize the floor space optimally. Unnecessary inventory involves costs to retailers in terms of interest, space, manpower, handling damages etc.

Graph: 3.18
So keeping this in view most of the retailers tried to find the way to combat the cost. Another strategy to combat the challenges is collaborating with suppliers and manufacturers, since retailers are finding it difficult to manage their expenses, especially that of raw materials. The retailers can persuade suppliers or manufacturers; increase their bargaining power over longer credit periods, or further integrate their supply chain to lower working capital requirements.

Revenue/profit sharing with real estate players is emerging as an important strategy in view of the current slowdown, because real estate expenses constitute anything between 10-12% of retailers’ sales. The stupendous rise in real estate prices over the last couple of years has become a major challenge for retailers who are exploring the option of re-negotiating rentals or of forging alliances with builders for revenue/profit sharing to distribute their risks.

Furthermore, retailers are also adopting strategies to retain customers through discounts, lower prices, value-added services and increased choice of products by entering JVs with foreign brands.

3.14 Organized And Unorganized Food and Grocery Retailers In India
With the evolution of food retail modernization and rapid changes in the buying behavior of consumers, the retail market for food and grocery is growing rapidly. To capture the opportunities of a growing organized retail market in the country, big corporate organizations are foraying in this segment. These organizations are in the process of investing huge amounts for creating retail chains throughout the country. In 2005, India was rated the top international investment opportunity among 30 emerging markets for mass merchant and food retailers looking to expand globally (Business Credit, 2006).

Although large, the diversity and heterogeneity of the Indian market is tremendously complex. Religion, language, dialect, value system, food habit, economic buying power, tradition are all attributes that clearly demonstrate the complexity in India: there are sub-markets within markets in India (Halepete et al., 2008).

3.15 **Organized Food Retailers in Indian Retail Business**

3.15.1 **Big Bazaar & Food bazaar**

As India’s leading retailer, Pantaloon Retail inspires trust through innovative offerings, quality products and affordable prices that help customers achieve a better quality of life every day. We serve customers in 85 cities and 60 rural locations across the country through over 15 million square feet of retail space.

Pantaloon Retail is the flagship company of Future Group, India’s retail pioneer catering to the entire Indian consumption space. Through multiple retail formats, we connect a diverse and passionate community of Indian buyers, sellers and businesses. The collective impact on business is staggering: Around 220 million customers walk into our stores each year and choose products and services supplied by over 30,000 small, medium and large entrepreneurs and manufacturers from across India. This number is set to grow.
Food bazaar is a chain of large sized super markets that originated from the Big Bazaar concept. Big bazaar is the first chain of superstores launched in India – where the focus is on selling general merchandise at discounted price and in large volumes. So far, a successful retail concept, Big Bazaar’s big challenge was to increase footfalls and it realized that getting into food retail was the ideal way to ensure that. Thus, despite being a lower margin business, Big Bazaar entered into food retail in 2001 with its food bazaars to increase footfalls in Big Bazaar and to capture a bigger pie of the consumer spending. Unlike certain positioning which most of the supermarkets try to achieve, Food bazaar follows more of a class-less positioning (Sengupta, 2008) where there is something for everybody. Food bazaar offers a strong value-for-money proposition. Products suit the mass Indian middle class. There is no dominance of any food category. The prices are much lower and compete with the wholesale prices. Food Bazaar brought in a number of innovations in the Indian food and grocery retail business. Food bazaar considers the wet market its competitors and its average store size is 10000 square feet (Sangupta, 2008). Food bazaar believes size is more important that location and it is size, which draws crowds and makes its store a destination centre. Food bazaar was possibly the first to explore the entire gamut of opportunity to increase margins. It went for a higher percentage of private labels in branded categories, a higher proportion of fresh and perishables as compared to other supermarkets, a better negotiation of slotting fees and in-store promotion/advertising support fees from manufacturers due to bigger store size and a bigger store to better spread out its fixed costs (Sengupta, 2008).

3.15.2 Spencer retail (earlier Foodworld)

Spencer’s Retail is a part of the RPG Companies that deals with food, apparel, fashion, electronics, lifestyle products, music and books. It operates through over 350 stores. It also offers services such as gift vouchers and easy loans in association with CitiFinancial Consumer Finance India Ltd. It consists of Spencer’s Hypermarkets, Spencer’s Super, Spencer’s Daily and Spencer’s Express date of establishment 1996.

Spencer’s Retail Limited is a multi-format food-first retailer providing a wide range of quality products to discerning young customers - well-travelled citizens of the
world, looking out for authentic flavors and experiences in a fun-filled shopping environment. Our brand positioning – **Makes Fine Living Affordable** – embodies this approach, delighting shoppers with the best products and services that enable a fine living at reasonable prices while providing them with a warm, friendly and knowledgeable retail environment.

Part of the Rs. 9,000 crore RP-SG Group, we run about 200 stores (including about 30 large format stores) across 45 cities in India, employing more than 7,000 people. As one of the earliest entrants in the retail space in India, we have been instrumental in introducing Indian consumers to the concept of organized retailing, becoming the country’s first grocery chain back in 1920, and offering the joys of hypermarket shopping in 2001.

A “food first” retailer we offer both fresh and packaged foods as well as groceries. We also have a wide selection of electronics and electrical equipment, home and office essentials, garments and fashion accessories, toys, and personal care.

Food world was possibly the first successful food and grocery retail venture in India, which has been set up, backed by a proper market research, to leverage upon the changing environmental conditions. Set up by the RPG group in May 1996, it turned into a joint venture with Dairy Farm International (DFI) of Hong Kong in 1999 and developed into a Rs. 3500m ($83.3m) supermarket chain of 93 stores by about 2002-spread across nine cities and towns mostly in South India (Sengupta, 2008). The joint venture, which operated supermarkets under the name “Foodworld” was terminated in 2006. RPG retained 48 of the 93 stores it owned. These were re-furbished and their launch under the brand name, Spencer. Since inception Spencer’s has been a consumer-centric brand, constantly innovating, pioneering formats, evolving over time but always keeping consumer needs and satisfaction centre-stage. Spencer’s Retail Ltd is India’s leading retailer that operates in multiple formats. The company operates over 6 million square feet of retail space, has over 350 square feet of retail stores across 60 cities in India and employs over 4500 people (Sengupta, 2008).

**3.15.3 Reliance fresh**
Reliance Fresh is the convenience store format which forms part of the retail business of Reliance Industries of India which is headed by Mukesh Ambani. Reliance plans to invest in excess of Rs 25000 crores in the next 4 years in their retail division. The company already has in excess of 560 reliance fresh outlets across the country. These stores sell fresh fruits and vegetables, staples, groceries, fresh juice, bars and dairy products. A typical Reliance Fresh store is approximately 3000-4000 square feet and caters to a catchment area of 2–3 km.

Reliance fresh launched by RIL (Reliance Industries Ltd.) by opening new retail stores in Hyderabad in 2006. The store’s size varied from 1500 sq ft to 3000 sq ft, and stocked fresh fruits and vegetables, staples, FMCG products and dairy products. Reliance fresh aimed at opening stores in the top 70 cities in India within the next two years (2009-11) and attaining sales of $25 billion by 2011 (Pradhan and Mangaraj, 2008). Reliance fresh shelves have provided an indication that the group is looking for higher margins. Most of the staples are under its own private label brand – ‘Reliance Select’.

3.14.4 Shoppers stop

Shoppers Stop is an Indian department store chain promoted by the K Raheja Corp Group (Chandru L Raheja Group), started in the year 1991 with its first store in Andheri, Mumbai. Shoppers Stop Ltd has been awarded "the Hall of Fame" and won "the Emerging Market Retailer of the Year Award", by World Retail Congress at Barcelona, on April 10, 2008. Shoppers Stop is listed on the BSE. In 2011, Shoppers Stop had 97 stores in India.

Shoppers Stop is one of the leading retail stores in India. Shoppers Stop began by operating a chain of department stores under the name “Shoppers’ Stop” in India. Shoppers Stop has 97 stores across the country (with the latest one being the outlet at Kumar Pacific Mall, Pune) including three airport stores.

Shoppers Stop retails a range of branded apparel and private label under the following categories of apparel, footwear, fashion jewellery, leather products, accessories
and home products. These are complemented by cafe, food, entertainment, personal care and various beauty related services.

Shoppers Stop launched its e-store with delivery across major cities in India in 2008. The website retails all the products available at Shoppers Stop stores, including apparel, cosmetics and accessories. Shoppers Stop opened stores in Amritsar, Bhopal and Aurangabad.

Shoppers Stop retails products of domestic and international brands such as Louis Philippe, Pepe, Arrow, BIBA, Gini & Jony, Carbon, Corelle, Magppie, Nike, Reebok, LEGO, and Mattel. Shoppers Stop retails merchandise under its own labels, such as STOP, Kashish, LIFE and Vettorio Fratini, Elliza Donatein, Acropolis etc. The company also licensees for Austin Reed (London), an international brand, who’s men's and women's outerwear are retailed in India exclusively through the chain. In October 2009, Shoppers Stop has bought the license for merchandising Zoozoo the brand mascot for Vodafone India.

In April 2008, Shoppers Stop changed its logo and adopted the mantra "Start Something New mantra. And introduced international brands like CK Jeans, Tommy Hilfiger, FCUK, Mustang, Dior across the stores. The focus of the reposition was on the service, ambience up gradation and customer connect. Shoppers Stop connects with the youth audience through adopting the communication routes relevant to youth, up the fashion quotient through merchandising, and create ambience that connects with the mindset. The brand campaign addresses environment-related issues in a youthful, tongue-in-cheek manner. Shoppers Stop as a brand active on social media marketing platforms with Face book and Twitter to connect with this audience.

3.16 Consumer Behavior

3.16.1 Conceptual background
“Consumer is a human being and a biological organism. There are various dimensions of men. Firstly, man is a diversely motivated and complicated animal. In spite of common characteristics, the behavioral pattern of the one individual is different from another. Secondly, man is an irrational animal; because he/she does not always do what he/she thinks is the best for him/her. Thirdly, man is an interdependent creature. He is a social being and his behavior occurs in relation to some other persons. Social scientists conceive man as a dynamic, striving, purposeful and creative organism” (Sehrawet, 2002).

There are two aspects of a man, “firstly, the outer of physical man, who is a passive organism governed by external stimuli aroused through his five senses of knowledge, i.e. eye, ear, nose, tongue, and skin. Secondly, the inner man, who is controlled by his own consciousness. Human mind is composed of four kinds of thinking processes i.e., conscious, sub-conscious, un-conscious and super-conscious. Neither external nor internal man alone directs/controls his behavior” (Sehrawat, 2002). The human being comes to learn through his senses of knowledge (external), but decision is made by his (internal). Therefore, behavior is the product of both internal and external states of a man.

3.16.2 Concept of consumer behavior

Consumer behavior is synthesis of performance, execution, and effort that an individual produces in the process of buying of goods and services. The conception of consumer behavior is an investigation of consumers makes decision to consume the available resources (time, money, and effort) on consumption related items. It is consortium of what to buy, why to buy, when to buy, how often to buy, and how often to use. “Consumer behavior is simply a sub-section of the larger field of human behavior. Consumer behavior involves the purchasing and other consumption related activities of people in the exchange process” (Zaltman and Wallendorf, 1979).

Consumer behavior research enables better understanding and forecasting not only of the subject of purchases but also of purchasing motives and purchasing frequency
(Schiffman, Kanuk 2004). One of the present fundamental presumptions for the consumer behavior research is the fact, that people often buy products not because of their main function but for their subjectively perceived value. It does not mean that products’ basic function is not important, but that the today’s role of product exceeds its service limits (Salomon 2004). Even more often consumers do not rate products according to their cores (it means the main the main utility provided) but above all according to so-called real product (it means the particular products’ qualities) and the extended product, which represents the set of intangible factors bringing the demanded perceived advantage to consumer – image, consultancy, after-sale service and other (Foret, Procházka 2007). Trommsdorff (2002) however warns of that there are no activities more important for the consumer behaviour research, connected with consumption, than the personal characteristics. According to him the term “consumer” (Konsument) is being used instead of a more accurate one “target customer”, and also the term “consumer behaviour” (Konsumentenverhalten). This conception causes problems afterwards because it must comprehend more personal roles – decision maker, buyer and consumer. Except the conventional conception of consumption being the only instrument of the basic needs’ satisfaction, Solomon (2004) identifies another four different types of consumers’ activities:

- Consumption as an experience (emotive or aesthetic reaction to product consumption),
- Consumption as an instrument of integration (usage and consumption of the product integrates us somehow to the society),
- Consumption as a classification scale (choice of products influences the way how we are perceived by our environment and how we are ranged in the society),
- Consumption as a game.

There are a lot of factors influencing consumer by decision-making process. The literature classifies and structures these factors in various ways. For example division into inner and outer factors (Koudelka 1997), distinguishing three basic categories: personal, psychological and social factors (Brown 2006), to which Kotler (2001) adds the cultural
factors as the independent category. The next group of factors can be labeled as situational factors, it means factors forming the environment of the concrete decision making situation. Because the subject of the analyzed inquiry are factors belonging to groups of personal, psychological and situation factors, in the hereafter text the attention is devoted only to them.

As a personal factors, there are referred the ones unique for each consumer. Above all data like age, sex, place of domicile, occupational and economic conditions, personality and self – consciousness can be found here (Horská, Sparke 2007) Psychological factors include motivation, perception, skills and knowledge, positions, personality, style of life (Brown 2006).

Perception means the adaption of reality. The process of selection, processing and interpretation of input data from the environment to make them purposeful (Brown 2006). Personality is created by inner characteristics and by behavior. This makes a person unique. Personal characteristics influence the way how people behave. It is, however, difficult to find a reliable connection between the individual personality and the behavior type. Consumers’ skills and knowledge are connected to learning and predestinate changes of behavior. Therefore to cause changes of consumer behavior concerning the concrete product, it is necessary to give the adequate information. Learning process can come through a simple association between the impulse and the reaction to it, or through the complicated set of rational activities.

Motive means the inner driving force that orients human/consumers’ activities towards meeting the needs or achievement of the definite aim. In every decision-making process several motives plays role, not only one. In case of need of measuring or analyzing, there is one questionable thing that motives often work only on the subconscious level (Brown 2006). Knowledge and positive or negative feelings influence humans’ perception and consequently decision making and behavior. People learn their bearings through experience and interaction with other people. The eventual changes of positions are conditioned by consumers’ personality and his style of life. Consumer
generally refuses information that is in conflict with his positions, eventually he modifies them to reach correspondence.

**Situational factors** can notably influence purchase decision. Social environment, physical environment of the purchase place, time influences and the previous states fall into this group. (Berkowitz et al. 1992; Vysekalová 2004; Nagyová 2001a). *Consumers’ decision* includes the product (brand) selection from the set of possibilities. Understanding consumers’ decision making includes clarifying answers to these questions:

- Which products (brands) are considered at the selection?
- What information is being used to compare the products (brands) with one another?
- How are these information used?

Selection based on stimulation means selection wherein we can directly compare products, because they are being kept at one’s disposal. Selection based on memory means selection wherein we do not have the possibility to directly compare products. Sometimes purchasing public prefers a simple decision making process instead of the complex solution. Decisions are then made only on the basis of a few criteria. Instead of comparing more characteristics, consumer e.g. decides after price criteria (he comes out from the presumption that a higher price means also higher quality). There is quite a number of other heuristics, except the above mentioned relation price – quality. Strategies based on positions are called the compensatory strategies, which means that good attributes may compensate worse ones. They suppose that the product/brand associated with mostly favorable positions will be chosen.

The application of heuristics based on positions requires a fractional effort. If consumers have not created an attitude towards certain products or brands and are not motivated or able to create their positions, they derive benefits from the decision-making strategy based on the attributes of products or brands. These heuristic strategies are not compensatory because a high score of one attribute cannot compensate a low score on
other characteristics. It means that every attribute is compared separately and compromises among the single attributes stay out in consideration. Lexicography heuristics includes the selection of the best brand/product on the basis of its most important attribute. Lexicography multilevel heuristics issues from a similar principle but at the juxtaposition, however, it is taking score in the definite dull interval as a draw and survey on other characteristics. Connecting heuristics includes setting of the minimal acceptable level for each attribute and the choice of first option that meets these minimal levels in all characteristics. Other options then already are not considered. The influence over the approach to solving of the given situation and purchase decisions is exerted also by the variables like involvement and responsibility. Involvement depends on personal significance or the importance given to the decision, the responsibility reflects need to explain or vindicate our decisions before other people. Both these variables escalate motivation to make a good decision, even if it requested bigger effort and more time. Therefore at the low level of involvement we use rather the easier selection heuristics.

3.17 Customer Buying Behavior

In today’s world purchases made by a customer is to satisfy his or her needs. All the behavioral activities carried out by a customer during and after the purchase of a product are termed so as “buyer behavior”. In this article we will come across the origin of buying ideas, what is buyer behavior, how consumer buy, why consumer buy, types, Decision process and what motives them.

3.17.1 What is buyer’s behavior?

Our economy gets stronger depending upon the wealth of goods and services produced within the country. A huge number of alternative suppliers are present for almost all the products today: substitute products are available to consumers, who make
decision to buy products. Therefore the main objective of the seller is please the consumer at all times. In order to be successful, a seller need to identify the customer, what they buy, when they buy, why they buy and how they buy.

A buyer making a purchase of a particular product or a particular brand can be termed as “product buying motives” and the reason behind the purchase from a particular seller is known as “patronage motives”. When a person gets his pay packet, and if he is educated, along with his wife he prepares a family budget, by appropriating the amount to different needs. It may happen that after a trip to the market, they could have purchased some items, which were not in the budget, and thus there arises a deviation from the budgeted items and expenditure. All these behavioral changes within human beings during the period of purchasing can be termed as “buyer behavior”.

3.17.2 Consumer buys according to his/her needs:

3.17.2.1 Consumer desire is recognized

The first step the consumer determines that he is not satisfied (i.e., consumer’s perceived actual condition) and would be keen in improve his/her situation (i.e., consumer’s perceived desired condition). For instance, internal triggers, such as hunger or thirst, may tell the consumer that food or drink is needed. External factors can also trigger consumer’s needs. Marketers are particularly good at this through advertising; in-store displays and even the intentional use of scent (e.g., perfume counters).

3.17.2.2 Information to be searched

The next step is to undertake a search for information on possible solutions. The sources used to acquire the information may be minimized to the maximum like remembering the information from previous experiences (i.e., memory) or the consumer
may extend considerable effort to collect information from outside sources (e.g., Internet, friends, other buyers etc.). How much amount of effort each consumer directs toward searching depends on factors such as: the importance of satisfying the need, similarity with available solutions, and the time available to collect the information?

3.17.2.3 Options are evaluated after use

Consumers’ efforts may result in a set of options from which a choice has to be made. It should be noted that there may be two levels to this stage. At level one the consumer may create a set of possible solutions to their needs (i.e., product types) while at level two, the consumer may be evaluating the particular product or service (i.e., brands) within each solution. For example, if a consumer wants to replace his 100cc bike with a 150-200cc bike he has got plenty of options like PULSAR, KARIZMA, APPACHE, UNICORN, FZ, R15 etc.

3.17.2.4 Purchase

In most of the cases the solution chosen by the consumer will match with the product. However, this may change at the actual time of purchase. The “intended” purchase may be altered at the time of purchase for many reasons such as: the product is out-of-stock, a competitor offers an incentive at the point-of-purchase (e.g., store salesperson mentions a competitor’s offer), the customer lacks the necessary funds (e.g., credit card not working), or members of the consumer’s reference group take a negative view of the purchase (e.g., friend is critical of purchase).

3.17.2.5 Evaluation after-purchase

Once the purchase is over an evaluation of the decision is made. If the product performs below the consumer’s expectation then he/she will re-evaluate the satisfaction with the decision, which at its extreme and it may result in the consumer returning back
the product. While in less extreme situations the consumer will retain the purchased product but may take a negative view of the product. Such evaluations are more likely to occur in cases of expensive or highly branded products. To help the consumers to ease the concerns with their purchase evaluation, marketers need to be receptive and also take initiative steps to encourage consumer contact. Customer service centers and follow-up market research are useful tools in helping to address the purchasers’ concerns.

3.17.3 Why Consumers Buy

Purchases are made to satisfy the needs of the consumers. Some of these needs are basic and needed for survival, while other needs are not required for survival and vary depending on the purchaser’s taste and preferences. It probably makes more sense to classify needs that are not a necessity as wants or desires. In fact, in many countries where the standard of living is very high, a large portion of the population’s income is spent on wants and desires rather than on basic needs.

For example, in planning for a family vacation the mother may make the hotel reservations but others in the family may have input on the hotel choice. Similarly, a father may purchase snacks at the grocery store but his young child may be the one who selected it from the store shelf. So understanding consumer purchase behavior involves not only understanding how decisions are made but also understanding the dynamics that influence purchases.

3.17.4 Types of consumer purchase behavior

A consumer is faced with purchase decision daily. But not all decisions are given equal importance. Some decisions are more complex than others and thus they require more effort by the consumer. Other decisions are fairly like a routine and thus they require only little effort. In general, consumers face four types of purchase decisions:
1. **Minor New Purchase** – these purchases represent something new to a consumer but in the customer’s mind is not a very important purchase in terms of need, money or other reason (e.g., status within a group).

2. **Minor Re-Purchase** – these are the most routine of all purchases and often the consumer returns to purchase the same product without giving much thought to other product options (i.e., consumer is brand loyalty).

3. **Major New Purchase** – these purchases are the most difficult of all purchases because the product being purchased is important to the consumer but the consumer has little or no previous experience making these decisions. The consumer’s lack of confidence in making this type of decision often (but not always) requires the consumer to engage in an extensive decision-making process.

4. **Major Re-Purchase** - these purchase decisions are also important to the consumer but the consumer feels confident in making these decisions since they have previous experience purchasing the product.

For marketers it is important to understand how consumers treat the purchase decisions they face. If a company is targeting customers who feel a purchase decision is difficult (i.e., Major New Purchase), their marketing strategy may vary greatly from a company targeting customers who view the purchase decision as routine. In fact, the same company may face both situations at the same time; for some the product is new, while other customers see the purchase as routine. The implication of buying behavior for marketers is that different buying situations require different marketing efforts.

### 3.17.5 Consumer Buying Decision Process

“Nothing is more difficult and therefore, more precious, than to be able to decide is” quoted to be the words of Napoleon. This is amply true in the case of consumer too. It
is for this reason that the marketers are bound to have a full knowledge of the consumer–buying decision process.

However the actual act of purchasing is only one stage in this process and the process is initiated at several stages prior to the actual purchase. Secondly even though we find that purchase is one of the final links in the chain of process, not all decision processes lead to purchase. The individual consumer may terminate the process during any stage. Finally not all consumer decisions always include all stages. Persons engaged in extensive decision making usually employ all stages of this decision process. Whereas those engaged in limited decisions making and routine response behavior may skip some stages. The consumer decision process is composed of two parts, the process itself and the factors affecting the process.

3.17.6 Consumer Confidence Level

Consumer confidence is the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. How confident people feel about stability of their incomes determines their spending activity and therefore serves as one of the key indicators for the overall shape of the economy. In essence, if consumer confidence is higher, consumers are making more purchases, boosting the economic expansion. On the other hand, if confidence is lower, consumers tend to save more than they spend, prompting the contraction of the economy. A month-to-month diminishing trend in consumer confidence suggests that in the current state of the economy most consumers have a negative outlook on their ability to find and retain good jobs.

Graph: 3.20
Consumer Confidence in India increased to 82.10 in June of 2012 from 81.20 in December of 2011. Consumer Confidence in India is reported by the Mastercard. Historically, from 1995 until 2012, India Consumer Confidence averaged 64.3 reaching an all time high of 86.6 in December of 2007 and a record low of 34.3 in December of 1997. In India, the twice annual MasterCard Index of Consumer Confidence analyzes prevailing consumer perceptions of economic conditions for the next six-months. Generally consumer confidence is high when the unemployment rate is low and GDP growth is high. Measures of average consumer confidence can be useful indicators of how much consumers are likely to spend.

Consumer confidence is a key driver of economic growth and is widely considered a leading economic indicator of household spending on consumption. Consumers tend to increase consumption when they feel confident about the current and future economic situation of the country and their own financial conditions. In economies such as India and the US, where personal consumption accounts for more than 60% and 70% of GDP respectively, consumer confidence has a particularly significant impact on the economy. Measuring it can provide critical insight into the economy’s growth prospects. Consumer sentiment indices are essential tools used by global investors and will be an immense aid to individual and institutional investors in India.
3.17.6.1 Consumer demand versus Confidence Level

In Consumer demand we measure the percentage of households that will buy a car, white goods, PCs, TVs, home furnishings, kitchenware or toys in, for example, the next three-month period. It provides a percentage of those who will purchase more, less or the same amount of food and clothing in the next three months than in the corresponding period the year before. If you ask people about their purchasing behavior within the coming six or twelve months, there will be more of those who “hope to be able to buy”, than if consumers are asked about what they will purchase in the next three months. The shorter the time spans, the closer to actual behavior.

Consumer confidence measure how people are doing financially, how they look at the overall economy of the country or business conditions in the country, if they think that the government is doing a good or a poor job and if people think that it is a good or a bad time to buy a car or to buy or sell a house.

When the business cycle is fairly stable, consumer demand and consumer confidence will often correlate closely and indicate the same direction of the economy, but in times with a high degree of economic or political uncertainty or during a prolonged crisis, the two might differ significantly. In 2011 the confidence level went up from March to April, while consumer demand level dropped significantly. In August 2011 the confidence level dropped significantly and stayed low during September and October, while consumer demand level showed resilience, a development confirmed later by official statistics.

3.17.6.2 How it is used

Manufacturers, retailers, banks and the government monitor changes in the CCI in order to factor in the data in their decision-making processes. While index changes of less than 5% are often dismissed as inconsequential, moves of 5% or more often indicate a change in the direction of the economy.

A month-on-month decreasing trend suggests consumers have a negative outlook on their ability to secure and retain good jobs. Thus, manufacturers may expect
consumers to avoid retail purchases, particularly large-ticket items that require financing. Manufacturers may pare down inventories to reduce overhead and/or delay investing in new projects and facilities. Likewise, banks can anticipate a decrease in lending activity, mortgage applications and credit card use. When faced with a down-trending index, the government has a variety of options, such as issuing a tax rebate or taking other fiscal or monetary action to stimulate the economy.

Conversely, a rising trend in consumer confidence indicates improvements in consumer buying patterns. Manufacturers can increase production and hiring. Banks can expect increased demand for credit. Builders can prepare for a rise in home construction and government can anticipate improved tax revenues based on the increase in consumer spending.

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