

CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

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CHAPTER I

INTRODUCTION

1.1 Introduction:

The globalisation of the Indian economy has brought forward a change in the Indian consumerism psyche with the consumer becoming more aware of his/her value of money strength and their economic purchasing power becoming more evident than in the previous generations. The concept of product quality and service quality which were earlier not very engraved in the consumer psyche are now very much demanded and delivered for in the new age format of organised product retailing in the Indian consumer goods market. These changes have led to the overall increase of professionalism in the service quality as well as shifting of consumer purchase patterns from “need only” based to “extended storage” based bulk purchase characteristics.

These have led to the entry and expression of interest by many global retail majors in the Indian organised retail market wherein many products and services are offered to the same consumer at the same location which present multiple attractions to their monthly disposable incomes. The middle class has been a leading adaptor of this change process by its changing lifestyles, strong income growth and changing demographic patterns which are placing the growth projections for this industry comfortably at 25% annually. Today, synergies based on huge consumer bases developed in unrelated industries like telecom to retail are being seen in the Indian market as the combined purchase affinity of the middle class far outstrips the specialist purchase patterns of the higher income strata in the Indian sub-continent; with the industry projected to become a US\$175-200 billion business by 2016 and the economy playing a comfortable upswing role, the competition in the market place is expected to be fierce.

The present scenario of the industry is focused on forward buying of retail real estate in order to reap balance sheet advantages later in the business cycle and also rapid ramping of operations in presently operating outlets in order that the loyalty purchase habits of consumers are built over a period of time before the world majors enter the market with deeper pockets and buying power. Retail not being limited to

only consumer goods, is further explored in the books, music and gift retail industry, which have picked up pace in transforming from being isolated businesses to being integrated retail locations for all these products which have received good consumer response by way of analysis of the leading participants in this Industry.

Food being a major driver of retail consumption globally has also seen growth and entry of various global fast food chains into India backed by slowly building weekend spending patterns in the metros as well as acceptance of these food habits in the Indian palette. With a double digit growth rate, marketing companies are setting up shops to provide differentiated services to clients. Until recently, salesmen were the link between the retailer and the producer. The disadvantage with sales personnel is that they are busy selling a product and do not have a fair idea of what retailing is about. Today, the focus is to prioritize retail i.e., not only to sell a product to a consumer but to get the consumer to interact with the product. Retailing is no more mere availability of a product. With competition becoming stiffer companies are looking at ‘experiential’ marketing. Also the lack of proper metrics to measure marketing and the quality of service is a serious issue.

1.2 Industry – An Overview:

Industry is referred to economic activities, which are related to conversion of physical resources into useful goods with a high degree of automation and specialisation. It also includes the other commercial activities that provide goods and services such as agriculture, transportation, hospitality, **retail** and many others. Industry can be classified into different categories or levels. The terms for each level originate from Latin words referring to the numbers one to five.

1.3 Classification of Industry:

- **Primary (first):** Primary industries are those which are connected with the extraction or production of raw materials. Extraction of raw materials includes mining activities, forestry, and fishing. Agriculture is also considered a primary industry as it produces “raw materials” that require further processing for human use.
- **Secondary (second):** Secondary industries are those that convert raw materials into usable products through processing and manufacturing.

Bakeries that make flour into bread and factories that change metals and plastics into vehicles are examples of secondary industries. The term “value added” is sometimes applied to processed and manufactured items since the change from a raw material into a usable product has added value to the item.

- **Tertiary (third):** Tertiary industries are those that provide essential services and support to allow other levels of industry to function. Simply called service industries, this level includes transportation, finance, utilities, education, **retail**, housing, medical, and other services. Since primary and secondary levels of industry cannot function without these services, they are sometimes referred to as “spin-off” industries.
- **Quaternary (fourth):** Quaternary industries are those for the creation and transfer of information, including research and training. Often called information industries, this level has seen dramatic growth as a result of advancements in technology and electronic display and transmission of information.
- **Quinary (fifth):** Quinary industries are those that control the industrial and government decision-making processes. This level includes industry executives and management and bureaucrats and elected officials in government. Policies and laws are made and implemented at this level.

1.4 Service Industry:

The tertiary sector of the industry is also called as service sector. The service sector consists of those parts of the economy such as insurance, government, tourism, banking, **retail**, education, and social services. In this sector, people use time to deploy knowledge assets, collaboration assets, and process-engagement to create productivity, effectiveness, performance improvement potential and sustainability. Service industry involves in providing of services to businesses as well as final consumers. Services involve transport, distribution and sale of goods from producer to a consumer. However, the main focus is on people interacting with people and serving the customer rather than transforming physical goods. The major sectors that combine together to constitute service industry are:

- Information Technology
- **Retail industry**
- Trade
- Education
- Financial services
- Media
- Hospitality, accommodation and food services
- Entertainment, culture and recreation
- Transportation and warehousing
- Storage
- Communication
- Healthcare and social assistance
- Tourism
- Public utilities
- Real estate and leasing
- Public administration and defence
- Business support services
- Professional, scientific and technical services

1.5 Organised Retail Industry:

This study focusing on Organised Retail Industry, it has become an experience characterised by comfort, style and speed. It is something that offers a customer more control, convenience and choice along with an experience. Organised retailing is on continuous increase of its market share from the past. Retailing can be categorised as of different sectors like food and grocery, clothing and textiles, consumer durables, footwear, furniture and furnishing, catering services, jewellery and watches, books, music and gifts, mobile handsets, telecom and others. (Dr. Shahid Akhter, Iftekhhar Equbal).

Kirana stores were the first retail formats emerged in India. These stores used to cater to the needs of local people. Gradually government started supporting the rural retail with the help of khadi and village industries, many indigenous franchises

came up. In the 1980s, the Indian economy began to open up, the opening up of the economy brought changes in retailing. The first retail chains introduced were related to textiles sector, for example, Bombay Dyeing, S Kumar's, Raymond's etc. Organised form of retailing was started by Titan with the establishment of exclusive showrooms. As the retail business started growing, many entrants moved on from manufacturing to pure retailing. Retail outlets like Food world FMCG, Planet M and Music World in music, Crossword in books entered the market before 1995. Various shopping malls emerged in the major cities and gradually hypermarkets and supermarkets also emerged. All these started giving a world class experience to the customers. The major segments of Indian retail industry are food, consumer durables, leisure and entertainment, health, beauty and pharmacy, books and music, fashion, accessories, furniture, telecom etc.,

1.6 Global Retail Sector:

The Sales of Global retail sector are estimated to cross US\$16 trillion in 2011. Almost reflecting the growth in the world economy, global retail sales grew moderately in the last five years (2006-10) at a cumulative aggregate growth rate (CAGR) of about 6 per cent per annum (Table 1.1). Though there is steady growth of an average 9 per cent is recorded every year, the impact of global recession on the retail sales market was huge, due to which the retail sector recorded a negative growth of (-)4%. As compared to the global retail sales during the previous five years 2001-05, which recorded a growth of 9 per cent, even the next five years (2006-10) a similar growth is recorded, with the exception of 2009. As usual, grocery dominates retail sales with a share of approximately 40 per cent which varies from about 30 per cent in rich Japan to an average of 60 per cent in poor Africa. Retail sales through modern formats have been rising faster than total retail sales.

Table 1.1: World Retail Sales

Particulars	2001	2005	2006	2007	2008	2009	2010	CAGR 01-05	CAGR 06-10
Total Retail Sales ¹ (US\$ Bn)	7833	11100	11900	13200	14500	13900	14915	9.19	6.23
Nominal GDP (US\$ Bn) ²	32056	45660	49504	55840	61291	58074	63257	9.31	6.56

Source: ¹IMAP's Retail Industry Global Report, ²World Bank Database,

1.7 Organised vs. Unorganised Retail Sector:

The contribution of organised retail sector is about 80 per cent of total retail in developed economies, whereas the developing economies, the unorganised sector dominate the retail business. The share of organised retail varies widely from just one per cent in Pakistan and 6 per cent in India to 38 per cent in Brazil and 56 per cent in Malaysia. Modern retail formats, such as supermarkets, hypermarkets, superstores, discount and convenience stores are widely present in the developed countries, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by mom and pop family-run neighbourhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to these independent family-owned shops and open markets remain a critical part of the supply chain in these countries.

1.8 Spread of Modern Retail Sector in Developing Countries:

The arrival of modern retail in developing countries occurred in three successive phases (Reardon and Hopkins, 2006; Reardon and Berdegue, 2007). The first phase took place in the early to mid-1990s in South American countries such as Argentina, Brazil, and Chile, East Asian Continent countries such as South Korea, Malaysia, Philippines, Thailand, and Taiwan excluding China, North-Central European countries such as Poland, Hungary, and Czech Republic and South Africa.

The second phase happened during the mid to late 1990s in Mexico – the South American Country, Ecuador, Colombia, and Guatemala of Central American countries, Indonesia - a Southeast Asian country, and the Bulgaria of Southern-Central Europe.

The third successive phase has begun in the early 2000s in parts of African countries such as Kenya, some countries in Central and South American countries of Nicaragua, Peru, and Bolivia and in the South-east Asian countries such as Vietnam, China, India, and Russia. Thus, the third phase countries which include China, India and Russia are late comers in the diffusion of modern retail. According to the experts, the main reason why these countries are lagged behind was the severe restrictions on foreign direct investment (FDI) in retailing in these countries. The demand side features of these countries, such as income, size of the middle class, urbanisation, and

the share of women in workforce, etc., are similar to the countries in the second phase. In China and Russia these restrictions were progressively relaxed in the 1990s and in India partially in the 2000s. In January 2006, India allowed foreign companies to own up to 51 per cent in single brand retail joint ventures (JVs), but multiple-brand foreign firms are still barred in retail although they can set up wholesale operations.

1.9 Indian Retail Sector:

Indian retail sector's growth is associated with the growth in the Indian economy. Gross domestic product (GDP) recorded a very low growth of an annual rate of 4.7 per cent per annum during 2001-04, but the growth remarkably rose to 8.7 per cent per annum in the next four years period (2004-07) and maintained almost the similar rate of growth over the next four years period 2008-11 (Table 1.2). This clearly indicates a substantial increase in disposable income of Indian households since the mid-2000s.

A survey on the Market Information Survey of Households (MISH) conducted by the National Council of Applied Economic Research (NCAER), shows that the number of people in the income groups of "aspirers" and the middleclass with annual income ranging from Rs.90,000 to one million, more than doubled from 157 million to 327 million during the period 1995-96 to 2005-06. These figures crossed 340 million between 2006-07 and 2009-10. The data from the Central Statistical Organisation (CSO) indicate that the growth of real private final consumption expenditure shot up to 6.7 per cent per annum during 2003-07 from 4 per cent per annum during 2000-03. During the period 2007-11 this rate is further increased to 7.98 per cent. The growth of retail sales of the country also followed a similar pattern; with a low growth of 4.8 per cent during 2000-03, a smart pick up in the last four years, 2003-07 at around 11 per cent, and continues to be at about 11 per cent during 2007-11.

Table 1.2: GDP, Private Final Consumption Expenditure and Retail Sales Growth 2000 – 2011 (Compounded Annual Growth Rate)

Particulars	2000-01 to 2002-03 ¹	2003-04 to 2006-07 ¹	2007-08 to 2010-11 ²
Real GDP	4.7	8.7	8.21
Real Private final consumption Expenditure	4.0	6.7	7.98
Retail Sales	4.8	10.9	11.4 ³

Source:¹ICRIER REPORT – 2008, ²Tradingeconomies.com Database, ³Computed

A.T. Kearney Inc. the global management consulting firm, annually ranks emerging market economies based on more than 25 macro-economic and retail-specific variables through their Global Retail Development Index (GRDI). India has been ranked as number one up to 2009, indicated that the country is the most attractive market for global retailers to enter. The high economic growth during the last few years raising disposable incomes rapidly, favourable demographics placing incomes on younger population with less dependency, and urbanisation are some of the major factors fuelling the Indian retail market. As per 2011's Report, the rank of India has been pushed down to the 4th place in 2011 (3rd place in 2010). The Latin American countries Brazil, Uruguay and Chile stand above India in GRDI ranking.

1.10 Employment and Output in Indian Retail Sector:

Retail is a labour-intensive economic activity. According to the Economic Census carried out by the CSO in 2005, the country had a total of 14.95 million enterprises engaged in retail trade, of which 7.79 million were in the rural areas and 7.16 million in the urban areas. The total employment in these enterprises in 2005 was 25.14 million of which 11.47 million was in the rural sector and 13.67 million in the urban sector.

However, according to NSSO's Employment and Unemployment Survey for 2004-05, employment in the retail trade has been 35.06 million, divided between rural (16.08 million) and urban (18.98 million) sectors (This is based on the "usual status" definition. Employment based on the "current daily status" is not available for retail trade from the NSSO data). This constituted about 7.3 per cent of the workforce in the country (459 million). Wholesale trade, on the other hand, contributed to an employment of 5.48 million, of which only 1.71 million was in the rural sector and 3.77 million in the urban sector.

The NSSO data also indicated that retail employment was about 30.62 million in 1999-00 with 12.15 million in rural areas and much higher at 18.47 million in the urban areas. This means that an additional employment of 4.44 million was added in this sector during the five year period, 2000-05, showing an annual employment growth of 2.7 per cent per annum. However, it is interesting to note that the retail employment growth has been quite large in the rural sector – there has been a massive rise in employment in rural retailing of 3.93 million during 2000-05, and the urban

sector has also shown an employment growth, but only of 0.51 million during this period.

According to CSO estimates, total domestic trade, both wholesale and retail included, constituted about 15.1 per cent of India's GDP in 2006-07, a successive increase inshore from 13 per cent of GDP in 1999-00. Taking into account the fact that retail trade is more labour intensive than wholesale trade, the contribution of retail trade alone to GDP can be estimated to be around 11-12 per cent in 2006-07.

1.11 Organised vs. Unorganised Indian Retail Sector:

Indian retail is dominated by a large number of small retailers consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called "unorganised retail" or traditional retail.

Organised retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardisation of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail. The last 7-8 years have witnessed the entry of a number of organised retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organised retailing in total retail business has remained low.

Table 1.3 gives the category-wise growth of Indian retail, total as well as the organised sector, in recent years. While total retail sales have grown from Rs. 10,591 billion (US\$ 230 billion) in 2003-04 to Rs. 14,574 billion (US\$ 322 billion) in 2006-07, which is at an annual compound growth rate of about 11 per cent, the organised retail sales grew much more at about 20 per cent per annum from Rs. 350 billion (US\$ 7.6 billion) in 2003-04 to Rs. 598 billion (US\$ 13.2 billion) in 2006-07.

Table 1.3: Growth of Indian Retail Sector – Total vs. Organised

Category	2003-04	2004-05	2005-06	2006-07	CAGR 2004-07 (%)
Total Indian Retail (Rs. Bn)					
1. Food & Grocery	7,028	7,064	7,418	8,680	7.3
2. Beverages	212	309	373	518	34.7
3. Clothing & footwear	777	993	1,036	1,356	20.4
4. Furniture, furnishing, appliances and services	512	656	746	986	24.4
5. Non-institutional healthcare	950	972	1,022	1,159	6.9
6. Sports goods, entertainment, equipment & books	212	272	308	395	23.0
7. Personal Care	371	433	465	617	18.5
8. Jewellery, watches, etc.,	530	610	655	863	17.7
Total Indian Retail	10,591	11,308	12,023	14,574	11.2
Organised Indian Retail (Rs. Bn)					
1. Food & Grocery	39	44	50	61	16.5
2. Beverages	11	12	13	16	14.7
3. Clothing & footwear	168	189	212	251	14.3
4. Furniture, furnishing, appliances and services	67	75	85	101	14.8
5. Non-institutional healthcare	14	16	19	24	20.0
6. Sports goods, entertainment, equipment & books	25	33	44	63	37.0
7. Personal Care	11	15	22	33	46.9
8. Jewellery, watches, etc.,	18	24	33	49	40.5
Total Indian Organised Retail	350	408	479	598	19.5
Share of Organised Retail in Total Retail (%)	3.3	3.6	4.0	4.1	

Source: ICRIER Report 2008

As a result, the share of organised retail in total retail grew, although slowly, from 3.3 per cent in 2003-04 to 4.1 per cent in 2006-07. Food and grocery constitutes the bulk of Indian retailing and its share was about two thirds in 2003-04 gradually falling to about 60 per cent in 2006-07 (Table 1.4). The next in importance is clothing

and footwear, the share of which has been about 7 per cent in 2003-04 and rose to 9 per cent in 2006-07. The third biggest category is non-institutional healthcare whose share has slowly reduced from 9 per cent in 2003-04 to 8 per cent in 2006-07. The next is furniture, furnishing, appliances and services, whose share rose from about 5 per cent in 2003-04 to 7 per cent in 2006-07. The category of jewellery, watches, etc. constituted about 6 per cent of total Indian retailing in 2006-07, rising from 5 per cent in 2003-04.

Table 1.4: Indian Retail Sector – Share of Categories (%)

Category	2003-04	2004-05	2005-06	2006-07
1. Food & Grocery	66.4	62.5	61.7	59.6
2. Beverages	2.0	2.7	3.1	3.6
3. Clothing & footwear	7.3	8.8	8.6	9.3
4. Furniture, furnishing, appliances and services	4.8	5.8	6.2	6.8
5. Non-institutional healthcare	9.0	8.6	8.5	8.0
6. Sports goods, entertainment, equipment & books	2.0	2.4	2.6	2.7
7. Personal Care	3.5	3.8	3.9	4.2
8. Jewellery, watches, etc.	5.0	5.4	5.4	5.9
Total Indian Retail	100.0	100.0	100.0	100.0

Source: ICRIER Report 2008

While the overall share of organised retailing remains low, its share in certain categories is relatively high and in certain other categories quite low. Thus, for clothing and footwear, the share is already in the range of 19-22 per cent, for the category of sports goods, entertainment, equipment and books the share is 12-16 percent, and for furniture, furnishing, appliances and services, the share is 10-13 per cent (Table 1.5). In contrast, the share of organised sector in the largest category of food and grocery retailing, although growing, remains just below one per cent.

Table 1.5: Indian Retail Sector – Share of Organised Sector in Total Retail by Category (%)

Category	2003-04	2004-05	2005-06	2006-07
1. Food & Grocery	0.5	0.6	0.7	0.7
2. Beverages	5.0	3.8	3.6	3.1
3. Clothing & footwear	21.6	19.0	20.4	18.5
4. Furniture, furnishing, appliances and services	13.0	11.4	11.3	10.2
5. Non-institutional healthcare	1.5	1.7	1.9	2.1
6. Sports goods, entertainment, equipment & books	11.6	12.1	14.4	16.0
7. Personal Care	2.8	3.5	4.7	5.4
8. Jewellery, watches, etc.,	3.3	4.0	5.1	5.6
Total Indian Retail	3.3	3.6	4.0	4.1

Source: ICRIER Report 2008

The growth in organised retailing in recent years can also be gauged by the rise of shopping malls as well as the rising number of modern retail formats. In 1999, India had just three shopping malls measuring less than one million sq. ft. By the end of 2006, the country had 137 shopping malls equivalent to 28 million sq. ft. The pace of construction of shopping malls is progressing rapidly and the number of malls is expected to be about 479 by the end of 2008 with a capacity of 126 million sq. ft.

1.12 Modern Retail Formats in India:

- ❖ **Hypermarket:** Typically varying between 50,000 sq. ft. and 1,00,000 sq. ft., hypermarkets offer large basket of products, ranging from grocery, fresh and processed food, beauty and household products, clothing and appliances, etc. The key players in the segment are the RPG Group's Giant (Spencer's) hypermarkets, and Pantaloon Retail's Big Bazaars.
- ❖ **Cash-and-carry:** These are large B2B focused retail formats, buying and selling in bulk for various commodities. At present, due to legal constraints, in most states they are not able to sell fresh produce or liquor. Cash-and-carry (C&C) stores are large (more than 75,000 sq. ft.), carry several thousand stock-keeping units (SKUs) and generally have bulk buying requirements. In India an example of this, Metro Cash & Carry is

the Germany-based company, which has outlets in Bangalore and Hyderabad.

- ❖ **Department Store:** Department stores generally have a large layout with a wide range of merchandise mix, usually in cohesive categories, such as fashion accessories, gifts and home furnishings, but skewed towards garments. These stores are focused towards a wider consumer audience catchment, with in-store services as a primary differentiator. The department stores usually have 10,000 - 60,000 sq. ft. of retail space. Various examples include: (i) Shoppers' Stop, controlled by the K. Raheja Group, a pioneering chain in the country's organised retail; (ii) Pantaloons, a family chain store, which is another major player in the segment; (iii) Westside, the department store chain from Tata Group's Trent Ltd; (iv) Ebony, a department store chain from another real estate developer, the DS Group; (v) Lifestyle, part of the Dubai-based retail chain, Landmark Group; and (vi) the Globus department and superstore chain.
- ❖ **Supermarket:** Supermarkets, generally large in size and typical in layouts, offer not only household products but also food as an integral part of their services. The family is their target customer and typical examples of this retailing format in India are Apna Bazaar, Sabka Bazaar, Haiko, Nilgiris, Spencer's from the RPG Group, Food Bazaar from Pantaloon Retail, etc.
- ❖ **Shop-in-Shop:** There is a proliferation of large shopping malls across major cities. Since they are becoming a major shopping destination for customers, more and more retail brands are devising strategies to scale their store size in order to gain presence within the large format, department or supermarket, within these malls. For example, Infinity, a retail brand selling international jewellery and crystal ware from Kolkata's Magma Group, has already established presence in over 36 department chains and exclusive brand stores in less than five years. Shop-in-shops have to rely heavily on a very efficiently managed supply chain system so as to ensure that stock replenishment is done fast, as there is limited space for buffer stocks.

- ❖ **Speciality Store:** Speciality stores are single-category, focusing on individuals and group clusters of the same class, with high product loyalty. Typical examples of such retail format are: footwear stores, music stores, electronic and household stores, gift stores, food and beverages retailers, and even focused apparel chain or brand stores. Besides all these formats, the Indian market is flooded with formats labelled as multi-brand outlets (MBOs), exclusive brand outlets (EBOs), kiosks and corners, and shop-in-shops.
- ❖ **Category Killers – Large Speciality Retailers:** Category killers focus on a particular segment and are able to provide a wide range of choice to the consumer, usually at affordable prices due to the scale they achieve. Examples of category killers in the West include Office Mart in the US. In the Indian context, the experiment in the sector has been led by “The Loft”, a footwear store in Powai, Mumbai measuring 18,000 sq. ft.
- ❖ **Discount Store:** A discount store is a retail store offering a wide range of products, mostly branded, at discounted prices. The average size of such stores is 1,000 sq.ft. Typical examples of such stores in India are: food and grocery stores offering discounts, like Subhiksha, Margin Free, etc. and the factory outlets of apparel and footwear brands, namely, Levi’s factory outlet, Nike’s factory outlet, Koutons, etc.
- ❖ **Convenience Store:** A convenience store is a relatively small retail store located near a residential area (closer to the consumer), open long hours, seven days a week, and carrying a limited range of staples and groceries. Some Indian examples of convenience stores include: In& Out, Safal, amongst others. The average size of a convenience store is around 800 sq.ft.

1.13 Expansion of Indian Organised Retail Sector by Format:

An analysis of the expansion of Indian organised retail sector in terms of the different modern retail formats is shown in Table 1.6. The total number of organised retail outlets rose from 3,125 covering an area of 3.3 million sq. ft. in 2001 to 27,076 with an area of 31 million sq. ft. in 2006. Small-sized single-category speciality stores dominated the organised retail in the beginning with almost two-thirds of total space

in 2001. Departmental stores came next with nearly a quarter of total space and supermarkets accounting for the balance of about 12 per cent of organised retail space. There were no hypermarkets in India in 2001. Speciality stores are still the most common modern retail format with over a half of total modern retail space in 2006. Supermarkets and department stores occupied nearly an equal space of 15-16 per cent each in 2006. In 2006, India had about 75 large-sized hypermarkets carrying a tenth of the total modern retail space in the country. This format is expected to gain more prominence in the future.

Table 1.6: Expansion of Indian Organised Retail Sector by Format

Format	Average Size (Sq. ft.)	2001			2006		
		No. of Stores	Area ('000 Sq.ft.)	Share in Total Space (%)	No. of Stores	Area ('000 Sq.ft.)	Share in Total Space (%)
Supermarkets / Convenience Stores	1,000	400	400	11.9	4,751	4,751	15.5
Hypermarkets	40,000	0	0	0	75	3,000	9.8
Discount Stores	1,000	48	48	1.4	1,472	1,472	4.8
Speciality Stores	800	2,651	2,121	63.3	20,612	16,490	53.7
Department Stores	30,000	26	780	23.3	166	4,980	16.2
Total		3,125	3,349	100.0	27,076	30,693	100.0

Source: ICRIER Report 2008

1.14 Regulatory Framework:

There had been no specific restrictions on the entry of foreign retailers into the Indian market till 1996. A few foreign players were granted permission for retailing under this earlier regime. However, in 1997 it was decided to prohibit FDI in retailing into the country. In January 2006, however, a partial liberalisation took place in policy in which foreign companies are allowed to own up to 51 per cent in single-brand retail JVs as approved by the Foreign Investment Promotion Board (FIPB). Besides this, foreign companies are allowed in wholesale cash-and-carry business and export trading with 100 per cent equity through the automatic route. Foreign companies with 100 per cent equity can also carry out trading of items sourced from the small-

scale sector and do test marketing of products for which the company has a manufacturing approval under the FIPB route. With regard to domestic regulation, the organised retailer has to secure a number of licenses and clearances from various central, state, and local authorities before it starts its operations. They are related to operations, infrastructure, labour, taxation and other general matters. The number of licenses varies from state to state and it also depends on the type of store format. First, a retailer has to obtain a trade license from the local authority (Municipal Corporation, municipality, or panchayat) which grants permission to carry on the retail business. It has also to obtain licenses from the Agricultural Produce Marketing Committees (APMCs) of each state for procurement and sale of fruit, vegetables, and staples within the respective market areas (mandis) of each APMC. In addition, in case a new building or mall is to be constructed for use in retailing, the organised retailer has to obtain “no objection certificates” (NOCs) from the different state authorities in charge of traffic, electricity, water, fire and pollution control. Zoning restrictions are also applicable to the organised retail outlets which can be setup only on landmarked for the local authority for commercial establishments.

1.15 Service Quality:

The quality service or the things that are considered to satisfy customers today may be different tomorrow. The entire discussion of quality and satisfaction is based on customers’ perceptions of the service not some predetermined objective criteria of what service is or should be.

Service quality assessment focuses specifically on dimensions of service. Based on this view, perceived service quality is a component of customer satisfaction. Service quality is a focused evaluation that reflects the customer’s perception of elements of the service such as interaction quality, physical environment quality, and overcome quality.

Service quality is defined as “a global judgment or attitude relating to the overall superiority of the service” (Parasuraman, Zeithmal and Berry, 1988). In service organisations, customer perceived service quality is considered as one of the key determinants of business performance (Parikh, 2006). The issue of how best to conceptualize and operationalize service quality is still a subject of heated debate (Cronin and Taylor, 1994). However it is generally agreed that service quality is a

multi-dimensional or multi-attribute construct (Cronin and Taylor 1992; Parasuraman, Zeithmal and Berry, 1988). Good service quality means that the customers' perception on service performance meet or exceed their expectations of what the service firm should provide (Parikh, 2006).

The applicability of SERVQUAL in the different culture is to be considered. Donthu and Yoo (1998) found that consumers varied in both their overall expectations with regard to service quality and their expectation of each of the service quality dimensions as a result of cultural orientation.

1.16 Research Gap:

The literature survey for the study indicates that there are many research articles on issues and challenges of retail business. The collected literature on research of retail sectors are focused, escalating competitive advantage, professional services, determinants of service quality, cultural orientation of consumers, Retail Service Quality Scale (**RSQS**), quality dimensions and Relational Management. Many research studies have been done by using SERVQUAL and RSQS measurement scales, service quality dimensions and customer satisfaction. But there are no micro studies on Service Quality dimensions, customer satisfaction and customer perception towards retail services provided by organised retail stores in Bangalore city. This study covers the measuring of individual and specialised services provided by selected organised retail stores and customer satisfaction, customer perception towards Tangible/physical factors, reliability factors, assurance factors, responsiveness aspects, empathy factors.

1.17 Statement of the Problem:

In the last decade, many firms have realised that anticipating, meeting and understanding customer need is probably the most important source of competitive advantage. To gain competitive advantage, it is paramount to focus on improving service quality as a way of differentiation. Smaller retail store in India are seen to be offering more personal service but with inadequate stock and facilities, on the other hand, large retailers are seen as offering better merchandise choice and public amenities with standardised and non-personalised services. In the fast pace of life, people don't have time for shopping at all and encounter great difficulties to shop the product that they need. In fact what people require is that the entire product should be

available under one roof. There are many organised retail stores who have failed in attracting the customer towards them. It is also important to keep in mind that the customers within the organised retailers represent a very broad and unique group of people, where vastly different cultural and social backgrounds are found. This diversity may result in a potential mismatch between consumers “expectations and their actual purchase experiences”.

1.18 Research Questions:

The study is designed to answer the following specific questions:

- a. Are the customers satisfied with services of organised retail outlets?
- b. What is the relationship between the demographic variables and customers perceptions regarding service quality in organised retail outlets?
- c. What is the relationship between availability of variety of brands, assistance from the employees, discounts, billing, and service quality of organised retail outlets?
- d. What is the relationship between service quality dimensions and customer satisfaction in the organised retail outlets?
- e. What is the importance of physical facilities of retail outlets related to service quality?
- f. Are customers satisfied with the service quality of organised retail outlets?

1.19 Objectives of the Study:

The following objectives framed for the study:

- To understand the conceptual framework of organised retail outlets in India.
- To study the relationship between the demographic variables and customers perceptions regarding service quality in organised retail outlets.
- To check the significance of difference between the service quality dimensions and customer satisfaction.
- To measure the satisfaction level of the customers with regard to the various parameters of service quality in organised retail outlets.

- To examine the overall shopping experience of the customers and service quality.

1.20 Hypotheses for the study:

Based on the literature survey, the following hypotheses are formulated for the study:

1. H0: There is no significant influence of age, gender, educational qualification of the customers on their perception about service quality offered by the organised retail outlets.

H1: There is a significant influence of age, gender, educational qualification of the customers on their perception about service quality offered by the organised retail outlets.

2. H0: All the service quality dimensions have no significance influence on overall customer satisfaction in organised retail outlets.

H1: All the service quality dimensions have a significant influence on overall customer satisfaction in organised retail outlets.

- ❖ H2-a0: Reliability dimensions have no significant influence on customer satisfaction in organised retail outlets.

H2-a1: Reliability dimensions have a significant influence on customer satisfaction in organised retail outlets.

- ❖ H2-b0: Responsiveness dimensions have no significant influence on customer satisfaction in organised retail outlets.

H2-b1: Responsiveness dimensions have a significant influence on customer satisfaction in organised retail outlets.

- ❖ H2-c0: Assurance dimensions have no significant influence on customer satisfaction in organised retail outlets.

H2-c1: Assurance dimensions have a significant influence on customer satisfaction in organised retail outlets.

- ❖ H2-d0: Empathy dimensions have no significant influence on customer satisfaction in organised retail outlets.

H2-d1: Empathy dimensions have a significant influence on customer satisfaction in organised retail outlets.

❖ H2-e0: There is no significant relationship between physical facilities of retail outlets and service quality.

H2-e1: There is a significant relationship between physical facilities of retail outlets and service quality.

3. H0: There is no significant relationship between parameters influencing on service quality in organised retail outlets.

H1: There is a significant relationship between parameters influencing on service quality in organised retail outlets.

4. H0: There is no significant relationship between overall shopping experience of the customers and service quality.

H1: There is a significant relationship between overall shopping experience of the customers and service quality.

1.21 Research Methodology:

Scope of the Study:

This study is focusing on one of the retail industries i.e., organised retail industry that extends to the ten major organised retailers in Bangalore city offering different products and services to the consumers. The study does not cover unorganised retail outlets in Bangalore city. The study covers a total of 1,111 respondents (Consumers) from all 10 major organised retail stores in Bangalore city, 111 respondents from each retail outlets.

Sources of Data collection:

a) **Primary data:** The study primarily relies on the primary data which has been collected by administering a structured questionnaire.

b) **Secondary data:** The Secondary data is collected from Research journals and Working papers, Books, reports of various committees on teacher's performance and problems and also various websites.

Sampling:

On the basis of non-probability sampling technique, 10 organised retail outlets and 111 respondents from each mall, a total of 1111 respondents are selected as sample size for the study, by adopting convenience and judgment sampling method. The simple random technique used for selection of respondents.

Sample Size:

Table No 1.7: Details of selected organised retail outlets in Bangalore city and sample size

Sl. No.	Name of the Retail Outlet	Number of respondents
1	Big Bazar	111
2	Easy Day	111
3	Food World	111
4	Maha Bazaar	111
5	More	111
6	Nilgiris	111
7	Reliance	111
8	Spencers	111
9	Star Bazar	111
10	Trendz	112
	Total (Sample size)	1111

Source: Primary Data

As per the sample size calculator, sample size is fixed, if the population is above 1 lakh, sample size must be the 1,111 according to Yamane (1967). On the base of this calculator researcher fixed the sample size as 111 respondents to all selected ten retail outlets in Bangalore city except one retailer wherein the sample size is 112 respondents on the base of simple random sampling technique.

Out of total 1,111 respondents, questionnaires of only 973 respondents' were completed in all respects, and the remaining 138 questionnaires were rejected as incomplete. Table 1.8 shows that, among these 973 respondents, 397 are male respondents remaining 576 are female.

Table 1.8: Gender of the respondents

Gender	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Male	397	40.8	40.8	40.8
Female	576	59.2	59.2	100.0
Total	973	100.0	100.0	

Source: Primary Data

Table 1.9: Respondents most preferred Retail outlet for buying

Name of the Retail Outlet	Number of respondents	Per cent	Valid Per cent	Cumulative Per cent
Big Bazar	98	10.1	10.1	10.1
Easy Day	99	10.2	10.2	20.2
Food World	98	10.1	10.1	30.3
Maha Bazaar	99	10.2	10.2	40.5
More	93	9.6	9.6	50.1
Nilgiris	96	9.9	9.9	59.9
Reliance	95	9.8	9.8	69.7
Spencers	99	10.2	10.2	79.9
Star Bazar	98	10.1	10.1	89.9
Trendz	98	10.1	10.1	100.0
Total	973	100.0	100.0	

Source: Primary Data

The above table shows the results regarding the most preferred retail outlets for buying by the respondents. 10.2% of the respondents prefer to buy in Easy day, Maha Bazar and spencers. 10.1% of the respondents prefer Big Bazar, Food world, star bazaar and Trendz. 9.9% of the respondents prefer Niligiris. 9.8% of the respondents prefer Reliance and lastly 9.6% of them prefer More. From this observation it is concluded that Easy day, Maha Bazar and Spencers are the most preferred retail outlets for buying. Whereas the least preferred is More.

Pilot Study:

A pilot study was conducted using the questionnaire among the hundred respondents from the Bangalore city with selected organised retail outlets. The collected data from the hundred respondents were studied in detail with the variance

reported, to incorporate changes in the questionnaire. Thus, a Reliability Analysis was done on the responses pertaining to dimensions of service quality, based on a number of statements recorded on a five-point scale. The classical Chronbach Alpha Model for reliability was attempted. The procedure started with all the statements considered and sequentially eliminating those statements, whose elimination might improve the Alpha value.

Table No 1.10: Reliability Variables

Reliability Variables	Chronbach Alpha
Reliability of shopping	0.781
Responsiveness of the service provider.	0.812
Communication of the service provider.	0.813
Empathy in dealing.	0.842
Excellent tangibles.	0.832
Competence in overall service delivery	0.752
Excellent service from the employees.	0.814
Required service delivered to meet the expectation.	0.901
Prompt and perfect service	0.782
Complete service provided.	0.817

Source: Primary Data

Based on the Chronbach Alpha of every elements affecting Service quality and customer satisfaction, it can be seen that all the above variables are highly reliable for measuring their relation with Job satisfaction (Alpha value >0.7 in all cases).

Tools used for data analysis:

The primary data collected from the 973 respondents were coded, classified and analysed using Statistical Package for Social Sciences (SPSS Version 20).

The tools used for analysis of primary data were cross-tabulation, descriptive statistics like arithmetic mean, standard deviation, variance, frequency etc., The tools used for hypothesis testing include Independent sample t-test, one way ANOVA, Three way ANOVA (Univariate analysis), step wise Multiple linear regression model.

1.22 Service Quality Measurement tool:

The retail environment today is changing more rapidly than ever before (Dabholkar, 1996). It is categorised by escalating competition from both domestic and foreign companies, a series of mergers and acquisitions, and more sophisticated and demanding customers who have great expectations related to their consumption experiences (Sellers, 1990; Smith, 1989). Consequently, retailers today must differentiate themselves by meeting the needs of their customers better than their contenders. There is general agreement that a basic retailing approach for creating competitive advantage is the delivery of high service quality (e.g., Berry, 1986; Hummel and Savitt, 1988; Reichheld and Sasser, 1990).

Since services are intangible, heterogeneous, and inseparable, it is difficult to measure service quality objectively. Over the years, many researchers have proposed and evaluated alternative service quality models and instruments for measuring service quality. Among these models, SERVQUAL (Parasuraman, Zeithaml and Berry, 1985) is the most prominent and the most widely used. The authors of this model proposed that the consumer's opinion of quality is formed by an internal comparison of performance with expectations. Good service quality means the customers' perceptions of service performance meet or exceed their expectations of what the service firm should provide. Through in-depth interviews and focus group discussions with firms in four different service industries, Parasuraman, Zeithaml and Berry (1985) identified five determinants of service quality which include tangibles, reliability, responsiveness, assurance, and empathy.

The SERVQUAL scale has been widely used to measure service quality in different service contexts, such as professional services (Freeman and Dart, 1993), health care (Lam, 1997), tourism (Tribe and Snaith, 1988), business school (Pariseau and McDaniel, 1997) and information systems (Kettinger and Lee, 1994). It has also been widely tested for its validity and reliability (Babakus and Boller, 1992; Bolton and Drew, 1991; Cronin and Taylor, 1992, 1994). In spite of the fact that some of these studies failed to support the five-dimensional factor structures, Parasuraman, Berry and Zeithaml (1993) defended the five-factor structure of service quality on conceptual and practical grounds.

Although the SERVQUAL instrument has been applied in the study of service quality for many different types of services, it has been the subject of a number of criticisms. However, it is generally agreed that service quality is a multi-dimensional or multi-attribute construct. The generalizability of SERVQUAL in different service industries has also been questioned. The applicability of SERVQUAL across different cultures is also an issue as SERVQUAL was developed in a Western environment and, due to cultural differences; it is likely that cultural factors will influence its applicability.

RSQS was applied in a departmental store chain in Hong Kong by Siu and Cheung (2001) to explore its usefulness and concluded that six service quality dimensions were identified viz., reliability, personal interaction, problem solving, physical appearance, promises and policy.

The basis on which overall marketing concept stands is on the identification and satisfaction of customer needs leading to improved customer retention. Studies show varied definitions for the concept of satisfaction. Bloemer and Ruyter defined store satisfaction as the outcome of the subjective evaluation that the chosen alternative the store meets or exceeds expectations. This definition is based on the expectancy disconfirmation paradigm. According to this paradigm, satisfaction results when customer expectations confirm the perceived store performance. Dissatisfaction occurs when customer expectations disconfirm the perceived store performance. A number of authors view satisfaction as end-state-types: satisfaction-as-contentment, satisfaction-as-pleasure, satisfaction-as-relief, satisfaction-as-novelty and satisfaction-as-surprise. Store loyalty is being increasingly recognised as the ultimate objective of the store satisfaction measures. It is argued that higher the customer satisfaction, more will be the loyalty of customers to a store and higher the customer protection from competition. While there has been debate as to whether different degrees of satisfaction have a stronger influence over the obtainment of loyalty, it is generally accepted that customer loyalty is determined to a large extent by customer satisfaction.

Service quality is considered as the most important organisation performance indicator both at the marketing literature generally and the service marketing literature specifically. A number of models of service quality have emerged in the literature.

Two important service quality models are those of Gronroos and Parasuraman et al. Several authors have included service quality in their models to explain loyalty or retention. These authors strongly believe that service quality positively affects important behavioral outcomes such as loyalty. Zahorik and Rust argue that modeling perceived quality as an influencing factor of customer loyalty will provide significant diagnostic ability to any framework that includes customer loyalty as a dependent construct.

In most service industry marketing literature, perceived service quality captures the spot light, while perceived merchandise quality is absent. For most industries providing, intangible services and tangible goods, these two forms of products both play important roles in consumer satisfaction and loyalty. Although, a considerable amount of research is done in the field of service quality and product quality, there has been less research, if any, that has taken both service quality and product quality into consideration simultaneously.

1.23 Chapterisation Scheme:

The research report has been divided and presented in 6 chapters.

Chapter I: Introduction:

Chapter I provide a detailed discussion on the problem of research, objectives of the study, hypotheses for the study, methodology of the study including the source of data and the tools and techniques used, limitations of the study and chapterisation scheme.

Chapter II: Review of Literature:

Chapter II discusses the review of the related studies. These past research studies are classified as six important segments on the basis of service quality and customer satisfaction with different factors of organised retail outlets. These past research studies comprises of both national and international level.

Chapter III: Service quality of organised retail outlets:

A theoretical perspective focuses on the discussion on the theoretical aspects of service quality and importance of customer satisfaction.

Chapter IV: Indian Retail Industry – An overview:

This chapter deals with the overview of retailing in India and profile of organised retail outlets in Bangalore city.

Chapter V: Data analysis and Interpretation:

The analysis of demographic profile and rational opinion of the sample respondents are discussed in this chapter.

Chapter VI: Findings, Suggestions and Conclusion:

The final chapter offers the summary of findings, suggestions and conclusion of the study.