CHAPTER 1
INTRODUCTION

1.1 Prelude

Retailing is a kind of distribution activity in which one firm (Retailer) purchases from the suppliers or manufacturers and sells it directly to consumers with a defined profit. These processes are considered as business activities involved in selling goods and services to consumers for their personal, family or household use (Bermon and Evans 2001).

Globalization has paved the way for many industries to accelerate its growth trajectory and retailing is said to be one such industry exhibiting the highest potential to induce growth. The emergence of global market coupled with IT revolution has fuelled the growth of retailing across the world. Retail sector development has shown two varied progress to the world. One, developed countries or western countries have shown a matured stage (Like most prominent industry) due to heavy growth of modern retailing. And other countries market, so called emerging market (Like sun rise industry), has shown tremendous growth for modern retailing. The maturity of core markets, the erosion of traditional shopping patterns through urbanization, social and demographic changes of developed markets, have stimulated several major players to focus more on establishing a presence in developing markets (Euro monitor 2005, Planet Retail 2006). According to A.T Kearneys' (2007) Global Retail Development Index (GRDI), India was ranked as the most attractive destination for retail investment, being the world's largest unexplored retail market. Indian market is also the least competitive as well as least saturated of all major global markets. In
terms of competitive landscape, India has low entry barriers for foreign retail players than the other countries.

Retail industry in India is segmented into organized (modern retail stores) and (traditional) unorganized retailing. India is basically known as 'nation of shop keepers' in the world due to the presence of more than 13 million retail outlets, being the highest shop density in the world, with an average store size of about 50 -100 square feet.(Dun and Bradstreet (D&B) research 2008).

1.2 Traditional Retailing (Unorganized Retailing)

Unorganized retailing or neighborhood retailing or convenience store is a traditional feature of the Indian retail scene. Traditional retailing is typically small family business (D’Adrea et. al., 2006, Bianchi 2004) linked with local culture (Goldman et. al., 1999) and non organized distribution. These stores are performing various functions like social meeting place, points of exchanging of information and serve as socially integrated units beyond buying – selling activity. A typical Indian household will make regular purchase on several times per month viz., rice, wheat lours, pulses, edible oils, ghee (clarified butter), condiments, spices, pickles, noodles, nack food, jams and jellies, ketchup and sauces, Indian consumers traditionally purchase their daily fresh food needs (fruits, vegetables, milk, dairy products, meat and meat products) from neighborhood stores / "mom and pop" stores (or kiranas) because of convenience, perceived freshness, limited refrigeration and lack of storage space at home.

1.3 Organized Retailing (Modern Stores)

The organized retail (modern store) penetration (ORP) is found to be of 3 per cent to 4 per cent in India consisting different categories like footwear 22 per cent,
clothing 12 per cent, books and music 9 per cent and the least being is 1 per cent for food and grocery. This shows that, potential for huge growth exists in food and grocery category and becomes a cash cow segment in retailing for domestic corporate and foreign investors. The question before Indian government is whether to allow foreign investors (FDI) for retail or not. The present study explores the concerned issues and the results will pave way for an informed decision of the government and policy makers. According to the study conducted by Images Retail (2008), the market size of organized retail for the year 2007 was US $271 billion (₹1,330,000 crore). Of this, the food and grocery (branded and unbranded, staples etc) constitute around 60 per cent followed by clothing and accessories with 10 per cent, eating out 5.4 per cent, jewellery 5.2 per cent, consumer durable 4.3 per cent, mobiles and accessories around 2 per cent and other products account for the rest of the pie.

1.4 Food and Grocery Retailing in India

The Indian consumers, being in a fast growing economy, spend a larger share of their income on food. The food retail sector is largely dominated by unorganized players (Kirana shops/ mom and pop shops/neighborhood and convenience retailing) in India. According to National Sample Survey Organization (NSSO) report on household consumer expenditure in India, “out of every 100 rupee spent in 2006-07 by the average rural Indian on household consumption, 51 rupees was spent on Food and 49 rupees on non food items. But the average urban Indian spent 39 rupees on food, spending smaller portion of household expenditure in every food category excepting, beverages, refreshments and processed food”. According to McKinsey report (2007), the share of an Indian household’s spending on food is one
of the highest in the world, with 48 per cent of income being spent on food and beverages.

The following studies stress the importance and significant contributions of food and grocery retailing in India, wherein the majority outlets delivering food and grocery situate in metro and mini metro cities. Chatterjee Purvita (2009) reports that, according to KPMG report on retailing in India, it was pointed out that the value of Indian food and grocery market was US $236 Billion and this food and grocery segment constituted about 60 per cent of total retail sales. Surprisingly it was found that majority of these sales emanate from unorganized retail outlets.

In India, food sales are the largest segment of retail industry. There are around 3.7 million food retail outlets with an estimated turnover of Rs 7400 billion (Chengappa et al., 2007). Food retailing in India is, by and large, unorganized, highly fragmented and predominantly small, family owned businesses (Singh, 2007). About 78 per cent of these shops function with only family labour. Nearly 96 per cent of the food outlets are small with less than 500 sq ft area. Unorganized food retail segment consists of kirana shops, selling dry food products, and fruit/vegetable shops and hawkers (pushcart vendors) selling wet food products. As the unorganized retail outlets are under-capitalized, these are not able to cater to the fast changing consumer demand for value-added services, thus providing the edge to the organized retail sector.

1.5 Background of the Research in Chennai Metropolitan Area (CMA)

The retail industry is not an exemption like any other industry without flaws. The retail sector is not recognized as an industry by the Indian government, though it
pies second to agriculture in terms of contribution to GDP as well as provides employment for masses. Since it is not recognized as an industry, the small scale retailers are facing problem like expansion of their business, availing loan from the banks etc. The modern retailers too come across different challenges like rigid regulations from the government, high real estate costs, high personal costs, lack of basic infrastructure and above all competition among themselves.

This research primarily aims to find out the impact of modern retailing on traditional retailing business in Chennai Metropolitan Area (CMA). Along with that, the thesis traces the retail sector scenario of world, followed by BRIC economies, and then finally it ends up in Indian retail environment. Since the concept of FDI and employment plays a major role on the retail environment, the thesis addresses those issues relevantly. Second, to analyze the factors causing switching over of consumers from traditional retailers to modern store retailers. In that part, what attracts them to be stick to the modern store retailing also discussed.

1.6 Statement of the Problem and Research Questions

The traditional retailers are surrounded by different set of problems, and modern retailing has added one, among the different problem, which traditional retailers have to tackle differently. Nevertheless, though this problem is an universal one, there is no any tailor made solution available. These corporate backed modern store retailers are not only posing a big threat to the traditional retailers, but also are offering possibility of foreign firms entering into retail environment which will boost and propel them in a bigger way. Consequently, these traditional retailers are unable to run their business, which tend to be very important for Indian economic and business environment. Hence it is felt necessary that the survival of traditional retail
stores should be examined in the changed retail business environments with the following questions.

a. Expansion of the modern retailing in India - Whether will it create positive impact on the economy as compared to traditional unorganized retailing? This question leads us to explore the sensitizing factors affecting traditional retailing.

b. The modern retailing may become an order of the day in the near future. In this turbulent business situation, will it create employment potential in big way as compared to traditional retailing? Since modern retailing can provide different forms and nature of employments, the traditional small retailers may be wiped out of the market and the problem before us is whether employees of the unorganized sector who do not have the necessary skills/ education can be absorbed in the organized sector or not (Kalhan 2007).

c. Sinha and Banerjee (2004) identified factors that influenced consumer's choice of a store. There are good numbers of reasons like life style changes, increased disposable income etc., paving the way for consumers to switch over to modern retailing from traditional retailing and get addicted.

Due to the emergence of modern retailing, once again the concept of consumer dynamics has become pivotal discussion on the part of retailers. Due to the availability of more choices and value shopping, it is necessity on the part of the retailers to decode the consumer's preference for shopping attributes. The consumer's
change of taste and preferences and factors causing switching over to modern retailing are:

a. The first and foremost factor is young Indian population of more than 31 per cent, which is said to be a big asset for modern retailers to propel and progress well.

b. Next factor in the pipeline is the proportionate growth of middle income class that is expected to grow more than 25 per cent of total households accounting for 44 per cent of the total disposable income.

c. Increased per capita income of Indians makes the modern retailers to sit in a comfortable position.

d. After leading the IT bandwagon, India is poised to grow as a retail hub due to fast and positive progress made by the vibrant economy. The spread of visual media and impact of technology are contributing much towards informing prospective consumers about various goods, thereby creating demand for modern day shopping.

e. Consumer response time (CRT) i.e., time taken for the consumer to respond to the environment is high for Indian consumers. The change in lifestyle pattern, exhibited by consumers make the modern retailer to progress their target soon.

f. And other set of factors like growing urbanization, increasing literacy rate varied assortment availability and some demographic factors like growing nuclear family and dual income families are making the modern retailers to flourish.
Additionally changes in government policy on FDI in retailing will add further challenges to the traditional retailers. Since the contribution from the unorganized sector in the economy was a significant one, any decision on FDI and its outcome will be have very big impact on labour unrest, and it may lead to economic instability in the country. So these events and rapidly changing retail environment posit even bigger hurdles for the traditional retailers.

1.7 Justification for the Research

Cronholm and Hedlund (2006) argue, for the future, that higher income levels of consumers lead to an increased demand for new services within the retail sector. However, they point out that there will be still a demand for low-priced goods for consumers on the other side of the income spectrum. What these new services demand and entail depends on the retailers' ability to interpret various kinds of market signals as for example, changing consumer behavior and preferences, new technology or demographical change. They believe that demand for specialized goods and services will increase. Strikingly, when we search the literature of retailing, it warranted for further research in this particular area in general (Hultén, 2007; Cronholm and Hedlund, 2006; Prochazka and Bergström, 2006; Bergström et al, 2004) and on small sized retail enterprises in particular (Runyan and Droge, 2008; Lewis and Cockrill, 2002). Timmerman et al., (2008) stresses four different topics of research for which he argues that there is a need for future research. The topics are strategic retailer behavior, retailing and the civic society, social network retail marketing and augmented reality. Retailing research in the country is in nascent stage. The research pertaining to retail industry with focused reference to both form of retailing is lacking in our country. One explanation for this could be that research within the retailing industry, in contrast to the manufacturing industry, is traditionally not considered glamorous enough (Runyan and
Droge, 2008; Hultén, 2007). Furthermore, a plausible explanation from a society point of view is that rarely bought commodities are more easily accentuated to consumption of luxury goods, than that of every day commodities, and therefore might not be considered as equally necessary (Hultén, 2007). It is derived that, small traditional retailer's survival in these market along with modern retailers is problematic and cannot be ignored under any circumstances.

1.8 Significance of the Study

Small scale retailing is a normal phenomenon for any country which is contributing towards the business development and economy. And country like India, this small scale retailing plays a vital role towards the development and is consistent with growth of economy. The external factors of any business cannot be predicted and small scale retailing is no exception to that. The Political, Economical, Social and Technological (PEST) factors are playing a predominant role and these factors make the small scale retailing to have a tough game in the business environment. In addition, these changes have placed increasing pressure on businesses, with smaller firms experiencing difficulties during the first three years of existence following start-up (O'Dwyer and Ryan, 2000).

In these circumstances, in which these new retail formats are growing at a rapid pace in India, there remains a need among Indian businesses to understand the changing behaviour of consumers towards shopping in these organized retail outlets. Also, due to the limited success of these outlets, it is necessary for retailers to be aware of shoppers' motivations and to understand ways of attracting the consumers (Sinha and Banerjee, 2004). Till date, there has been very limited research on the
shopping habits of consumers in the less developed economies of the world, India being one of them.

There have been many motivations for me to choose this topic for my dissertation. Firstly, there have been massive changes in the demographic factors of the Indian consumer. Some of the factors include income and consumption growth, increasing literacy levels, changes in family structure and women’s role in the family, growing role of children as influencers, gradual acceptance of frozen goods as a viable alternative to fresh produce and the growing influence of TV. These factors have been a driving force of organized retailing in India which has further driven the growth of the real estate industry with more and more demand for retail space within malls and other formats.

1.9 Relevance of the Topic from Academic and Industry Perspective

From the academic perspective, the topic chosen aims to understand the retail environment in the country, since the concept of retailing is in nascent stage. The outcomes are formulated based on the relevance of the topics, since the importance of traditional retailing, and their contribution to the economy and other aspects are significant for the current business scenario. Being a universal problem, and the aspects in which Indian context is different from the rest of the world is significant one from the academic point of view.

The emerging concept of modern retailing backed by corporate firms and expected entry of MNC’s in retailing will furthermore give an insight look into the retail sector. Indeed the relevance of the topic resides on the widespread practical and
From the industry perspective, the topic chosen is important in many aspects. The traditional retailer's research in the country was not conducted in big way, and it lacks in many aspects. Specifically, this research concentrates the CMA, whereas academic and business research into this geographical area with special focus on food and grocery segment was lacking and there was no information about these enterprises in any government records and very loosely connected associations, which are really helpless to come forward and assist in the case of any problem for the retailers. In the other end of thesis, the impact on modern retailing on deeply rooted and socially integrated family owned traditional retailing is aimed at. This is highly debated topic of India today since the issue emerging out of entry and growth of modern retailing may render self employed unorganized retailer unemployed. The research on these issues is of national importance and the outcome of the studies will be of much use to government and policy makers in India.

1.10 Research Approach

This research has evolved in three phases. The first phase involved in the discussions with expert who are involved in retail industry. This includes main discussions and consultations with Chennai corporation, Department of Health and Family Welfare (Government of Tamil Nadu), Ambattur, Poonamallee, Tambaram municipalities, Various traders associations (Chennai), Aavin, Tamil Nadu government Civil supplies department, Animal husbandry and Poultry development corporation(Tamil Nadu),2001 population census and Economic census of Government of India (2005). Beyond that, reports like A.T. Kearney,
Euromonitor report 2005, Planet retail report 2006, National Sample Survey Organization, Dun and Bradstreet group research were referred to find the exact position of the industry and the nature of the market.

The second phase includes the field survey which was designed and data gathered by structured questionnaire in order to obtain data for the research. Information consist of traditional retailers, their existence in the market, business prospect, investment they made, sales of different product categories and other aspects which are relevant to the study. In the consumer’s perspective for switching over phenomenon, what attributes make them to come for modern retail stores coupled with factors which are responsible for modern day shopping were added.

The third phase includes the analysis and processing of gathered data in order to get meaningful solutions for the stated objective. Finally from all the above phases, a meaningful conclusion were derived so as to arrive at things to be considered for encouraging or discouraging the growth of modern retail stores in the context of traditional retail industry and their survival.

1.11 Chapter Scheme

Chapter 1 Introduction will introduce the research area and background of the study. Also this chapter outlines the importance of food and grocery retail particularly in Chennai metropolitan area as the research focus is restricted to this segment.

Chapter 2 is Literature Review, sets the academic eye opening for the research. It contains the status of traditional and modern retailing in the developed and
developing countries particularly focusing development in India. The other part of the literature brings out the shoppers preferences of consumers of modern stores. This section enlists various factors taken into account, the range of assortments provided by the retailers and the services offered by them to the shoppers.

Chapter 3 describes the Global and Indian Retail Landscape (Including BRIC Countries and Chennai CMA) focusing along with Chennai Metropolitan Area Retail Market, being the area of research for the present study.

Chapter 4 is dealing with identify the research questions and description of the suitable Methodology. It explains the rationale for the study, objectives, hypotheses, sample frame, data sources and limitations of the study. A brief outline of all the tools and techniques used for data collection and statistical analysis, time frame of the research and design of the study are furnished.

Chapter 5 is the Impact of Modern Retail Stores on Traditional Food and Grocery Retail Stores in CMA (Survey Results and Discussions) deals with Empirical analysis, interpretation and reporting the findings of the retailer interviews and discussions on the reasons for the changes in consumer shopping habits and factors that lead the switching over from traditional retailing to modern store retailing. Both the viewpoints given by the consumers and retailers are depicted for drawing the findings and conclusions.

Chapter 6 is the Summary, Conclusion, Policy Implications and Recommendations. It also summarizes the present study and outlines the recommendations for the State and Central Governments towards various aspects concerning the traditional and modern retailing.