CHAPTER – 1

Introduction

1.1 Background
The Indian retail Industry is the largest among all the industries, accounting for country’s 10 per cent GDP and around 8 per cent of employment. The retail industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behaviour, ushering in a revolution in shopping, in India. Modern retailing has entered into retail market in India as is observed in the form of bustling shopping centers, multi storied malls and huge complex that offer shopping, entertainment and food all under one roof. In this study, the term “format” is used synonymously to refer various retail formats and terms “customer/s, consumer/s and shopper/s” are being used interchangeably to refer the synonymous. Henceforth this chapter presents an overview of world retail sector with special reference to retail format scenario in America, the developed economy, Chinese experience, the legend of Asian economy and also analysis the current retail sector scenario in India. It attempts to discuss the retail formats and prospective area of research; conceptualizing the research model. The chapter plan of the thesis and summaries of the main issues in these chapters are provided to bring out the rationale behind this method of organizing the thesis.

1.2 The Global Retail Market:
The global retail sector is headed for a slowdown with economic recession becoming reality in many economies of the world. Retailers world over, will lead to adapt their strategies in response to the same. Moreover, the maturing of many markets and aging of consumers in many economies has also triggered retailers to think their strategies. At the same time, the emerging markets of China and India have begun a rebalancing of the global economy that will have a huge impact on the global retail market. The significance of retail in the world economy can be gauged from the fact that the largest corporation in the world- Wal-Mart is a retail chain. The retailers who feature in the list of global Fortune 500, in year 2007 are depicted in Annexure I.
The significance of retail is apparent not only from its contribution to various economies but also by the level of employment generated by the industry. In India, where organized retail is just beginning to make its presence felt, it already contributes close to 7-8 per cent of the employment. In the developed markets, organized retail controls a significantly higher portion of trade as compared to that in a country like India. Food and grocery constitutes the largest segment of retailing and also forms a significant part of the trade of the key global retailers.

The world of retail is fast changing one and calls for constant evolution on the part of retailer. A retailer not only needs to keep up with the ever changing expectations and demands of the consumers also needs to keep track of the competition, the changes in technology and socio economic climate of the nation that he is operating in.

As stated earlier, till a few years ago, the American economy fueled economic growth in many parts of the world, but an economic slowdown has forced many retailers to start looking at other economies. Rising fuel prices have also had a negative effect on the rapid expansion of the trade in various parts of the world. Retail at the global level, is a reality, which has to be understood and faced by retailers. Globalization is gradually emerging as an integral part of the retail strategy of many retailers. (Pradhan, 2009)¹

1.3 Overview of Indian Retail Sector

By the turn of the 20th century the face of the Indian retailing industry had changed significantly. The retailing industry which until the early 1990s was dominated by the unorganized sector, witnessed a rapid growth in the organized sector with the entry of corporate groups such as Birlas, RPG, ITC, Reliance and Bennett Coleman & Company into the retailing market.

With the liberalization and growth of Indian economy since the early 1990s, the Indian buyer witnessed an increasing exposure to new domestic and foreign products through different media, such as television and the internet. Apart from this, social changes such as increase in the number of nuclear families and the growing number of working couples resulting in increased spending power also contributed to the increase in the Indian consumer’s personal consumption. These changes had a positive impact, leading to the rapid growth in the retailing industry.
Chapter 1 Introduction

Food retailing was key area that saw some action at the national level, with players like Food World and Reliance Fresh establishing stores all over India. While supermarket and departmental chains replaced traditional grocery and general store formats, introduction of fast foods (McDonalds), packaged foods (MTR, Namma MTR), vending machines and specialty beverages parlors (Nescafe, Tata Tea, Café Coffee and Barista) brought significant changes in the eating habits of Indian consumers.

However, it was the non-food sector that saw tremendous action, with the introduction of new product segments. These segments mainly comprised lifestyle/ apparel/ fashion/ accessories (e.g. Shoppers Stop, Westside, Lifestyle, Pantaloons, Reebok), books/ music (Landmark and Crosswords), drugs & pharmacy and beauty (Health and Glow, CavinKare and Shahnaz Hussain). The emergence of new segments also resulted in new store formats, including hyper marts, large supermarkets (3,500-5,000 sq. ft.), mini supermarkets (1,000-2,000 sq. ft.), convenience stores (750-1,000 sq. ft.) discount/ shopping/ grocer.

The realization of customer’s growing awareness and need to meet changing requirements and preferences on account of changing lifestyles also contributed to the formulation of customer-centric strategies. HUL led the way revolutionizing the product, market, distribution and service formats of the FMCG industry such as Sangam, Ayush Ayurvedic Centre and Lakme Salons.

A large young working population with the median age of 24 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in service sector are going to be the key factors in the growth of organized retail sector in India. The growth pattern in organized retailing and in the consumption made by the Indian population will follow rising graph helping the newer businessmen to enter India retail industry.

In the developed economies, organized retail is in the range of 75-80 per cent of total retail, whereas in developing economies, the unorganized sector dominates the retail business. India is the country having the most unorganized retail market. Traditionally, it is a family’s livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99 per cent retailers function in less than 500 sq. ft. of shopping space. Business World Marketing Whitebook 2009-2010 (ICREIR, Retail in India), finds that India’s retail market size in 2009 was $450bn with an average compound annual growth rate of 11.2 per cent retail market.
Chapter 1 Introduction

The size of organized retail market in 2009 was $35bn with average annual compound growth rate of 35 per cent. The size of organized retail is expected to be $155bn in 2015 at 35 per cent CAGR. The Indian organized retail sector accounts for mere 7.77 per cent per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.\(^2\)

Purchasing power of Indian urban consumer is growing and branded merchandise categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers aiming to grow must diversify and introduce new formats and have to pay more attention to brand building process. The emphasis here is on retail as a brand rather than retailers selling the brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values, combining products, image and reputation into coherent retail brand strategy.

1.4 Industry Evolution\(^3\)

- Traditionally retailing in India can be traced to the emergence of the neighborhood ‘Kirana’ stores catering to the convenience of the consumers.
- 1980s experienced slow change as India began to open up economy.
- Textiles sector with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim first saw the emergence of retail chains.
- Later Titan successfully created an organized retailing concept and established a series of showrooms for its premium watches.
- The latter half of the 1990s saw a fresh wave of entrants with a shift from manufactures to pure retailers.
- For example Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.
- Post 1995 onwards saw an emergence of shopping centers, mainly in urban areas, with facilities like car parking targeted to provide a complete destination experience for all segments of society.
Emergence of hyper and super markets trying to provide customer with 3 V’s - Value, Variety and Volume.

Expanding target consumer segment: The sachet revolution - example of reaching to the bottom of the pyramid.

At year end of 2009 the size of the Indian organized retail industry was at $35bn.

Figure 1.1 Industry Evolution

1.5 Format Choice: Internationally Successful Formats

In modern retailing, a key strategic choice is the format. Innovations in formats can provide an edge to retailers. A study of evolution of the largest retail market in the world, the USA highlights how formats evolved there. Till the 1940s, American retail was primarily centered on the city 'high street' or downtown areas, with an array of independent stores such as department stores, drugstores and coffee shops. Post-World War II, the key demographic trend was migration away from the city-centre towards the suburbs. This led to the emergence of the 'shopping centre', a cluster of outlets in a location offering a range of merchandise catering to most needs of the immediate suburb, offering a range of services from saloons to cafes, news-stands and grocery stores. The 50s saw the emergence of the 'enclosed' shopping mall, providing an end-to-end shopping and entertainment experience from food courts, theatres to shopping outlets. The last major development in the American retail landscape was the discount stores along the lines of Wal-Mart and Costco. Discount stores are large stores with more than 100,000 sq. ft. of space situated at a distance from the city-centre or the suburb. Typically, these discount chains gain significant market share in a relatively short span of time and cater to the entire spectrum of household requirements such as grocery, apparel, household goods, do-it-yourself stores, books and even banking services. Can Indian retailers learn from such experiences and
leapfrog to the most successful formats abroad is a key question on everyone's mind. KPMG explored this question through the survey.  

1.5.1 The Chinese Experience
In the Chinese market, modern format stores such as hypermarkets and convenience stores have proved to be extremely successful. One of the key enablers for this popularity has been the high level of urbanisation in the country. Another unique factor in these hypermarkets is that they predominantly stock food. They also stock 'fresh produce' alongside groceries to cater to local consumer tastes. An AC Nielsen survey across seven leading Chinese cities in July 2005 pointed to the popularity of modern formats in China. Up to 46 percent of respondents stated that hypermarkets/convenience stores made up a significant part of their overall grocery expenditure, and 66 percent stated that they 'often' visited hypermarkets and convenience stores. Modern retailing in China has largely been an urban phenomenon.

1.5.2 Format Choices by Indian Retailers
The respondents of the KPMG retail survey in India felt that specialty and supermarket format have the most potential for growth in India followed by hypermarkets. Understandably, with poor internet infrastructure (in terms of PC penetration and internet connectivity), e-tailing was identified as a channel with the least potential by most respondents. Similarly, with traditional 'kirana' stores offering an undisputed 'convenience' proposition, respondents felt that convenience stores may not grow as fast in the Indian context. While many respondents agreed that hypermarkets had potential, their estimate for the number of successful hypermarkets in India was conservative. The buying behaviour of Indian consumers and the infrastructure issues were identified as key impediments to the rapid growth of hypermarkets in India. India remains largely a small Stock Keeping Unit (SKU) purchase market today. Many homes still lack refrigerators and in homes that have one, it is typically available in small sizes (penetration of refrigerators in India is 15 percent, 75 percent of these are in urban areas). Availability of transportation to drive a long distance for purchases too is an issue. All these are expected to make the adoption of hypermarkets a little slow after the initial burst that captures the latent urban demand for this format.

The respondents to the KPMG Retail Survey on an average have exposure to more than three formats. The opinion amongst the respondents was tilted towards multiple formats. Almost 40 percent opined that a single format is sufficient for success while
60 percent opined that multiple formats would be needed in India. A key reason why multiple formats may be needed in India is the diversity of the country. 6

1.5.3 Prominent Segments in Indian Retail
Since exact figures for the industry and its various segments are not available, the size and projected growth of the various segments have been worked out, (Pradhan, 2009) as following:

**Segment I: Food and Grocery**
The Indian food and groceries sector can be divided into fresh groceries, branded packaged food, personal hygiene products and toiletries and dry unprocessed groceries.
This segment constitutes 62 per cent of the Rs. 12,00,000 crore. Indian retail market (Indian Retail Report 2007). On the basis of the estimates given by the Central Statistical Organization (CSO), just 0.8 per cent of this retail segment is in organized sector. At 2003-04 constant prices, the total market size of this retail segment is estimated at around Rs. 6,42,200 crore. The organized segment is valued at Rs. 5000 crore.
Some of the key players in this segment are; Food Bazaar, Easy Day, More and Reliance Fresh.

**Segment II: Apparels**
The sector is generally understood as clothing or readymade garments. This includes men’s wear, women’s wear and children’s wear. The domestic clothing, textiles and fashion accessories market is estimated to be at Rs. 1,13,500 crore and about 18 per cent of this market is believed to be organized. The organize retail is estimated to stand at Rs. 21,400 crore. Apparel retail is the largest segment of the organized Indian retail sector, accounting for almost 38 per cent of the total.
Some of the key players in this segment are Century Textiles Ltd., Madura Garments, Arvind Brands Ltd., and Raymond Apparels.

**Segment III: Consumer Durables**
The consumer durable market is said to be comprised of Televisions, Refrigerator, Air Conditioners and Microwaves. The consumer durables market in India has seen a proliferation of brands and product categories in recent years. All the major international brands from Japan, Korea, US, Europe and China have launched in
India, with varying degrees of success. Most brands are still trying to build a pan-India dealer network.

The consumer durable market is estimated at Rs. 41,500 crore, and organized market is estimated to stand at Rs. 43,00 crore. The share of consumer durables in total organized retail market of India stands at about 9 per cent, which makes it among the three most organized retail segments.

The key players in this segment are LG, Samsung, Sony, Godrej and Videocon.

1.5.4 Retail Outlook for India – Multiple Formats and Experimentation

In India too, it may be difficult to transplant a successful international format directly and expect a similar performance. Local conditions and insights into the local buying behaviour have to shape the format choice. A good point to note in the retailing industry today is the level of experimentation happening locally in terms of formats. Players like Easy Day and Margin Free Markets are providing convenience with discount on goods, while internationally convenience formats typically charge a premium over the market prices. Similarly, ITC is experimenting with a model which brings together a two way flow of goods in the retail outlet - farmers sell their produce and purchase goods to fulfill their consumptions needs. While the experience of these retailers as they scale up beyond their current geographies may provide new insights and lead to modification or fundamental re-engineering of their formats in future, such experimentation and identification of an appropriate format for the local conditions would differentiate winners from losers in Indian retail market of the future.7

1.6 Key Growth Drivers for Modern Retail in India

Higher disposable income coupled with favourable demographic changes (increase in working women population, rise in nuclear family, largest young population and higher growth in urban and sub-urban population), changes in consumer needs, attitudes and behaviour, and increased credit friendliness are some of the key growth drivers for modern retail in India.8
1.7 Size and Growth of Retail in India

Retail sales in India have grown from $US 230 billion in 2003-04 to $US 330 billion in 2007-08. Organized retail at present accounts for only around 5-6 per cent of the total retailing in India. However, growth experienced by organized retail (more than 35 per cent against an overall retail growth of around 11 per cent in 2006-07) is much higher as compared to unorganized retail within India. The graphs below depict the product category-wise break-up of total and organized retail.⁹

Figure 1.2

THE INDIAN RETAIL PIE (INDIA) 2007-08
(Market Size: $ US 330 billion)

Source: F&R Research
1.8 Retail Format

The retail format is the store ‘package’ that the retailer presents to the shopper. A format is defined as a type of retail mix used by a set of retailers. It is a place, physical or virtual, where the vendor interacts with its customers. The store format depends upon the mix of variables such as assortment, price, transactional convenience, and experiences that retailers use to develop their business strategies. Each retailer needs to evaluate the enablers and deterrents for succeeding in the market place. This primarily involves identifying the key drivers of growth, the shoppers’ profile, and shoppers’ expectations. It also requires the retailer to evaluate the nature of competition and challenge in the marketplace. The retailer then decides the elements of retail mix to satisfy the target markets’ needs more efficiently than its competitors. The choice of retail mix elements enables it to decide the type of format or structure of business.
1.8.1 Classification of Formats

The term ‘retail institution’ refers to the basic format or structure of a business. Classification of retail institutions is necessary to enable firms to better understand and enact their own strategies: selecting an organizational mission, choosing an ownership alternative, defining the goods and service category, and setting objectives. Figure 1.3 shows a breakdown of the three categories of retail institutions. The classification is not mutually exclusive; that is, that an institution may be correctly placed in more than one category. For example a department store may be part of a chain, have store based strategy, accept mail order sales, and have a website.¹²
Figure 1.4 Classifications of Retail Institutions

I. Ownership-based Classification
- Independent
- Chain
- Franchise
- Leased department
- Vertical marketing system
- Consumer co-operative

II. Store-based retail strategy mix
- Convenience store
- Conventional supermarket
- Food-based superstore
- Combination store
- Box (limited line) store
- Specialty store
- Variety store
- Traditional department store
- Full-line discount store
- Off-price chain
- Factory outlet
- Membership club
- Flea market

III. Non-store based retail mix and nontraditional retailing
- Vending machine
- Online store
- Telemarketing/ Teleshopping

1.9 Retailing formats in India

1.9.1 Malls:
This is the largest form of organized retailing today. These are located mainly in metro cities, in proximity to urban outskirts. These range from 60,000 sq. ft. to 700,000 sq. ft. and above. They lend a real shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Pyramid, and Pantaloon.

1.9.2 Specialty Stores:
Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.

1.9.3 Discount Stores:
As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non-perishable goods.

1.9.4 Department Stores:
Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. These are further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft) across India and even has its own in store brand for clothes called Stop.

1.9.5 Hyper Marts/ Supermarkets:
Large self-service outlets, catering to varied shopper needs are termed as Supermarkets. These are located in or near residential high streets. These stores today contribute to 30 per cent of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq. ft. to 2,000 sq. ft. and large supermarkets ranging from of 3,500 sq. ft to 5,000 sq. ft. having a strong focus on food & grocery and personal sales.
Chapter 1 Introduction

1.9.6 Convenience Stores:
These are relatively small stores 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

1.9.7 Multi Brand Outlets (MBOs):
Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

1.10 Need for Research
Store choice and patronage has been widely studied across the world. This phenomenon has gained significance in Indian markets with the introduction of larger and diverse retail formats by organized players. Both retailers and shoppers are currently in evolution phase with no clear verdict as what may drive the choice of stores to shop in. Unfortunately, this changing scenario has led to very high footfall in these stores but low conversions in terms of actual purchase, resulting in high cost of service and hence low profitability for retailers, (Sinha et. al., 2003)\textsuperscript{13}. The trade mark of Indian retailing, the small shop with a high level of personalized service, is making shoppers reluctant to depart from traditional ways of shopping, (Sinha and Banerjee , 2004) \textsuperscript{14}. Given the retail scenario which seems to be driven more by euphoria evidenced by the fact that the new expansions are adaptations of western formats fetching moderate to lukewarm success, there is growing need to evaluate the true drivers of shopping behavior in Indian context. To a large section of the customers, the new formats are not perceived to add enough value, except novelty, (Sinha et. al., 2003).\textsuperscript{15}

The present study is an attempt to understand the drivers of retail format choice in various product categories, in the context of evolving retail industry in India with a special reference to Urban Punjab. During the study it has been observed that currently there is limited information available in public domain regarding Indian shopping behavior, especially in the context of changing retail environment. The primary motivation to conduct this study is to identify major factors which drive a customer to different retail formats depending upon his or her shopping needs. Although the study is confined to the urban population of Punjab but its findings reveal some interesting facts about a typical Indian consumer.
1.11 Research Objectives:

1. To recognize and measure the impact of various attributes influencing shoppers format choice.
2. To categorize and determine the impact of various product classes, on which different attributes, may have probable effect on format choice.
3. To make out and evaluate the impact of specific attributes which shoppers seek for different occasions in various product categories for format choice.
4. To identify and appraise the impact of specific attributes based on shoppers demographic profile on format choice.
5. To identify the factors responsible both for shifting and not shifting customer loyalties from traditional retail to modern retail.
6. To develop a model based on the above study for format success in different product categories.

1.12 Research Model

Figure 1.5 conceptualizes the model in the research to understand the various factors which affect shoppers’ retail format choice behaviour. The innermost box represents the dependent variable, viz. retail store format type chosen by shopper. The independent variables are the retail format choice decision that could affect the final outcome, have been visualized in the boxes surrounding dependent variable box in the given figure. The variables are (a) demographics; (b) lifestyle; (c) need and desires (d) shopping attributes and behaviour (e) retailers’ actions; (f) product type to be bought by the shopper; and (g) the occasion for which the shopper is buying. These independent variables can influence the store choice decision of the shopper either in a positive direction or negative direction individually and will result collectively in final decision as yes or no. Hence forth these variables are to be evaluated for the factors which decide shoppers’ format choice among various available formats depending upon the shopping attributes and behaviour, product class or type, the occasion for buying and demographic factors.
Figure 1.6 conceptualizes the research model to explore customer loyalty towards different store formats. Loyalty towards a particular store format is considered to be as a dependent variable and personal relations, quality of products, payment options, proximity, prices, discount offers, home delivery and referrals have been considered as independent variable. Hence forth these variables are to be evaluated for the factors affecting customer loyalty among various store formats with a specific reference to the gender of the respondents.
1.13 Organization of the Thesis

The present study integrates the findings of secondary research (literature review and analysis of secondary data) and the findings of primary research (at customer level). The study has been organized in the following manner.

*Chapter one* introduces the back ground of the subject, viz. international and Indian retail scenario, various retail formats and status of retail formats in various economies of the world. This chapter also discusses the need for research, the research objectives and the conceptual research model.

*Chapter two* provides an extensive review of literature of the various issues being considered in the study. It tries to cover the various theoretical models, empirical models and previous studies carried out related to the study undertaken in this research work and subsequently identify the research gaps to enable a more meaningful study.
Chapter three relates to the research methodology and various key terms and definitions used for conducting this study. The analysis is based on secondary data and primary data. Secondary sources associated includes Statistical Abstract of Punjab (2009) and revised statistics released by Government of Punjab as per census of 2011, Indian Council For Research On International Economic Relations (ICRIER) reports and various retail research reports published by different agencies. The primary data has been obtained from the urban shoppers in the three regions of Punjab namely Malwa, Majha and Doaba. The methodology used was a structured questionnaire and administered using appropriate business research methods.

Chapter four relates to identification of various factors influencing shoppers’ store choice decision. The factor analysis technique using SPSS has been applied to identify the factors and variance explained by each identified factor. Further an analysis has been done using ANOVA where these factors have been used as dependent variables and various demographics as independent variables to study the possible relationships among various factors and demographics.

Chapter five discusses the format choice behaviour of shoppers with reference to product categories, buying occasions and demographics. Cross tabbed data have been analyzed using chi square tests to study the possible association among various variables.

Chapter six analyzes the customer loyalty towards various retail formats and attempts to identify the various factors which influence shoppers’ loyalty towards various retail formats. For analyzing whether there is any difference in loyalty among male and female respondents towards different retail store formats, Independent sample t-test has been applied.

Chapter seven summarizes the findings of the study and discusses the various implications of identified factors which influence shoppers’ format choice decision. Also the implications of various store choice decision variables have been explored and interpreted with special reference to product class, occasion for buying and demographics of the shoppers. The limitations of this study and the scope for future research are also brought out.
REFERENCES


3. Pradhan, ibid 1

4. KPMG-FICCI Retail Report 2007

5. KPMG, ibid 4

6. KPMG, ibid 4

7. Pradhan, ibid 1

8. KPMG, ibid 4


10. *IMRB* , ibid 9


12. Gilbert, ibid 11


15. Sinha, ibid 14