CHAPTER 1
INTRODUCTION

1.1. Indian Economy and Retail Growth

Indian economy is growing around 8-9 percent for the last 3 years and expected to continue or exceed the current growth rate for the next couple of years. Consumption activities are increasing so also retailing activities. Indian retail sector is still considered to be unorganized as 3-4 percent of retailing business is in the hand of organized retailers. However, for last few years organized retail has been growing at around 25-30 percent. By 2010, organized retail is projected to reach USD 23 billion and in terms of market share it is expected to rise by 20 to 25 percent.

The generic growth is likely to be driven by changing lifestyles and by strong surge in income, which in turn will be supported by favorable demographic patterns. Rapid growth in international quality retail space brings joy to shoppers and shopping malls are becoming increasingly common in large cities, and announced development plans project at least 150 new shopping malls by 2008. The number of department stores is growing much faster than overall retail, at 24 percent annually. Supermarkets have been taking an increasing share of general food and grocery trade over the last two decades.

Development of mega malls in India is adding new dimensions to booming retail sector. Shopping experience in the nation of shopkeepers is changing and changing very fast. There is significant development in retail landscape not only in the metros but also in the smaller cities. Even ITC went one step ahead to revolutionize rural retail by developing ‘Choupal Sagar’ a rural mall. On one hand there are groups of visionary corporate working constantly to improve upon urban shopping experience and on the other hand some companies are trying to infuse innovative retail experience into the

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1 KSA Technopak: Consumer outlook for 2005
2 KPMG (2005), Consumer Markets in India –the next big thing?
rural set up. In the rural context retailing activities in the petrol pumps are increasing. Many retailers and petroleum marketing companies are trying to establish tie-ups to increase their presence in the rural markets. Apart from that many are in the process of setting shopping malls in the rural areas.

Retailing activities in the metro cities like Delhi, Mumbai, Chennai, Bangalore, Kolkata and Ahmedabad are picking up very fast. Retailers are testing new formats and new offerings. Comparatively smaller cities (i.e. Nashik, Bhubaneswar, & Bhopal) are into the retailers’ radar for growth and expansion plans. Market attractiveness for these cities has gone up so also real estate prices. Indian retail market is so attractive because of its size that leading global retailers like Wal-Mart, and Tesco are keenly interested to set up their stores in this market. However, in the short term they can only operate either through cash and carry format or tie-up with an Indian partner to open their outlets. In the meanwhile Indian corporate houses like Reliance, Bharti, Birla and Tata Groups are into full fledged retail business operations. In the organized retail Future group is leading from the front with presence across major cities and with wide variety of formats such as Pantaloon, Big Bazaar, Food Bazaar and Central.

1.2. Role of Retailers

Retailer’s role is very important in the whole value chain. It is the last contact point between the producer and buyer. It not only functions as stock holder but also as service provider. Primarily it bridges the gap between consumer expectation and actual delivery of value. In today’s environment consumers have a plethora of options and choosing the best option requires a bit of exercise. A retailer can act as information provider and assist consumer in his decision making process. In a traditional retail store (i.e. Kirana store) consumers seek certain information and the retailer helps to simplify their decision making process to select the desired product. When we say desired product it may not be the right product because of various reasons including lack of variety and product information. But in a supermarket or hypermarket such problems are minimized as consumers are free to choose from wide range of products with
adequate product information available to them. On top of that retailers use various modes of communication tools including point-of-purchase communication to inform consumers to take right decision. Even the retailer uses store lay out to guide consumers in certain directions, and help them save time and make shopping more enjoyable.

In demanding and competitive environment consumers want superior products and services at affordable price at convenient location. But the challenge is that how to serve consumer faster at lower cost. Many global retailers face such challenges in a continuous basis as consumer dynamics keep on changing so also competitive landscape. Indian retailers face much tougher challenge than their global counterparts as they operate with inefficient supply chain networks. Under such circumstances serving the consumers faster, better and at lower cost is difficult but not impossible.

In order to serve the customer faster, better and at lower cost it is imperative that retailers adopt practices that have been quite helpful to retailers all across the globe. Efficient consumer response (ECR) is one of such practices. It has four components: demand side management, supply side management, enablers and integrators. The demand side of ECR is known as category management which includes all of the considerations associated with understanding and managing the demand for products and services. Important components of demand side ECR are optimization of assortments, promotion and new product introduction.

This study focused on practices of category management by Indian retailers. We also explored how category management is adopted by Indian retailers to serve consumers better and deliver desirable consumer value. We tried to explore performance benefits of category management and their impact on the consumers, retailers and manufacturers. However, we focused more on the retailers and consumers than the manufacturers.
1.3. Motivation of the Study

Efficient consumer response (ECR) has been a regularly discussed topic at academic conferences in Europe and US. Particularly in the US category management has been well documented as an industry level phenomenon. Reports on success of category management have been regular feature in the trade journals like Progressive Grocer. Even the trade journal brings out special supplements on category management and category captains. Industry bodies in association with trade journals honour the best performers in this field. One of such award is annual category captain award in the US. Since the first study by Kurt Salmon Associates in 1993 it has been a great journey and several studies reported increasing acceptance of category management among the retailers and manufacturers in the US and Europe. ECR Europe chapter brings out an annual conference to unfold ECR practices all over the Europe. Similarly ECR Brazil, Canada, Australia, and South Africa chapters are doing great job to popularize ECR practices. Asian countries are the latest addition to the ECR movement. Retailers and manufacturers in India have taken an initiative to formulate ECR India chapter. However, the association is not very active due to various reasons. One of the major reasons could be number of large size organized retailers are limited, and manufacturers are still happy to do their business with unorganized retailers as they control over 95-96 percent of retail activities in India. Recently pan Indian retailers started to expand and move from only region-centric operations to national level operations. There has been remarkable growth for retailers like Pantaloon, Subhiksha and Reliance. With organized retail entering the booming phase the Indian retailers started to borrow ideas, concepts and practices prevalent in the other developed markets. That provided great opportunity for all of us.

Indian retail sector in all practical sense is not globalized because of legal restrictions. But in terms of consumer trends, tastes and preference we have global consumer in true sense. Therefore, it is imperative for the retailers to offer quality products at affordable price points at convenient locations. That is where retailers face multiple challenges. Leading global retailers overcome such challenges with continuous retail innovations.
Plenty of such studies are available in the US and Europe. Such studies are rare in India because organized retail sector is at very nascent stage and such practices new to Indian context.

As organized retail is relatively new phenomenon so study on this is comparatively less. Studies have been conducted on store choice (Sinha and Banerjee, 2004), shopping behavior (Sinha and Uniyal, 2005), and shopping orientation (Sinha, 2003). To best of our knowledge there are hardly any scientific and detailed studies on innovative global retail practices in India. Unlike other services sector or industries, retail has not been able to draw attention of researchers and academia. But the situation is slightly changing. Retailers are seeking consultation from external consultants either from renowned business schools or research firms to help them in plotting various retail strategies. In most of the cases these consultants come out with consulting reports which are either formulated as teaching cases or remain as unpublished reports. Most of the cases such research findings not available in the public domain. Hence, we felt there is necessity to explore and conduct in-depth research studies on innovative global practices such as category management in India.

1.4. Objectives of the Study

The study was carried out with following objectives:

- To explore and understand practices and performance of category management by Indian retailers.
- To find out whether they are implementing category management best practices.
- Also to find out the current and potential benefits available to retailers, manufacturers and the end consumers.
- To understand critical factors responsible for the success or failure of category management practices in India.
- To find out barriers to effective implementation of category management.
• To identify ways to overcome barriers to effective implementation of category management.
• To recognize the drivers of effective category management and their role in the overall retail portfolio.
• To develop a framework for effective category management in India.

1.5. Research Questions

Retailers

• Are the retailers in India implementing category management process?
• How are they evaluating performance of each category and what are the parameters used for evaluation process?
• How the benefits are accruing to the retailers?
• What are the challenges faced by the retailers to implement category management in India?
• How to overcome hurdles to derive desired benefits?

Suppliers/manufacturers

• What are the benefits accrued to the suppliers/manufacturers?
• What are the challenges faced by the suppliers/manufacturers to implement category management?
• How to overcome hurdles to derive desired benefits?

Consumers

• What are the expected benefits consumers looking for?
• Is this new process able to meet the consumers’ expectations?
1.6. Sources of Data

We used both secondary and primary sources to collect data. For the secondary sources we extensively used sources like World Wide Web, Online data bases such as Emerald, Ebsco, Euromonitor, Proquest, and physical library especially Vikram Sarabhai library at Indian Institute of Management, Ahmedabd. We refereed many trade journals and academic journals for collecting data pertaining to our study. We also used companies' websites for collecting relevant information. For primary data we relied more on interviews, discussions, and company sources. We visited stores, corporate offices, and made critical observations. We also discussed with shoppers to get their inputs.

1.7. Methodology

This study was undertaken with an important objective to explore and gain insights into category management practices by Indian retailers. We carried out qualitative research for our study. The qualitative research had two phases as described below:

Phase I

In this phase of the study we discussed with experts in the field of category management. Some of the experts are from India and some others are from other countries like US and Germany. These experts are believed to be very experienced and they are from industry and academics. Some of the experts whose opinion we sought at initial stages are Professor Murali Mantral (Missouri University, USA), Professor Abhinandan Kumar Jain (Indian Institute of Management, Ahmedabad), and Mr. K.K Surekha (Independent consultant, Ahmedabad). Some of the industry experts (wanted to remain anonymous) also helped us to get a sense of category management practices in India. Comments and suggestions made by these experts helped us to refine our objective, research questions and methodology. We decided to use case study strategy which is well suited for such kind of exploratory studies.
Phase II

We decided to use purposive sampling for the study. It was important to choose right organizations for the study and we got the guiding information from the first phase of our study regarding organization that could serve our purpose. During initial discussions with experts we got the preliminary information about the organizations/retailers those were practicing category management in India. Also the secondary sources were consulted to know more about the organizations and their status. Initially we selected about 8 retailers for our study but we didn’t get response from all of them. After continuous follow up we were able to get in principle agreement from 4 organizations for the final study but one of those selected organizations didn’t participated in the final study. Towards the end of our study we thought of adding one or two more samples but we realized that such additions unlikely to justify the inclusion because of theoretical saturation. On top of that we had several constraints such as time, cost and data constraints to go for additional cases.

1.8. Scope and Limitations

The study is confined to organized retailers in India. We studied retailers who practiced category management. We used case study method for in-depth understanding of category management practices at three retailers. Deeper understanding of practices at leading retailers was expected to throw lights on current category management practices and their impact on performance of the retailers.

The first limitation is that we did have many retailers practicing category management in India. The second one is that those were using category management were not ready to share information related to category management practices and their performance. The major concern was that the practices were at initial stage or evolving stage. Some of the retailers were using lot of experimentations at the store level. Therefore, they were reluctant to share their thoughts. We experienced that getting permission to carry out research proved to be very difficult and at times promises made by the retailers to
support us but could not materialize. Another important factor which was limiting us that frequent switching of job by employees responsible for category management projects at the organizations under study.

1.9. Contribution

1.9.1. Contribution to Research

This study in a sense helped us to explore innovative global retailing practices adopted by Indian retailers. One of such practices is category management. In India application of category management is a very recent phenomenon compared to western countries. However, we were able to start exploring such practices and trace back some of those practices by India modern retailers. Some of the practices even can be seen in Kirana (mom & pop) stores also.

Continuing any innovative practices is as difficult as adopting it and retailers find such difficulty regularly. Less difficulties are faced at the planning level but more difficulties are found be seen in the implementation stage at the store level. This study would be useful in identifying loopholes implementation of category management and suggest ways to improve.

1.9.2. Contribution to Academics

The study result would be helpful to find out current category management practices in India and develop a framework for easy and effective adoption of category management process. In fact output of this research can be used as base by academic practitioners to carry out large scale studies.
1.9.3. Contribution to Practice

The study results are likely to enable category managers to take better decisions at category level. The framework could be used to faster adoption of category management. The findings from this study would provide additional insight into achieving the desired objectives of category management. There would more insights for category managers to efficiently and effectively allocate or reallocate retail space, promotional funds, and human resource to enhance category performance and store performance.

1.10. Scope for further Research

This can serve as a starting point for further research on category management practices in India. This would lead to future research on adoption and diffusion of category management practices and their impact on retailers’ performance. A separate study on role of supplier in the category management process can be thought of. A large scale study can be conducted on performance of category management practices once the retail sector moves towards consolidation. Such studies would be very useful for retailers, manufacturers and the researchers like us. We are sure that future researchers would be able to collect data through various methods and tools and probably retailers may not hesitate to share data for academic research.

1.11. Preview of Chapters

The broad framework of the study is organized to following chapters. The very first chapter introduces the theme and familiarizes readers with development of category management practices. The second chapter gives an overview of Indian organized retail and development of new formats. The third chapter provides conceptual clarity on efficient consumer response (ECR) and new developments in across the globe. The fourth chapter gives a conceptual and theoretical understanding of category management process. The fifth chapter discusses category management practices by some of the leading retailers in India. The sixth chapter on literature review provides an...
elaborate review of existing theoretical and empirical studies conducted across the globe. The seventh chapter explains research design and methodology adopted for the study. The eighth chapter presents analysis and findings of the study. The last chapter (ninth) presents recommendations and future research directions.

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