CHAPTER- 1

RETAILING
1. RETAILING

Which business considers every individual as a customer? Which business accounts for less than 10% of the worldwide labor force and is still the single largest industry in most nations? What is common between Wal-Mart, Amazon, and the small kirana stores that dot your neighborhood?

The answer is retailing, the last link in the chain of production, which begins at the extractive stages, moves through manufacturing, and ends in the distribution of goods and services to the final consumer.

1.1 WHAT IS RETAILING?

The distribution of consumer products begins with the producer and ends at the ultimate consumer. Between the producer and the consumer there is a middleman—the retailer, who links the producers and the ultimate consumers. Retailing is defined as a conclusive set of activities or steps used to sell a product or a service to consumers for their personal or family use. It is responsible for matching individual demands of the consumer with supplies of all the manufacturers. The word ‘retail’ is derived from the French word retailer, meaning ‘to cut a piece off or ‘to break bulk’.

A retailer is a person, agent, agency, company, or organization which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer. Retailers perform specific activities such as anticipating customers wants, developing assortments of products, acquiring market information, and financing. A common assumption is that retailing involves only the sale of products in stores. However, it also includes the sale of services like those offered at a restaurant, parlour, or by car rental agencies. The selling need not necessarily take place through a store. Retailing encompasses selling through the mail, the Internet, door-to-door visits—any channel that could be used to approach the consumer. When manufacturers like Dell Computers sell directly to the consumer, they also perform the retailing function.

1.1.1 Characteristics of Retailing

Retailing can be distinguished in various ways from other businesses such as manufacturing. Retailing differs from manufacturing in the following ways:

I. There is direct end-user interaction in retailing.
II. It is the only point in the value chain to provide a platform for promotions.

III. Sales at the retail level are generally in smaller unit sizes.

IV. Location is a critical factor in retail business.

V. In most retail businesses services are as important as core products.

VI. There are a larger number of retail units compared to other members of the value chain. This occurs primarily to meet the requirements of geographical coverage and population density.

I. Direct Interaction with Customers

Retail businesses have a direct interaction with end-users of goods or services in the value chain. They act as intermediaries between end-users and suppliers such as wholesalers or manufacturers. Therefore, they are in a position to effectively communicate the response and changing preferences of the consumers to the suppliers or sales persons of the company. This helps the manufacturers and marketers to redefine their product and change the components of its marketing strategy accordingly. Manufacturers require a strong retail network both for reach of the product and to obtain a powerful platform for promotions and point-of-purchase advertising. Realizing the importance of retailing in the entire value chain, many manufacturers have entered into retail business by setting up exclusive stores for their brands. This has not only provided direct contact with customers, but has also acted as advertisement for the companies and has provided the manufacturers with bargaining power with respect to other retailers who stocked their product. Retailing provides extensive sales people support for products which are information-intensive, such as in the case of consumer durables.

II. Lower Average Amount of Sales Transaction

The average amount of sales transaction at retail point is much less in comparison to the other partners in the value chain. Many consumers buy products in small quantities for household consumption. Due to lower disposable incomes, some consumer segments in India even buy grocery items on a daily basis rather than a weekly or a monthly basis. Inventory management becomes a challenge for retailers as a result of the many minor
transactions with a large number of customers. Hence, retailers must take care of the average levels of stock, order levels, and the popularity of different brands. The small amount also means that the retailer has to keep a tight control on costs associated with each transaction in the selling process. Credit verification, employment of personnel, value-added activities like bagging, gift-wrapping, and promotional incentives all add up to the costs. One way to resolve this is for the retail outlets to be able to attract the maximum possible number of shoppers.

1.1.2 Functions and features of Retailing
Retailers play a significant role as a conduit between manufacturers, wholesalers, suppliers, and consumers. In this context, they perform various functions like sorting, breaking bulk, holding stock, as a channel of communication, storage, advertising, and certain additional services.

1.1.2.1 Sorting
Manufacturers usually make one or a variety of products and would like to sell their entire inventory to a few buyers to reduce costs. Final consumers, in contrast, prefer a large variety of goods and services to choose from and usually buy them in small quantities. Retailers are able to balance the demands of both sides, by collecting an assortment of goods from different sources, buying them in sufficiently large quantities, and selling them to consumers in small units.

The above process is referred to as the sorting process. Through this process, retailers undertake activities and perform functions that add to the value of the products and services sold to the consumer. Supermarkets in the US offer, on an average, 15,000 different items from 500 companies. Customers are able to choose from a wide range of designs, sizes, and brands from just one location. If each manufacturer had a separate store for its own products, customers would have to visit several stores to complete their shopping. While all retailers offer an assortment, they specialize in types of assortment offered and the market to which the offering is made. Westside provides clothing and accessories, while a chain like
Nilgiris specializes in food and bakery items. Shoppers’ Stop targets the elite urban class, while Pantaloons is targeted at the middle class.

1.1.2.2 Breaking Bulk

Breaking bulk is another function performed by retailing. The word retailing is derived from the French word retailer, meaning ‘to cut a piece off. To reduce transportation costs, manufacturers and wholesalers typically ship large cartons of the product, which are then tailored by the retailers into smaller quantities to meet individual consumption needs.

1.1.2.3 Holding Stock

Retailers also offer the service of holding stock for the manufacturers. Retailers maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacturer to regulate production. Consumers can keep a small stock of products at home as they know that this can be replenished by the retailer and can save on inventory carrying costs.

1.1.2.4 Additional Services

Retailers ease the change in ownership of merchandise by providing services that make it convenient to buy and use products. Providing product guarantees, after-sales service, and dealing with consumer complaints are some of the services that add value to the actual product at the retailers’ end. Retailers also offer credit and hire-purchase facilities to the customers to enable them to buy a product now and pay for it later. Retailers fill orders, promptly process, deliver and install products. Salespeople are also employed by retailers to answer queries and provide additional information about the displayed products. The display itself allows the consumer to see and test products before actual purchase. Retail essentially completes transactions with customers.

1.1.2.5 Channel of Communication

Retailers also act as the channel of communication and information between the wholesalers or suppliers and the consumers. From advertisements, salespeople, and display, shoppers learn about the characteristics and features of a product or services offered.
Manufacturers, in their turn, learn of sales forecasts, delivery delays, and customer complaints. The manufacturer can then modify defective or unsatisfactory merchandise and services.

1.1.2.6 Transport and Advertising Functions

Small manufacturers can use retailers to provide assistance with transport, storage, advertising, and pre-payment of merchandise. This also works the other way round in case the number of retailers is small. The number of functions performed by a particular retailer has a direct relation to the percentage and volume of sales needed to cover both their costs and profits.

As a result of these functions, retailers are required to perform the following activities.

1.1.3 Activities Performed by Retailers

Retailers undertake various business activities and perform functions that add value to the offerings they make to their target segments. Retailers provide convenient location, stock, and appropriate mix of merchandise in suitable packages in accordance with the needs of customers. The four major activities, as shown in

*Figure 1- VALUE ADDED SERVICES OFFERED BY RETAILERS:*
1.1.3.1 Arranging Assortment

An assortment is a retailer’s selection of merchandise. It includes both the depth and breadth of products carried. Retailers have to select the combination of assortments from various categories. The assortments must include substitutable items of multiple brands, SKUs, and price points. They should be distinguished on account of physical dimensions and attributes, e.g., colour or flavor. The small retailer takes assortment decision on the basis of his experience; on the other hand, retailers from organized retailing depend on a detailed study of past trends and future projections.

Retailers need to consider certain factors while devising assortment plans for their stores: profitability associated with particular merchandise mix, store image, layout, and the level of compatibility between the existing merchandise. For example, Food World, a leading food supermarket positioned as a one-stop shopping centre, deals in multiple product categories along with all possible variants of brands, stock-keeping units, and physical attributes in order to meet the expectations of their consumers and survive in the business. Whereas, Subhiksha, a grocery chain in south India has impressive assortments of only the fast-moving brands and SKUs rather than all available variants in the market. Their assortment plan is governed by location, size, and store image (value for money) of their stores.

1.1.3.2 Breaking Bulk

Breaking bulk means physical repackaging of the products by retailers in small unit sizes according to customers’ convenience and stocking requirements. Normally, retailers receive large quantities of sacks and cases of merchandise from suppliers to reduce their transportation costs. In order to meet their customers’ requirements retailers have to break or arrange the bulk into convenient units. This entire function of the retailers adds value to the offerings not only for the end customers but also for the suppliers in the value chain. Even in the earlier days of generic and commodity-based trading most of the retailers used to perform this important function in the value chain. This function receives negligible attention from the retailers now due to the
introduction of new product categories, such as FMCG and ready-to-wear apparel.

1.1.3.3 Holding Stock

To ensure the regular availability of their offerings, retailers maintain appropriate levels of inventory. Consumers normally depend on the retailers directly to replenish their stocks at home. Therefore, retailers, on periodic basis, maintain the required levels of stock to meet the regular or seasonal fluctuations in the demand. Retailers need to maintain equilibrium between the range or variety carried and the sales which it gives rise to. Retailers have to face the negative consequences of holding unwanted levels of stock—for instance, too little stock will hamper the sales volume, whereas, too much stock will increase the retailer’s cost of operation. Generally, in small towns of India most retailers have arrangements with the nearby warehouses to stock the goods. Some are so small that they have to stock only on the shop floor. Retailers in the organized sector, to a certain extent, are using effective software packages for maintaining adequate levels of inventory. At the same time, retailers avail of just-in-time deliveries with the help of efficient consumer response systems, which reduces the burden of maintaining high levels of stocks.

1.1.3.4 Extending Services

Retailing provides multiple services to immediate customers and other members of the value chain. The set of services extended by particular retailers may be part of their core product offerings or it may be ‘add on’ to their product or service. Retailers offer credit, home delivery, after-sales services, and information regarding new products to their customers, thereby making the shopping experience convenient and enjoyable. At the same time, they provide stocking place, reach to the ultimate customers, and information about the concerned target segment to the suppliers. For example, Time Zone, the first organized retail chain of wristwatches in India, started by leading watch manufacturers Titan, set up in all its stores, service centres with proper equipment and trained manpower. This has not only diluted the relevance of service providers in the unorganized sector but has also
enhanced the confidence of the customers in the retail services provided by the particular retail chain, as after-sales service is considered to be an integral ingredient of the watch purchase.

1.1.3.5 Advertisement at Local level

Advertisement is inevitable function of the marketers now days. National level advertisement is done by the marketers of merchandise though mass media like News Paper and Television but at local level it is done though retailers of respective place. Painting shop door or painting of wall may be very small initiative but in the rural areas as well in the low income urban area is playing important role for creating awareness about newly launched product. Not only has this but it used local language of the is the most important function of the mark

1.1.3.6 Processing food grain

Now a day’s life style in the Metro cities and Mega cities has been changed and earning is done by the husband as well as wife. Hence demand of processed food grain has been increased. Retailers now understand this situation more precisely and practicing to information about arrival of new food grain of the season and make processed food grain available at the door step of the consumer is provided. This service is very small but it is very help full to the working consumers in the nearby area.

1.1.3.7 Creation of Brand Awareness

Brand awareness has been created by the most marketers of Packaged food, Fast Moving Consumer Goods and other items through small retailers in the city as well as in the rural areas. Directly launching product though strong distribution and well supportive retailers is inevitable to create brand awareness in the local area. With the help of experience of the other or prominent consumers of the store. Experience sharing and looking at the new product at the point of sale with sales promotion tool all to gather can be achieved through retailers.
1.1.3.8 Free Home Delivery

Retailers are now providing almost all the provision items at the door step. Special delivery staff is appointed for the function. Not only this but it is now a routine that the retailers take order of various provision items on phone and delivered at door step. Not only is this but replacement also done immediately. This creates better image in the mind of consumer for on the spot solution of the problem which is very difficult in the mall.

1.1.3.9 Credit to Consumers

The most important and key function of the retailer is to provide credit to consumers. Credit sales are proven to be a tool of increasing sales amongst the small consumers whose income is limited and regular. Rattlers provide good to them absolutely on credit at their own risk without any support from marketer. It is win win situation for retailers as well as for marketers and consumers also. Consumers get conveniences in payment, retailers can increase sales and marketer can achieve target of sale in particular season or month.

1.2 RETAIL INDUSTRY

1.2.1 World :-

The global retail sector is headed for a slowdown with economic recession becoming a reality in many economies of the world. Retailers world over, will need to adapt their strategies in response to the same. Moreover, the maturing of many markets and the aging of consumers in many economies has also triggered retailers to rethink 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.

Table-1 indicates the retailers who feature in the list of the global Fortune 500, in the year 2007.
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 6-7% 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 a fast changing one and calls for constant evolution on the part of the retailer. A retailer not only needs to keep up with the ever changing expectations and demands of the consumers but also needs to keep track of the competition, the changes in technology and the socio economic climate of the nation that he is operating in.

As stated earlier, till a few years ago, the American economy fuelled 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 a global level, is a reality, which has to be understood and faced by retailers. Globalisation is gradually emerging as an integral part of the retail strategy of many retailers. Listed below are some of the key challenges being faced by retailers worldwide: The emergence of new markets: Asia, especially China and India are the emerging marketplaces. In the past, the sheer size of China and India did not necessarily lead to their having an impact as a market. The technological, transportation and industrial revolutions of the past two decades have changed much of that. Increasing urbanisation in both the markets has fast emerged as an important factor in the rise of these nations as important emerging markets. Together, China and India, or Chindia as they are now termed, are estimated to see the GDP rise to $ 6 trillion by the year 2020. They will consume 45-50% of the world’s natural resources and have the potential of becoming the world’s largest exporters of goods and services with a 25% + share. Few marketers and retailers can hence, ignore such a market.
Table-1

Key Players in the World of Retail

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Fortune Rank 2007</th>
<th>Company</th>
<th>Revenues ($ Mln)</th>
<th>Profits ($ Mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>WAL-MART STORES</td>
<td>351,139</td>
<td>11,284</td>
</tr>
<tr>
<td>2</td>
<td>32</td>
<td>CARREFOUR</td>
<td>99,014.7</td>
<td>2,846.2</td>
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<tr>
<td>3</td>
<td>44</td>
<td>HOME DEPOT</td>
<td>90,837.0</td>
<td>5,761</td>
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<tr>
<td>4</td>
<td>55</td>
<td>TESCO</td>
<td>79,978.8</td>
<td>3,544.9</td>
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<tr>
<td>5</td>
<td>62</td>
<td>METRO</td>
<td>75,131</td>
<td>1,324.9</td>
</tr>
<tr>
<td>6</td>
<td>80</td>
<td>KROGER</td>
<td>66,111.2</td>
<td>1,114.9</td>
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<tr>
<td>7</td>
<td>94</td>
<td>COSTCO WHOLESALE</td>
<td>60,151.2</td>
<td>1,103.2</td>
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<tr>
<td>8</td>
<td>104</td>
<td>ROYAL AHOHLD</td>
<td>56,944.9</td>
<td>1,127.9</td>
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<tr>
<td>9</td>
<td>114</td>
<td>SEARS HOLDINGS</td>
<td>53,012</td>
<td>1,490</td>
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<tr>
<td>10</td>
<td>129</td>
<td>WALGREEN</td>
<td>47,409</td>
<td>1,750</td>
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<tr>
<td>11</td>
<td>130</td>
<td>LOWE’S</td>
<td>46,927</td>
<td>3,105</td>
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<tr>
<td>12</td>
<td>134</td>
<td>SEVEN &amp; I HOLDINGS</td>
<td>45,635.2</td>
<td>1,140.7</td>
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<tr>
<td>13</td>
<td>141</td>
<td>GROUPE AUCHAN</td>
<td>43,900</td>
<td>936</td>
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<tr>
<td>14</td>
<td>155</td>
<td>SAFEWAY</td>
<td>40,185</td>
<td>870.6</td>
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<tr>
<td>15</td>
<td>167</td>
<td>SUPERVALU</td>
<td>37,406</td>
<td>452</td>
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<tr>
<td>16</td>
<td>179</td>
<td>BEST BUY</td>
<td>35,934</td>
<td>1,377</td>
</tr>
<tr>
<td>17</td>
<td>200</td>
<td>J SAINSBURY</td>
<td>32,438.1</td>
<td>614.7</td>
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<tr>
<td>18</td>
<td>326</td>
<td>PUBLIX SUPER MARKETS</td>
<td>21,819</td>
<td>1,097</td>
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<tr>
<td>19</td>
<td>329</td>
<td>MCDONALD’S</td>
<td>21,586</td>
<td>3,544</td>
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<tr>
<td>20</td>
<td>351</td>
<td>CHRISTIAN DIOR</td>
<td>20,094</td>
<td>1,000</td>
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<td>21</td>
<td>352</td>
<td>J C PENNEY</td>
<td>19,903</td>
<td>1,153</td>
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<td>22</td>
<td>397</td>
<td>STAPLES</td>
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<td>23</td>
<td>417</td>
<td>TJX</td>
<td>17,516</td>
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<td>24</td>
<td>418</td>
<td>RITE AID</td>
<td>17,507</td>
<td>26</td>
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<tr>
<td>25</td>
<td>451</td>
<td>MIGROS</td>
<td>16,466</td>
<td>601</td>
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<tr>
<td>26</td>
<td>458</td>
<td>MARKS &amp; SPENCER</td>
<td>16,267</td>
<td>1,248</td>
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<tr>
<td>27</td>
<td>475</td>
<td>GAP</td>
<td>15,943</td>
<td>778</td>
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<tr>
<td>28</td>
<td>487</td>
<td>KOHL’S</td>
<td>15,544</td>
<td>1,108</td>
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<tr>
<td>29</td>
<td>499</td>
<td>NIKE</td>
<td>14,954</td>
<td>1,392</td>
</tr>
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</table>


Retailers are looking to the world’s emerging markets to drive the success of their businesses in the future, according to a new research by CB Richard Ellis, launched at the World Retail Congress in Barcelona. A report by
the world’s leading commercial real estate services firm has revealed that 40 per cent of retailers expect emerging markets to provide their main source of growth over the next five years, while only a quarter expect to see growth concentrated in their home market.

The Global Emerging Markets Survey (GEMS) explores the views of some 300 retailers worldwide, representing a global portfolio of 25,000 stores, and provides the latest insight into retailer attitudes towards the world’s emerging retail destinations.

India was identified as the most sought-after emerging market. Twenty seven per cent of international retailers surveyed have opened their first store in India in the last year or are planning to do so imminently. The country is considered particularly attractive because of the size of its market compared to its low presence of international retailers. With foreign ownership rules being gradually relaxed, foreign investment is also now possible, allowing single-brand retailers to own up to 49 per cent of their India operations.

Ukraine and Russia also ranked highly in the survey, in second and third positions respectively. Ukraine, in particular, benefits not only from its own rapid economic growth but also from its proximity to Russia. GEMS reinforces the trend for retailers, who have established a presence in a ‘primary’ emerging destinations such as Russia, to regard smaller neighbouring countries as natural geographic extensions to their current store network. While Moscow has recently enjoyed heightened attention from retailers due to booming consumer spending, the focus is now shifting to secondary Russian cities and to Ukraine. Another example of this primary/secondary behaviour is retailers who first entered Singapore now moving into Malaysia, which ranks fourth in the list of the most sought-after emerging markets.
Table – 2
Most active emerging retail markets

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Proportion of respondents that are actively looking in each market or first opened there in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>27%</td>
</tr>
<tr>
<td>2</td>
<td>Ukraine</td>
<td>24%</td>
</tr>
<tr>
<td>3</td>
<td>Russia</td>
<td>22%</td>
</tr>
<tr>
<td>4</td>
<td>Malaysia</td>
<td>19%</td>
</tr>
<tr>
<td>5</td>
<td>Turkey</td>
<td>15%</td>
</tr>
<tr>
<td>6</td>
<td>South Africa</td>
<td>13%</td>
</tr>
<tr>
<td>7</td>
<td>Thailand</td>
<td>12%</td>
</tr>
<tr>
<td>8</td>
<td>China</td>
<td>11%</td>
</tr>
<tr>
<td>9</td>
<td>Mexico</td>
<td>10%</td>
</tr>
<tr>
<td>10</td>
<td>Indonesia</td>
<td>8%</td>
</tr>
<tr>
<td>11</td>
<td>Pakistan</td>
<td>6%</td>
</tr>
<tr>
<td>12</td>
<td>Vietnam</td>
<td>6%</td>
</tr>
<tr>
<td>13</td>
<td>South Korea</td>
<td>6%</td>
</tr>
<tr>
<td>14</td>
<td>Brazil</td>
<td>6%</td>
</tr>
<tr>
<td>15</td>
<td>Chile</td>
<td>2%</td>
</tr>
<tr>
<td>16</td>
<td>Argentina</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Source: Fortune, Global 500, July 23, 2007*

GEMS also showed that retailers’ interest in specific emerging markets varies according to their product sector and country of origin. South Africa is currently the most important market for retailers from the Asia Pacific region; while retailers from the Americas are now looking at Turkey more than other individual markets.

As part of the survey, retailers were asked to share their main operational considerations when looking to enter an emerging market. At the top of the list was the quality and range of real estate opportunities. Four out of five retailers reconsider the decision to enter a market if their favoured real estate format—such as shopping centres or stand-alone high street stores—


not available. In fact, 56 per cent of retailers base their entry into an emerging market on the availability of suitable property, compared to 46 per cent in developed markets. The presence of a franchise or local partner is another key consideration, as this can enable retailers to penetrate a market more rapidly.

Top operational factors considered by retailers looking at emerging markets
1. The quality and range of real estate opportunities
2. Presence of franchise and joint venture partners
3. Quality of information available on the retail sector, such as spend and demographics

Emerging markets comprise over half the world’s population and consumer appetite for more sophisticated retailing is driving retailer interest in these destinations. With many barriers to entry, such as economic instability and limits on foreign ownership now dissolving, emerging markets are becoming increasingly attractive and accessible. Inevitably though, they also have their own set of individual challenges.

1.2.2 India

The Indian retail industry has grown at a Compound Annual Growth Rate (CAGR) of 13.3% for the period FY06-10. The growth in the Indian economy since the last decade and the change in consumption pattern of the Indian populace in terms of higher proportion of middle class population, greater proportion of working women etc can unarguably be linked to the growth of the Indian retailing industry. Of all the segments in retail, the contribution of ‘food & grocery’ remained the highest at 58% of the total retail sales during FY10, with the ‘clothing & footwear’ segment remaining the second largest contributor occupying 10% of the total retail pie during the same period. However in terms of growth figures, the ‘entertainment, books & sports goods equipment' segment outperformed the other retail segments registering a CAGR of 22.5% during the period FY06-10.
In spite of the growth, the industry remains largely fragmented with the organized retailing still at a nascent stage. In case of overall retailing revenues, the food & grocery segment accounted for the highest share at 58% of the total retailing pie aggregating Rs.11.49 lakh crore during FY10. In the Organized retailing, the food & grocery segment stood as the second largest contributor with revenues aggregating Rs.24,273 crore during the same period. However, the Organized retail penetration of other segments such as clothing & footwear, entertainment & books and furniture & furnishing surpassed that of the food & grocery segment.

The Indian retail industry has witnessed rampant growth over the last decade. However, during the economic recession since the latter half of FY09, the retailers especially in the Organized segment suffered a set-back in the form of declining revenues and halt in their capex plans. The unemployment situation, further aggravating the fear of job losses during the recession, resulted in muted consumer spending with the consumers choosing to spend on necessities rather than discretionary items; the industry thus witnessed decline in footfalls, conversion rate, which was especially apparent in the decline of same store sales. The slowdown in consumer spending led to the inventory being stacked up resulting in a low inventory turnaround ratio, registering a decline to 4.3 times during FY09 from 4.8 times during FY 08. Before the onset of recession, the large scale expansion plans of the Indian retailers warranted an increase in inventory and greater store operating expenses in the form of rentals and staff expenses thus increasing the working capital requirement. However with the economic recession in effect, the retailers were faced with a liquidity crunch owing to difficulties in raising funds both from the equity as well as debt markets. Additionally, the funds raised during the economic boom attracted higher interest rates thereby affecting the retailers' ability to service the interest as well as principal repayments during the downturn. The total interest outgo of the retailers as tracked by CARE Research registered a y-o-y growth of 78.6% during FY09.

Even though, post recession, the industry is witnessing a gradual turnaround, it is met by a few stumbling blocks that constitute the challenges
ahead for the Indian retail industry viz. higher store rentals as compared to retailers globally, taxation & other policy regulations, inefficiencies in supply chain management and higher rate of shrinkage.

In spite of the said challenges, CARE Research expects the Indian retail industry to grow on the backdrop of expectant rise in the country's Gross Domestic Product (GDP) during the period FY11-FY13. The rise in income level of the Indian populace, in turn, is expected to fuel the domestic consumption ultimately resulting in higher revenues for the Indian retailers. Importantly, CARE Research expects the penetration of Organized retail in the total retail pie to increase by FY13 owing to the expanding reach of the retailers to tier-II & III cities accompanied by higher consumer spend on discretionary items. Also, in an attempt to increase margins, CARE Research expects the retailers would restore to adapting measures such as increasing the share of private labels in the total store sales, reducing store level operating expenses etc. The report on the Indian retail industry provides a comprehensive overview of all the above mentioned parameters with detailed forecasts.

1.2.3 Gujarat:

India’s retail sector is one of the fastest growing sectors in the Indian economy. Gujarat, which has a strong middle class population and one of the highest per capita GDP, is now becoming a preferred destination for the organized retail sector. This is evident with the spurt of malls in the State with companies like Prozone that are looking at setting up their first two malls in Rajkot and Surat before entering other cities in India. Raymond, too, started its first kids apparel store, Zapp, in Ahmedabad before entering markets like Mumbai and Pune.

- **Enablers**

  The unit retail space in Ahmedabad is 2.3 square feet per household, which is amongst the highest in India as compared to 4 for NCR (Delhi) and 2.5 for Pune. The cost of rentals is also lower compared to other cities in India providing an incentive for the industry to flourish. Apparels and jewellery retailing offers tremendous opportunities for the sector. Gujarat, which, is the
hub for textile and jewellery manufacturing in India is well positioned to exploit this opportunity. The better availability of power supply in the State would also fuel the consumption of consumer durables.

The entrepreneurial skills of the local population coupled with Government initiatives of development through public-private partnership are acting as a growth drivers for the sector. The Government plans to open 1,000 fair price stores in public-private partnership in various cities of Gujarat. The Government is also increasing tie-ups with co-operatives and private retail players to accelerate the growth of this industry.

- **Constraints**

  Though the retail industry is on a growth trajectory in the State, there still remain a few roadblocks that needs to be addressed. Lack of adequate and trained human resource is an area of concern. There is an increasing pressure on sourcing and retention of staff leading to a steep rise in employee wages. Supply chain inefficiency remains a cause of concern leading to increase in business costs.

- **Impervatives**

  With organized retail constituting only three percent of the total Indian retail, the country offers a huge potential for growth. The State could aim to increase the availability of specialized courses like retail management, which can go a long way in addressing the issue of lack of quality human resources. This will also help the Government in achieving the objective of employment generation. To ensure the rapid growth of the industry, the Government should ensure a better supply chain infrastructure by increasing the linkage between farmers and retailers. Gujarat has witnessed an impressive agricultural growth in the last five years. Going forward the sector is expected to do even better, which would increase the rural purchasing power, providing a good opportunity for rural retail business. With Government’s initiatives, Gujarat could lead the way in tapping the great Indian Retail Industry.

  In the span of last three years the national players of the industry has seen very tough cutthroat competition in the state. The tier two cities like Anand, Mahesana, Rajkot, Baroda, Valsad and Kalol. Not only is this but
Gujarat’s higher GDP rate and higher per capita income give a pace to Retail sectors. The attraction towards the Organized Retailing in the rural areas is also spurt up which has been satisfied by developing retail stores at the state highways. Gujarat is successful in attracting most popular retailers of the Mumbai specifically in the segment of Life Style Products and High end Jewellery.

1.3 CONTRIBUTION OF RETAILING IN INDIAN ECONOMY

Retail industry of India is the largest industry in country, which providing approx 8% employment and accounting for 10% of India’s GDP. It is likely to grow by around 25 to 30% per annum. Main features of Indian retail industry which contributes to the economy of country are as under.

1.3.1 Real Estate

The requirement of real estate will be in millions of sq.feets and the demand from retail players will release for productive use large tracks of land lying with various government agencies such as ports, railways, defence and so on.

1.3.2 Tourism- out bound shopping

If one were to think of any city which attracts a large number of tourist every year like Delhi, Mumbai, Hyderabad, Ahmedabad etc. One of their attraction is the well developed shopping environment. Retail consolidation will act as a significant enabler to developing many of our cities as tourist destination. Government revenues, apart from carrying ethnic Indian brands across the world.

1.3.3 Increased employment

Impact of retailing activities in India would be employment generation, both direct and indirect. Retail is hugely labour intensive and various studies have indicated that given the level of investment envisaged. Indirectly the retail activities generated employment through transportation, merchandise management, distribution activities etc. More important the bulk of jobs will be of a profile most suitable to India.
1.3.4 Increased Market Access

Given to huge small scale industry in India, retail will act as a boost to its ability to access the market. The choice and wide range available to the end customer too will go up significantly.

1.3.5 FDI in retailing

The heavy influx of FDI in the retail industry has resulted in Mall revaluation, development and infrastructure and emergency of new retail formats. As foreign players can’t enter into Indian retail industry independently tie-ups between Indian and foreign players is on the rise. FDI has enable many Indian corporate to enter at large scale in the country, which finally attract huge investment in economy.

1.3.6 Experience buying to Indian consumers

Today organized retailing provides experience buying especially the middle class. Today not only urban but also rural customer is becoming aware of international style, brand etc. and demanding them even shopping is not need based but a family experience and reason to joy. Privatization and globalization of the Indian economy has led to the opening up the market for consumer electronic durable, food product, FMCG products etc. so now today customer buy most of the things not only because they need but want to show off as a matter of high standard of living

1.4 PROFILE OF ORGANIZED RETAILERS OF GUJARAT

1.4.1. Big Bazaar.

Big Bazaar is a chain of Departmental Store in India as well as Gujarat currently with more than one hundred outlets nationally. It is owned by the Pantaloons Retail India Ltd., Future Group. It works on the same economy model as US retail giant Wall Mart and has considerable success in Indian metro cities and tyre two type towns. The idea was pioneered by entrepreneur Mr. Kishor Biyani, the CEO of future group. Currently Big Bazaar stores are located in India only. It is the biggest and fastest growing chain of departmental store and aims at being about 350 store at the end of 2011 the company is investing Rs. 12 to 14 crore in setting up each Hyper Market by
sourcing fund from equity market. A part of Pantaloons Retail India Ltd, it offers customers FMCG & daily need product to apparel & Home furnishing, Sports goods and much more at very reasonable price.

1.4.2 Reliance Retail

Reliance has started its first retail venture named “Reliance Fresh” in Hyderabad in 2006 by opening up 11 pilot stores. The outlet sells fresh fruits, staples, dairy products, grocery & vegetables. A distinctive Reliance Fresh outlet is around 3000 to 4000 sq. ft and accommodates catchment area of one to three k.m. Company mainly focused on fresh produced vegetables and fruits at comparative price along with an introduction of Farm to Fork theory. Reliance introduce several other formats in the market place to cater to need of common people, which includes Reliance Super, Reliance Foot Print, Reliance time Out, Reliance Jewels, Reliance digital & Reliance Mart etc. After that the second biggest giant of India has comprises more than 1000 stores in 86 cities all over the country. company launched India’s largest super market format under the brand name of Reliance Mart at Ahmedabad in 2007 then after company has opened 45 store in Vadodara Surat Rajkot Bhavnagar & Jamnagar. Today company has more than 180 outlets all over Gujarat. Recently, the newly designed hyper markets, which are currently being planned will have space of 80000 sq.ft and firstly opened in Thane, Maharashtra.

1.4.3 D- Mart

Avenue Super Marts Pvt Ltd (ASPL) owns and operates hypermarkets and supermarkets by the store name D-Mart. It is Mumbai based discount store format. Since D-Mart first opened its doors in the Mumbai region in 2000, it has grown into a trusted and well-established shopping destination in the Mumbai Metropolitan Region (Mumbai, Navi Mumbai and Thane). D-Mart now looking forward to growing its stores across India. D-Mart seeks to provide a one-stop shopping experience for the entire family, meeting all their daily household needs. A wide selection of home utility products is offered, including foods, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and much more at surprising rates. Companies
continuous endeavour to investigate, identify and make available new products/categories for the customer’s everyday use and at the ‘best’ value than anybody else. D-Mart’s expansion began in 2007, when stores were opened in Ahmedabad, Vadodara, Pune, Sangli and Solapur. Today D-Mart is established in 45 locations across Maharashtra, Andhra Pradesh and Karnataka & in Gujarat’s leading markets like Ahmedabad, Rajkot, Vadodara, Surat and Anand.

1.4.4 Star India Bazaar

From the launch of its first Star Bazaar store in Ahmedabad, in 2004, the Trent Hypermarket has provides large assortment of high quality products made available at lowest prices coupled with a unique shopping experience. It has been circumspect about scaling up, preferring to spend more time on evolving a sustainable model. That’s one reason why Trent has taken time to launch new stores in Bangalore and Mumbai. Hypermarkets like Star Bazaar are changing the way people shop for their groceries and household essentials. People who used to visit the local shops and vegetable markets frequently are now buying at hypermarkets such as Star Bazaar that offer customers a variety of products at affordable prices, in a comfortable environment. But while affordability is a big factor for customers, they also seek value and quality which they know they will get at Star Bazaar, a Tata enterprise. The uniqueness of each Star Bazaar store lies in the size and spread of its merchandise range. Shoppers can select from a large range of staples, fresh goods, apparel, luggage, consumer durables, household products and much more and also enjoy the benefit of generous reductions on the market rate with the motto “Chota budget, lambi shopping”. Star Bazaar has tied up with local and regional vendors for supplies and transportation of goods. The chain has focus largely on the metros by year 2010, the chain hopes to have 20-25 stores across the country. All said, 2008-09 was a successful year for Star Bazaar, which has concentrated on improving its business and making individual stores profitable. The plan of Trent is to open 5 stores in recent years and another 10 in the next year, with the long-term goal being to grow to 50 stores within five years.
1.4.5 V-Mart Retail

V-Mart Retail was established in the year 2002. The company made its foray into retail sector in 2003, by opening its maiden showroom in Ahmedabad, Gujarat. Today V-MART has 52 stores across 48 cities and is expanding at a rapid pace with a turnover of more than 150 crores last year. In an extremely fashionable and price conscious market, V-Mart has been successful in maintaining the equilibrium between the quality and price. Through its chain of stores the company always strives to offer Indian masses with excellent ambience and tremendous convenience of shopping. V-Mart is present in tier-II & tier-III cities with the slogan "Sabse Sasta Sabse Achcha" - the philosophy behind the slogan is value for money, and is catering to middle & lower middle segment of customers. Company is dedicated to provide customers a high class & soothing shopping experience with value products. In addition, V-Mart provides the comfort of shopping at a big retail store with a customized air-conditioned ambience. It strive to give top quality products at the best possible price.

1.5 RETAIL FORMATS
Retailing in India is a buzzword and is growing very fast. According to one estimate, one third of the one million or so new businesses created each year belong to retail industry. It represents an amazing conglomerate of independent ‘kirana’ stores, departmental stores, convenience stores, specialty store, factory outlets, convenience stores, kiosk stores, category killers, and cooperative stores. Over the last five years due to mall revolution and westernized impact, various new retail formats have been emerging. Same item of merchandise, a retailer can buy from a wider variety of retailers. Some retailers not only provide physical buying but ‘on-line’ and order on telephone’ is being provided. This chapter deals with various types of retail formats that coexist with traditional ‘kirana’ stores that are changing themselves in a big way. Each type of retail formats offer a different set of features and has its own merits and demerits over others. Usually these retail formats are classified under three categories as under:
A. On the basis of ownership
B. On the basis of merchandise offered and
C. Non-store retailing
Figure 2
Classification of Retail Formats

Retail Formats

Store Based

Ownership Based
1. Independent Retailer
2. Chain Store
3. Franchising
4. Leased Departments
5. Vertical Marketing System
6. Consumer Cooperatives

Merchandise Based

Traditional
1. Direct Marketing
2. Direct Selling
3. Vending Machines
4. Catalogue Marketing
5. Telemarketing
6. TV Home Shopping

Non Traditional
1. Electronic Shopping
2. Video Kiosk
3. Airport Retailing

Non Store Based

Food
1. Convenience Store
2. Conventional Super Markets
3. Food based Super Stores
4. Combination Store

General Merchandise
1. Discount Store
2. Specialty Stores
3. Factory Outlets Stores
4. Hyper Markets
5. Departmental stores
6. Membership Club
7. Parasite Store
8. Destination Store
1.5.1 Store Based Retail Formats
1.5.1.1 Retail Stores on The Basis of Ownership

The term “retail sales by ownership” refers to the basic system or basic format of doing business. In India, around 12 million retail outlets are covered under this format. Under this format, proprietor is responsible for the success and failure of the store. It is a type of format, which legally has no separate existence from its owner. Opportunities in retail ownership are in plenty. From market positioning and operating- perspectives, each ownership format serves a particular market and has its own advantages and disadvantages.

Over Ninety percent retail firms / outlets in India are independent and hence unorganized. With the globalization and borderless economies, this percentage is coming down but still unorganized stores (mom and pop stores) are in plenty. This number may be because of ease of entry. Ownership pattern has its own competitive advantages and disadvantages. Among independent competitive advantages, main are flexibility, low investments, less interference, quick decisions, direct strategic control, image, consistency, personal attention and entrepreneurial spirit. Among disadvantages, common are limited finance, less bargaining power, labor intensity, reduced media access, few economies of scale, less expertise, over-dependence on the owner, excess workload and limited planning and supervision due to individual’s limitations. The retail sale by ownership is classified as under:

1. Independent stores
2. Chain stores
3. Franchising
4. Leased department stores
5. Vertical Marketing system
6. Consumer co-operatives

1) INDEPENDENT STORE

An Independent Retailer usually is a small retailer (always not true) and is found in all lines of trade and in all communities. He may be a young man, fresh graduate just starting his own business or he may be a man of advanced years with many of them spent in the field of retailing. In India,
many of the independent stores tend to be passed on from one generation to another. In either case he has a business of his own. He is independent in fact as well as in name. The high numbers of independent retailers is associated with the ‘ease of entry’ into the market place. The entry and growth of independent retailers in India is a big reason in the high rate of new retail outlets failure.

(2) CHAIN STORE/CHAIN RETAILER

A chain retailer or a chain store is a group of two or more outlets carrying the same sort of merchandise assortment, owned and controlled jointly and usually supplied from one or more central warehouses. The main advantage of such a retail format is to make retailer enable to bargain well with the suppliers. Another advantage is cost effectiveness in advertising and sales promotions. Thus, a very small number of stores constitute a chain-store system.

Leading Chain stores in India

1. Archies
2. Big Bazaar
3. Food Bazaar
4. Lifestyle store
5. Mc Donald’s
6. Mobile Store
7. NIIT
8. Pantaloon
9. Pizza Hut
10. Shubhiksha
11. Spencers
12. Spinach
13. Vishal Mega Mart
14. Westside
15. Cafe Coffee Day

Chain Store Merchandising Principles

Chain store merchandising is termed as large scale merchandising or mass merchandising and is based on following principles:
I. Merchandising suitable for distribution by chain stores must be highly standardized,

II. Merchandise that requires a relatively high degree of technical or professional knowledge is not well suited for the chain store distribution.

III. A sound system of merchandise control and supervision is essential

IV. A product that requires fitting service or proper installation must be avoided for chain store merchandising.

(3) FRANCHISING

Franchising is a form of licensing in which franchiser provides the exclusive rights to sell its products and/or services for a specified period of time in a specified geographical area. Franchising actually is a French word that means honesty or freedom.

A Franchise is a contractual agreement between the franchiser and the franchisee that allows the franchisee the right to supply its brand (goods and services) exclusively within a defined area, as per a particular format for a specified period of time. In return, franchisee pays a fixed fee in advance and a monthly percentage of gross sales made by him under franchiser name and fame in the form of royalty. In India, franchising business is becoming very popular and growing rapidly. The small businesses find it convenient by being a part of large, multinational firm because franchiser provides great assistance to franchisee for locating and constructing the retail store (including interiors, and exteriors), developing the goods and services for selling, hiring employees, training, advertising and administering the store effectively.

Key franchisers in India

• Aptech
• Coke
• Domino’s Pizza
• Koutons
• McDonald’s
• Pepsi
(4) LEASED DEPARTMENT STORES

A leased department which is also known as shop-in-shops or store-in-store, is a section of a department in a retail store in the form of speciality/discount store given to any outside party on monthly rental basis. The person who provides the store space to outside party is known as lessor, and the person who takes the shop/store space is known as lessee. The payment made by lessee to lessor for the use of store space is decided in a contract in the form of monthly rent. The lessee (the proprietor) is usually responsible for all aspects of business such as managing fixtures and furniture. In order to maintain the overall consistency and co-ordination, the store has some operating and administrative restrictions for each lessee in a uniform manner.

For a lessee (retailer), the main reason to have rented premises is the property price that usually is so high that buying the premises is beyond the reach of the retailer.

Leased Departments in India

In India, leased departments are an emerging trend in the field of retail business. Most of the renowned retail chain stores set up their outlets or extension counters in commercial complexes of residential areas, malls, PVR multiplexes, public places like bus terminals, railway stations, metro stations, airports and on national highways. The reason behind their popularity is the business and marketing philosophy of the retail chains that insures the availability of their brands to the consumers near their place of work or home.

(5) VERTICAL MARKETING SYSTEM

A Vertical Marketing System (VMS) is a system in which almost all the members of distribution channel such as manufacturers, wholesalers and retailers work together to satisfy human needs and wants by facilitating the smooth flow of goods and services from manufacturer to ultimate consumer.
In traditional marketing system, manufacturers, wholesalers and retailers are separate entities that try to maximize their own profits. The philosophy behind developing vertical marketing system is that when one member of distribution channel tries to maximize its profits on the expense of rest of the members, it will create conflicts resulting in decline in profits for the whole channel of distribution. To avoid these conflicts, now retail firms have started forming vertical marketing systems. Three types of VMS are in existence through which goods and services are usually distributed to customers. These are:

(i) Independent firm VMS
(ii) Partially integrated VMS
(iii) Fully integrated VMS

(i) Independent firm VMS is a marketing system where manufacturers play vital role to provide goods and services to customers. This is the case where retailers are very small and therefore, manufacturers have to reach the whole market. Also when firm’s financial resources are limited and channel members are not in a position to share risks and expenses, therefore, they want manufacturer to come forward and lead the retailing efforts. Independent retailers on the other hand, target their customer base and build loyalty by becoming friendly retailer and mouth advertisement.

Examples:
- Campbell
- Coke
- GE
- JC Penney
- Kellog
- McKesson Corp
- P&G
- Pepsi
- Toys R Us
- Wal Mart
(ii) Partially integrated VMS is a marketing system in which two independent, financially strong firms along a channel of distribution perform all manufacturing and distribution functions without the involvement of any intermediary. This is the case where involvement of wholesalers may be expensive and/or unaffordable. The example of such system is where manufacturers and retailers divide all the retailing activities like production, storage and distribution without any independent wholesalers. Partially integrated VMS is most suitable where (i) wholesalers are costly to afford, (ii) company has ample resources, (iii) both manufacturers and retailers are large, (iv) unit sales are moderate, and (v) strict control over channel is required.

(iii) Fully integrated VMS is a system where one member of the distribution channel for say manufacturer performs all production, storage and distribution functions without the involvement of any channel member. This is the case where manufacturer being resource sound wants direct interaction with its customers. Earlier throughout the globe, this system was usually employed by manufacturers of repute but now due to ease of finance facilities and retailing being a significant contributor to any nation’s economy, retailers are also moving upward in the chain. Vishal Mega Mart and Reliance Fresh work on the principle of integrated marketing system and provide efficient customer service, wider assortment without increasing the price of commodities. In short, fully integrated system is based on the concept of ‘manufacturing to retailing’. Other examples are:

- Banana Republic
- Gallo
- Giant Foods
- Hallmark
- Oil Companies
- Sears
- Sherwin Williams
- The Gap
(6) CONSUMER COOPERATIVES

Consumer Cooperatives are retail outlets owned and managed by its customer members. A group of interested customers (members) start retail operations by investing money, receive stock certificates, elect members to run day to day activities and share the profits on the basis of investment made or certificates held.

The reason to setup consumer cooperative is that local retailers are not able to satisfy consumers’ needs (whatever the reason may be). Therefore, consumers are left with no option but to open their own store. Examples of cooperatives in India are the ‘Kendriya Bhandaars’, owned and managed by government, ‘Apna Bazaar’ shops in Mumbai and ‘Super Bazaar’ stores in Delhi. In some cases, these stores are run by the local residents of society/colony/apartment residents.

In India, consumer cooperatives are not popular and therefore are limited in number because members (consumers) are not expert in buying, marketing and handling goods and services. But some cooperatives have gone ahead and have emerged into leading retail chain, for instance, ‘Mother Diary’ in Delhi and ‘Parag’ in Lucknow. Indian government in order to save Indian art and helping artisans and small and medium sized industries open stores and provide marketing assistance from time to time. KVIC stores throughout the country and State Handloom Emporiums in big cities are example of such retail format.

RETAIL STORES ON THE BASIS OF MERCHANDISE OFFERED

Under this category, retailers are broadly divided into two categories:

(A). Food Based Retailers and

(B). General Merchandise Retailers

(A) FOOD BASED RETAILERS

After the launch of New Industrial Policy, 1991 the Indian economy has re-energized itself in terms of capital invested and number of new ventures started. One such development that has become topic of each debate and conference is the organized food retailing. India is not only the country of ‘kirana’ stores but has a biggest population of working middle class. For every
thirty families, there is a store - no matter big or small, grocery or soft drink corner. But this trend is not to continue in the years to come as big business houses like Reliance, Tesco, Walmart-Bharti, and Birla are opening shops throughout the country. This would replace the traditional ‘kirana’ or department store. This already has created fears in the mind of unorganized ‘kirana’ stores and small type shop keepers. Food stores are becoming popular as even better quality goods (when compared to local stores) they are offering in low cost under hygienic and attractive ambience outlets with dining arrangements. Food stores in India are divided into four categories as under:

1. Convenience Store
2. Conventional Super Markets
3. Food Based Super Stores
4. Combination Store

1. CONVENIENCE STORES

There are small retailers that offer a limited variety of merchandise at small scale but convenient locations ranging from 2,000 - 3,000 sq. ft. These outlets /stores are modern versions of the traditional ‘kirana’ stores. The future of this category is better as they enable shoppers to shop quickly with a speedy checkout. The convenience stores are becoming popular in metro cities where generally both husband and wife are employed and have no spare time to shop. Secondly, convenience stores as per their name are located alongside busy roads, parking areas or at petrol filling stations. In metros, one can find these outlets at railway stations, bus stands and near residential areas. These stores usually have long shopping hours and are spreading near densely populated colonies and residential societies. As compared to other types of stores like supermarket, convenience stores usually charge higher prices.

Convenience stores at a Glance Positive Aspects

- Quick shopping
- Less checkout time
- Self service level
- Long shopping hours
Negative Aspects

- Limited product range
- High pricing
- Small stores

Assortment: An assortment is the selection of merchandise a retailer carries to sell in his retail outlet. Assortment includes both the breadth of product categories and the variety within each category.

Width of Assortment: Width of assortment refers to the number of distinct goods/services categories that a retailer has purchased and displayed for retail selling in his outlet.

Breadth of Assortment: It refers to the variety in a particular good/service.

Micro Merchandising: It refers to a strategy whereby a retailer adjusts its shell space allocations to respond to the customers and other differences (if any) among local markets.

2. CONVENTIONAL SUPER MARKET

A conventional supermarket is a departmentalized grocery store with a wide range of dairy products and household items such as soft and hard drinks (wherever allowed to be sold), household cleaning products, shampoos, soaps, clothes, medicines and plastic items. A supermarket offers a large retail facility with huge range of merchandise under same roof at low prices by shrinking margins. Supermarkets usually rely on high inventory turnover and built either near a residential area or on the outskirt of the city. Customers in supermarkets use ‘trolleys’ or ‘baskets’ for collecting their desired products and pay for the same at the checkout counters (billing sections) near exits. Due to cost effective and consumer savvy, conventional supermarkets are facing intense competition from traditional ‘kirana’ stores and other types of food outlets.

Supermarket at a Glance

A conventional supermarket is relatively large, low-priced, low-margin, high-volume, self-service operation designed to serve variety needs for food
and household items. Other benefits include convenient shopping hours and space for parking.

Features:

Location: Near/edge of town
Size: Large
Product range: Vast range, deep and broad
Pricing policy: Low pricing
Selling theme: Every Day low Pricing (EDLP)
Target market: Mass
Atmosphere: Busy and well organized
Service level: Self service

Supermarket in India is one of the fast growing segments but so far there is no standard criterion that makes a supermarket format. Even many traditional ‘kirana” stores are refurbishing their shops/retail outlets and advertising themselves as supermarkets. They use Every Day Low pricing (EDLP) selling policy to build store traffic and provide a one-stop shopping.

3. FOOD BASED SUPERSTORES

In India, food retailing is the buzzword today. There is a large variety of food stores operating in food retailing. This is not surprising as the Indian middle class income is increasing rapidly and therefore they prefer to shop at supermarkets for its hygienic environment, convenience and attractive ambience. This ‘value’ and ‘feel good’ perspective offered by food retailers stimulate customers to try new and different things. Though food retailing in India is becoming popular very fast but with a population of more than one billion and a middle class population of over four hundred millions, food retailing is still in its nascent stage.

With the entry of corporate houses like Bharti, Walmart, Reliance Fresh, Vishal Mega Mart, Aditya Birla group, and the existing Big Bazaar, Spencer, and Food Mart outlets are making foray in the so called untapped market. The pace with which these food companies are spreading throughout the country, the net of the organized retail outlets is going to reach soon the small populations towns of one lacs to over five lacs after covering all small, medium and big cities.
Superstores are usually large supermarkets that have space area ranges from 20,000 to 50,000 sq. ft. These stores as the very name implies, sell grocery items and offer customers the ability to buy fill-in general merchandise.

Features
(i) Offer one-stop shopping experience
(ii) Stimulate impulse purchase
(iii) The concept of EDLP (Everyday Low Price) is usually followed
(iv) Large, low margin and self service stores

Advantage
It is easy to convert super markets into food-based stores than combination stores.

4. COMBINATION STORES/SUPER CENTRES

Super Centre
A super center is a combination of supermarket and a discount retail store. Supercenters usually have average size of about 1,50,000sq.ft and allot 30-40% of their retail space to grocery items and remaining to discounted general merchandise, presenting threat to traditional supermarkets.

Combination stores basically are food-based retailers that combine their supermarket and general merchandise sales at one place. While in India, there is as such no standardization on the parameters of what makes a supermarket, is one of the fastest growing retail formats. In a combination store, general merchandise sales usually accounts for 30-40% of total store sales. As economies of scale are higher in a combination store, therefore, these stores offer low pricing policy and make profits on account of impulse sales.

Combination stores provide one-stop shopping experience, and therefore, customers do not consider distance factor to come to these stores.

(B). GENERAL MERCHANDISE RETAILERS
General merchandise retailers usually sell all non-food items such as house wares, furniture, consumer electronics, toiletries, toys, greeting cards, plastic wares, hardware, Jewelry items, shoes, kitchen appliances, clothes,
readymade garments, bakery, music world, gift items, cell phones, home appliances, cooking wares, furniture, sports and food courts. The retailers under General Merchandise category are classified as under:-

1. Discount Stores  
2. Specialty Stores  
3. Factory Outlet Store  
4. Hyper Markets  
5. Departmental Stores  
6. Membership Club  
7. Parasite Store  
8. Destination Store

1. DISCOUNT STORES / DISCOUNTERS

Discount stores include:

1) Limited line Discount Store: Limited line discount stores sell limited lines of merchandise at low prices but the brands offered are well reputed. Due to limited line, stores may change their stock according to buying opportunities and change in customer liking and disliking very frequently. Limited line discount stores may be located near the residential areas, out of city or edge of city to take advantage of suburban site like easier access and lower rent.

2) Full line Discount Store: A full line discount store offers broad merchandise assortment in high volume but at low cost. As the name implies, besides carrying the general product line expected at departmental store, it includes house wares, kitchen wares, gardening, sports accessories, and auto accessories with centralized check out service system. The reasons for the success of such retail formats are many. The important among them are:

(a) low pricing  
(b) average to good quality merchandise  
(c) good facilities  
(d) well managed standardized retail outlets.

These stores face strong competition from other retailers like category killers and other low priced discounters.
3) Off-price store: off price retailers usually buy merchandise at less than regular wholesale prices (normally between one-fifth to one-third of the original wholesale price) and sell them at less than retail prices. Off price stores often buy leftover merchandise, overruns, and irregulars obtained at low prices direct from the manufacturers or big retailers. These stores offer an inconsistent merchandise assortment, latest fashion goods at reduced prices. The reason for making them enable to purchase at lower prices is that these stores/retailers don’t claim/ask suppliers for any advertising and sales promotion allowances and any delayed payments.

In India over the last few years, the sales graph of off-price stores has declined with the increasing popularity of departmental and supermarkets. Consequently, now off-price retailers have changed their modus operandi and are buying latest merchandise and also carry the manufacturer’s surplus, discounted or irregular goods. In India, these stores are usually run by the parent company to increase the business under retailing format. Pantaloon factory outlets, Levi’s factory outlets and Liberty factory outlets are the examples of this category.

Discount stores at a Glance

Discounters typically operate with very low pricing policy by strictly controlling operating costs such as expenses incurred on store layout, cost of land, e-retailing and by offering limited/very few services to their shoppers. Due to bulk buying, discounters typically offer 20-40% below supermarket and discount store prices but don’t accept credit cards and make no home delivery.

Features:
Location : Near/Far
Store size : Medium
Merchandise assortment : Limited
Pricing policy : Low (very low)
Service level : Self
Promotion emphasis : Advertising
Target Market : Mass
Product category : General
1.5.1.2 Specialty Store

A specialty store concentrate on a narrow product line, with a deep assortment in that product line, such as apparel and accessories, furniture, consumer electronics etc. The specialty stores have very clearly defined target market and therefore provide a top level of consumer service and sales expertise in the concerned category. These stores operate in an area typically not more than 8,000 sq. ft. in contrast to a mass marketing approach, specialty stores offer limited variety but full range of merchandise. These stores generally have discounted competitive pricing strategy.

Key Specialty Stores of India

- Adidas
- Apollo Tyres
- Aquaguard
- Bata
- Bausch and Lomb
- Food Bazaar
- Gautier Furniture
- HaldiramBhujiwala
- Inalsa
- KC Das
- Khadims
- Music World
- Nokia World
- Pantaloons
- Proline Fitness Station
- Reynolds
- Sify Way
- Sony World

Specialty Stores

Narrow product line with a deep assortment, such as apparel stores, jewelry, sporting goods, furniture and bookstores. A clothing store would be single-line store; a women’s clothing store would be a limited-line store; and a men’s custom shirt store would be a super specialty store.
Features:

- Personal care
- Excellent customer service
- Impressive store ambience
- Low pricing

A Category Killer or a Power Retailer is basically a large category specialist. Most category killer use a self service practice and kills the category of merchandise (for say Interiors) for other small retailers of the same line by offering complete assortment in the concerned category. They stock deep variety, for instance, Toys “R” Us offers more than 10,000 items in their stores.

Due to declining interest in traditional apparel shops, a new sort of speciality retailer is emerging very fast in the country especially in metros with the names of category specialists or category killers. A category killer is a discount store that offers a very large selection in the concerned product category at affordable prices. ‘Chhabra 555’, ‘Bombay Selection’, ‘P.P. Designer estate’ in Delhi and ‘Nalli’s’ in Chennai can be termed as category killer in Sarees. ‘The Lift’ in Mumbai is a footwear killer spread in an area of 15,000 sq. ft. Drug stores, mobile stores are also speciality stores or category killers that are becoming very popular in the country. They concentrate on health and telephony instruments. Of the Top-200 Global Retailers, 21% of retailers fall in the specialty stores category, followed by 18% in supermarket, 12% in department and 9% each in hypermarket and discount stores.

Figure 2.4

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name of the Retailer</th>
<th>Country of Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-mart Stores</td>
<td>USA</td>
</tr>
<tr>
<td>2</td>
<td>Carrefour Group</td>
<td>France</td>
</tr>
<tr>
<td>3</td>
<td>The Kroger Company</td>
<td>USA</td>
</tr>
<tr>
<td>4</td>
<td>The Home Depot</td>
<td>USA</td>
</tr>
<tr>
<td>5</td>
<td>Metro</td>
<td>Germany</td>
</tr>
</tbody>
</table>
3. FACTORY OUTLET STORES

A Factory retail outlet is a retail store, owned and managed by a retail firm (usually manufacturer) for the purpose of selling defected items, close outs, irregular, cancelled orders and season-end items. These are off-price retail stores and are commonly known as factory outlets. In India, they are usually found at the outskirts of the city, reducing storing, operational and distribution expenses. They usually create threat to existing retailers by offering heavy discounts. Some of the factory outlets are in permanent covered sheds/locations and offer additional facilities such as parking, restaurant, and recreational facilities.

The manufacturer has following reasons to have a Factory Outlet:

(i) It is the means to dispose off surplus, cancelled, out of fashion and defected stock,

(ii) As these are located outside the town, besides increasing firm’s revenues, do not affect the sales at manufacturers’ department and specialty stores.

Features

(i) Open seven days a week

(ii) Long working hours

(iii) Limited consumer service

(iv) Less marketing efforts

(v) Out of the way location

4. HYPERMARKET

In commerce, hypermarkets are characterized by large store size, low running costs and margins, low prices and very large range of merchandise. A hypermarket usually is a very large retail unit offering merchandise at low prices and combines various department stores. In India, hypermarkets have a floor area of more than 50,000 sq. ft. These have their own multi-level spacious car parking facility for their customers and employees. In fact, hypermarkets are giants that offer long range of merchandise in varied quantity and quality under one roof.

The first choice places for Hypermarkets
Big Bazaar and Reliance Retail are two major hypermarket chain stores. Big Bazaar - a hypermarket opened its first store in April 2002 at Phoenix Mills premises in Mumbai with an area of 50,000 sq. ft. According to Pantaloon Retail (India) Ltd, owner of Big Bazaar outlets in India, Big Bazaar offers over 1,70,000 items in over 20 product categories. In short, in Big Bazaar there is something for everyone. But there is nothing wrong in saying that even after five years since 2002, hypermarkets are still in the experimental stage in India. Reliance retail and Bharti-Wal-Mart are the new entrants in this category.

**Hypermarket**

<table>
<thead>
<tr>
<th>Selling area</th>
<th>&gt; 50,000 sq. ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Counters</td>
<td>20-60</td>
</tr>
<tr>
<td>Numbers of items sold</td>
<td>Thousands to lakhs</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>Hundred to thousands</td>
</tr>
<tr>
<td>Covered Area</td>
<td>Upto 60%</td>
</tr>
<tr>
<td>Pricing Policy</td>
<td>Special (discounted)</td>
</tr>
<tr>
<td>Discount</td>
<td>4 -40%</td>
</tr>
<tr>
<td>Central Theme</td>
<td>“Is Se Sasta Kahin Nahi”</td>
</tr>
<tr>
<td>Service Level</td>
<td>Self service</td>
</tr>
<tr>
<td>Payment Mode</td>
<td>Cash/debit/Credit cards</td>
</tr>
<tr>
<td>Ownership structure</td>
<td>Corporate chain</td>
</tr>
<tr>
<td>Positive Aspects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Low pricing</td>
</tr>
<tr>
<td></td>
<td>• Convenience shopping</td>
</tr>
<tr>
<td></td>
<td>• Comfort</td>
</tr>
<tr>
<td></td>
<td>• Right quality, quantity and price</td>
</tr>
<tr>
<td></td>
<td>• Excellent service</td>
</tr>
</tbody>
</table>
• Good parking facility
• Wide product range

Negative Aspects:

• Far away from the city (only) Items Sold

In hypermarket, usually groceries account for about 60% of total sales, the store also sell a large number of other items like garments, consumer durables, fruits, vegetables, plastic items, electronic items, jewelry etc. In fact, apart from the wide product range, hypermarkets have their own outlets of bakery, music world, gift items, cell phones, home appliances, cooking wares, furniture, sports and food courts.

5. DEPARTMENTAL STORES

A department store (Traditional Departmental Store) is a large retail outlet that offers a large variety and deep assortment and is organized into separate departments for the purpose of selling, display and promotion, customer service and control. Each department sells unique products and has its own selling, accounts, packaging and security staff. Not only in India, but this type of format is popular and well appreciated in many parts of the world.

To be defined as a department store, usually it follows following conditions:

1) It must employ minimum 50 people as store staff.
2) Most selling goods relate to FMCG and daily used items.
3) It should have proper balance between home furniture, consumer electronics, apparel and food.
4) All the departments should generate balance contribution towards sales. For instance, not more than 80% of annual sales can come from single product line.

In India, apparel and furnishing are two common categories in most of the department stores. The major India department stores like Ebony, Shopper’s Stop, Westside, Music World, Globus and Lifestyle deal in women’s, men’s, kids’ clothing, furniture, jewelry, kitchenware and furnishing.

Department Stores at a Glance

• C3 (Cost, Comfort and Convenience)
• Food World
Marks & Spencer
• More - AAditya Birla Group
• Pantaloons
• Relaince Fresh
• Shopper’s Stop
• Six to Ten
• Spencer’s
• Spinach
• Vishal Mega Mart
• Pocket Friendly Mega Mart

Department store merely is a large general store. A department store, however, is to be distinguished from a general store in that departments and groups of departments operate it, whereas a general store is not.

Traditional Department Stores

A traditional department store offers several product lines - typically clothing, household goods, jewelry and home furnishings. Each department within the store has separate line, managed by specialist buyers or merchandisers and offer mid-to-high quality products.

Features:
Size : 20,000 - 40,000 sq. ft
Pricing : Moderate to above average
Customer service : High level
Product category : General
Ownership structure: Corporate chain
Pricing Strategy : Competitive
Keeping pace with technology : Yes

6. MEMBERSHIP CLUB RETAILING

Warehouse club stores usually sell merchandise in fixed quantities at low prices. These stores require that their customers should take their membership and visit their stores. The products offered are food items,
grocery, and clothing with an array of consumer electronic items that vary from season to season. Customer service is nominal due to low price policy.

7. PARASITE STORE

A parasite store is a small store/outlet, which neither have its own floor area nor its own customer traffic. The size, nature and timing of these stores, depend on people/visitors who are drawn to that location for their own reason. The reason for their visit may be to meet government officials, attending a Seminar or Conference in a Hotel, or Railway/Airline booking. A Coffee Parlour in a Shopping Centre, a Magazine and Newspaper Stall in a Hotel Lobby and a Hair Saloon/Beauty Parlour in a PVR Cinema Complex, all are examples of Parasites. The purpose for using the term ‘parasite’ is to convey the sense that customers visit these locations not because of their presence but patronize these Stores while they are there.

Parasite store depends on existing traffic flow of a shopping centre or retail business area. In actual, as such, it has no identity of its own and standing in the line of retail business. Customers visit these stores not because of its sales promotion efforts, customer service, store image and merchandising efforts, but the circumstantial visits made by the customers to these hosts (shopping complexes, malls, hotels, government offices, public places or railway/Metro stations).

Characteristics:

- It does not have its own trading area.
- It does not have its own customer traffic flow.
- Its activities are dependent on the main host;
- It usually has less/no competition within the host area.
- It has limited product range.

8. DESTINATION STORE

The destination store, as the name implies, is the retail store where customers make a special visit for the purpose of shopping. The main philosophy behind the destination store lies because of its uniqueness in terms of merchandise assortment, way of presentation, ambience, pricing and
customer service. For a retail store, it is not easy to become ‘a destination store’ in the eyes of the customers.

*How to become a Destination Store?*

The key to become a destination store lies in the following considerations:

A. Retail location: Once a new-comer retailer asked from a successful retailer "what is the secret of your success?" He answered that the most important consideration is the ‘location’. No doubt, some locations are better than others in some aspects. It includes convenience, cleanliness, proximity to residential area, quality, selection, customer service and handling the customers.

B. Service that attracts: Somebody said, today is the world of retailing, it is not the product but the customer service that gives you the profit. A product is available in different types of stores or shops but if the customer prefers to go to a particular store that the answer is simple - it’s the welcome and way of handling that attracts the customer to visit a particular store. If all retailing factors are equal and same like quality, price, presentation and selection of goods displayed between your retail store and other nearby stores, then you will find it is ‘customer service’ that makes your store a dream (destination)store. Here is a list that can be beneficial to make your store customer savvy:

- Proximity to your store;
- Does your store meet what is publicized and presented within the store?
- Does your store invite strangers or casual shoppers from outside?
- Are your windows neatly cleaned and displays kept up regularly?
- Do you have enough parking place;
- Have you heard customers talking about your customer service;
- Convenience.

Each retailer is not fortunate enough to have a good location. Sometimes, you have no shortage of funds and human resources but suitable location is not available in the area where you have planned to open a retail store. Here you have nothing to do about a bad location
except make it convenient to the customers. Convenience here implies 'can a shopper get in and out of the store quickly and easily?' For a retailer, it means, blend of full and self-service system, variety of merchandise assortments, regular fill up of racks and provision of customer complaint handling.

C. Unique Signage: Signage is a non-living thing that speaks much and have long lasting impact on the customers' memory, whatever people have opinion about McDonald's Restaurants, one can find their signage a kilometer away and those golden arches speak enough to kids and compel their parents to visit without questioning. In retail competition, nothing is less important in a destination store than badly presented signs in the stores, signs and windows that are never cleaned, falling apart or otherwise ignored. This is not to be considered in case of a single store but is important if you are planning to open more than one outlet. If you can create a unique identity that shoppers believe and relate to, it will help you (retailer) to a large extent in case of multiple outlets.
<table>
<thead>
<tr>
<th>Format Type</th>
<th>Variety</th>
<th>Assortment</th>
<th>Pricing Policy Nature</th>
<th>Service</th>
<th>Size (000 sq.ft.)</th>
<th>SKUs (in 000)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyper Stores</td>
<td>Broad</td>
<td>Very</td>
<td>Low to Deep</td>
<td>Low</td>
<td>100-300</td>
<td>100 plus Neighbourhood</td>
<td></td>
</tr>
<tr>
<td>Specialty Store</td>
<td>Narrow</td>
<td>Deep</td>
<td>High</td>
<td>High</td>
<td>4-12</td>
<td>5</td>
<td>Malls</td>
</tr>
<tr>
<td>Department Store</td>
<td>Broad</td>
<td>Broad</td>
<td>Average to High</td>
<td>Average to High</td>
<td>100-200</td>
<td>100</td>
<td>Malls</td>
</tr>
<tr>
<td>Discount Stores</td>
<td>Average</td>
<td>Average</td>
<td>Low</td>
<td>Low</td>
<td>20-30</td>
<td>50</td>
<td>Companies’ outlets in malls</td>
</tr>
<tr>
<td>Factory outlets</td>
<td>Narrow</td>
<td>Very Deep</td>
<td>Low</td>
<td>Low</td>
<td>50-120</td>
<td>10</td>
<td>Stand-alone strip center shopping area</td>
</tr>
<tr>
<td>Parasite Store</td>
<td>Narrow</td>
<td>Average to Shallow</td>
<td>High</td>
<td>High</td>
<td>Not Fixed usually very small</td>
<td>5-10</td>
<td>Malls</td>
</tr>
<tr>
<td>Destination Store</td>
<td>Average</td>
<td>Average to Shallow</td>
<td>Average to High</td>
<td>High</td>
<td>Not Fixed</td>
<td>3-5</td>
<td>Stand-alone center shopping area</td>
</tr>
<tr>
<td>Membership Club</td>
<td>Average</td>
<td>Limited</td>
<td>Average</td>
<td>Low</td>
<td>Vary from club to club</td>
<td>Depending upon members requirement</td>
<td>Members store / in Institutional Area</td>
</tr>
</tbody>
</table>
### Table-5
Retailing Formats Adopted by Key Players

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Original formats</th>
<th>Later formats</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPG Retail</td>
<td>Supermarket (Footworld)</td>
<td>Hypermarket (Spencer’s’s) Specialty Store (Health &amp; Glow)</td>
</tr>
<tr>
<td>Piramal’s</td>
<td>Department Store (Piramyd Megastore)</td>
<td>Discount Store (TruMart)</td>
</tr>
<tr>
<td>Pantaloon Retail</td>
<td>Small format outlets (Shoppe) Department Store (Pantaloon)</td>
<td>Supermarket (Food Bazaar) Hypermarket (Big Bazaar) Mall (Central)</td>
</tr>
<tr>
<td>K.Raheja Group</td>
<td>Department Store (Shopper’s stop) Specialty Store (Crossword)</td>
<td>Supermarket (TBA) Hypermakrt (TBA)</td>
</tr>
<tr>
<td>Tata/Trent</td>
<td>Department Store (Westiside)</td>
<td>Hypermakrt (Star India Bazaar)</td>
</tr>
<tr>
<td>Landmark Group</td>
<td>Department Store (Lifestyle)</td>
<td>hypermarket (TBA)</td>
</tr>
<tr>
<td>Others</td>
<td>Discount store (Subhiksha, Margin Free, Apna Bazaar), Supermarket (Nilgiri’s), Specialty Electronics (Vivek’s Vijay Sales)</td>
<td></td>
</tr>
</tbody>
</table>

1.5.2 NON-STORE BASED (TRADITIONAL) RETAIL MIX & NON-TRADITIONAL SELLING

This part discusses various type of retail format that work mostly in non-store retail environments. The main types of retailers under this category are:
1.5.2.1 Traditional Retailing

1. DIRECT MARKETING/DIRECT RESPONSE MARKETING

It is the branch of marketing by which an organization directly communicates to its customers to generate revenue producing response, transaction or sale through leaflets, pamphlets, brochures, print ads mailed or catalogues distributed directly to its existing and potential consumers. In other words, direct marketing is a form of retailing under which a potential customer is first exposed to a product or service through any form of non-personal communication and then orders by phone, fax, courier or email.

A direct relationship with the consumer is the basis of direct marketing. In direct marketing, customers become aware of the products/services offered through a non-personal medium like TV, internet, mail, phone or catalogue etc. These are discussed as follows:

a) Catalogue/Mail Order Retailing: it is a form of retailing in which retail outlets communicate about their merchandise through a catalogue. This retail format is comparatively new to Indian retail industry. On the other hand, mail order retailing is a retail format in which retailers communicate with their customers using mails/letters or brochures.

b) Television Shopping: In India, Asian Sky Shop was among the first few retailers who introduced the concept of television shopping. In this form of retailing, a product is advertised on television with its demonstration and features followed by opinions of those who have used the same product and are satisfied with its performance. Other aspects like mode of payment, delivery time, guarantee and warranty are also discussed. For each city, phone numbers are continuously displayed. The buyer can call in and place the order by giving address details. The product is then delivered at home through courier/VPP(Value Paid on Postage).

c) Electronic Shopping/Electronic Retailing: Today, most of the big size retailers have their own website, which allows a retailer to conduct a targeted business twenty four hours a day and seven days a week. Providing retail business offers the retailer not only a modern way of getting business but also cost effectiveness. This one time small investment in creating and registering the website on World Wide Web is
accessible to everyone irrespective of location, time zone, income level or computer system. The internet also provides the fuel and information about the goods and services through digital images, visual and audio effects. Electronic brochures provide three-dimensional aspects of the goods and services which a shopper can explore any time before having buying decision.

Electronic Shopping is variously referred to as virtual retailing or e-tailing. Due to ease of access and lower operating costs, the internet is revolutionizing retailing in many fundamental ways like eliminating wholesalers/intermediaries after the concept of manufacturing to retailing.

**Merits of Electronic Retailing:**
- Low operating cost
- Time saving
- No effect of time, distance and income group
- No need to visit the store e Easy access

**Demerits of Electronic Retailing:**
- The cost of delivery is passed on to the customer
- Sometimes difficult to judge about displayed products
- Misuse of credit cards
- Possibility of tempering by courier or delivery agencies
- No examination and feel of goods before buying.

2. DIRECT SELLING

It is a retail format where salesperson makes a personal contact with the ultimate consumers at his home or at his/her place of work. In this format, usually salesperson invites some friends or neighbours at his home, office or club and demonstrates the product after formal lecture/briefing. Buying and selling is done on the spot. In India, direct selling concept came in mid 1990s with the entry of so-called Modicare and went through a bad phase before attaining a significant contribution to Indian economy for worth Rs. 2000 crore today.
Features
(i) Mainly handled by housewives comprising up to 70% of total sales people in India,
(ii) Highly interactive in nature
(iii) Sales depend on communication and way of demonstration
(iv) Non-store retail format
(v) Absence of intermediaries
(vi) Reasons for increasing popularity
(vii) This system is free from long checkout lines
(viii) Ease of payment facility
(ix) Salesperson is known to customer
(x) People have no time to shop everything
(xi) Free from traffic congestion, parking problems etc
(xii) It may appoint other people to work with/ for them as distributors. The master distributor earns a commission on the basis of quantity sold and through recruiting other distributors and receiving a portion of the income earned by these distributors because of their own efforts.

Advantages of direct selling approach:
Following are the advantages of the direct selling approach:
(i) reduction in marketing cost
(ii) reduced cost for seller
(iii) lower prices for buyer
(iv) source of earning
(v) convenience for customers
(vi) free from business formalities

3. VENDING MACHINES
Vending machines are automatic machines that serve the purpose of selling general merchandise like soft drinks, burgers, snacks etc. to customers in the absence of any retailer. The concept of vending machine is very popular in European countries like USA. In India, it is of recent origin and is found in areas of high traffic to sell newspapers, magazines, beverages etc. The objective behind use of vending machines is that it reduces cost on
human resources. It is believed that the very first vending machine was designed and implemented by Hero of Alexandria, which used to accept a coin and then dispense a fixed quantity of 'holy water'.

Vending machines work either on the basis of inserting metal coins or card swipes. Some vending machines have inbuilt refrigeration units or heating outlet to keep the eatables ready to use. Vending machine operations are usually hassle free but need regular maintenance and service to keep machine working and full of stock.

1.5.2.2 Non-Traditional Retailing

1. Electronic Shopping (WWW)

Electronic Retailing which is also known as internet retailing, e-tailing, cyber-retailing, virtual retailing or e-retailing is the sale of goods /services through and electronic media. This electronic media, we all know is Internet (World Wide Web). But these days due to revolution in electronic communications, besides internet, several other Medias like digital television, web-enabled mobile telephones (WAP), tele-conferencing devices etc are also operational. The main advantage of electronic/internet retailing is that it does not require any direct human interactions. Besides this, internet retailing offers same quality, convenience of access, reliability and lower cost. In short, this form of retailing allows the customers to evaluate and purchase goods and services without going to any physical retail store.

2. Video Kiosks

The video kiosk is a self-supporting, interactive, electronic computer terminal that displays goods and services on a video screen and permits the viewer to make selections. It uses touch screen for consumers. By simply touching the screen, it shows videos clips, presentations, and product details immediately on screen or on an attached projector or plasma screen. In malls, video kiosk forms the centre piece attraction. Some retailers use video kiosks to enhance the customer service level while other use kiosks to take order from customers, complete transactions, and arrange for goods to be delivered at their doorstep. Video kiosks are used at large levels where there is shortage of space and retailer is not able to display entire product range.
Kiosks can be attached with retailers’ computer networks or against existing databases or websites.

These kiosks can run any type of software and application on the Internet or a desktop computer. Because every business now relies so heavily on computers, all-in-one systems, which enable businesses to communicate with customers, partners and employees, have an application in every industry. Kiosks can be used in any setting, and are especially well suited for installation in public areas such as lobbies, retail stores, warehouses, entertainment venues, trade shows, museums and colleges.

Many companies already have the content they need for a kiosk right on their website. Thus, all-in-one systems Kiosks can easily be connected to the Internet to provide controlled access to a website, or the content of a website may be saved on the kiosk’s hard drive, which provides similar functionality. Advanced kiosks can even display full-motion video and other bandwidth intensive applications.

Types of kiosks

In India kiosks are still in nascent stage. But in developed countries like USA, kiosks are being used for several decades. It is estimated that only in USA more than 13 million kiosk terminals are in existence. The major retailers using such kiosks are Wal-Mart, Northwest Airlines, Future Shop, Jet Blue Airways, GTAA, and The Home Depot. Globally these types of kiosks are used to serve varied purposes.

(i) Building Directory & Way finding Kiosk
(ii) Digital Menu Board
(iii) Digital Order Stations
(iv) Financial Services Kiosk
(v) Instant Print Stations
(vi) Internet Kiosk
(vii) Intranet Kiosk
(viii) Kiosk Manufacturing Industry
(ix) Kiosk Reliability
(x) Movie Ticket Kiosk
(xi) Photo Kiosk
3. Airport Retailing

Thanks to consistent double-digit growth in the airport travellers and introduction of low cost carriers, airports today have been renovated from being dull and boring places to cheerful, vigorous and lively destinations. Thanks also go to emergence of airport retailing in India. The 21st century traveller is being attracted in every possible manner. Malls, service stations, parasite stores, duty free shops, consumer durables stores, are all set to change the traditional view of airports.

Being recently explored, Airport retailing offers one of the most promising sectors for retail development. It offers branded luggage, clothing and items of decoration. Food, toys, consumer cells, electronics, souvenirs and wristwatches are other specialized segments. Shoppers’ Stop, Future Group and Tata’s consumer durable chain, Croma are the few major players in airport retailing.

1.5.3 Other Emerging Retail Formats

1) Van/Mobile Van Retailing: This is a compromise between door to door selling and store selling. In this type of retail business, retailer keeps one day stock of his merchandise and goes to an area to serve its permanent customers. Sometimes retailers visit some areas which are totally new to them to attract new customers. The kind of products sold in Van retailing can range from everyday household products to different kinds of eatables. The various van goods include soaps, detergents, kitchen appliances, scrubbers, and several other cleaning products. There are some vans which designed to operate at extremely low temperatures. In these types of van customers will find all kinds of frozen food such as vegetables, meat, dairy products, and ice. In the rural areas this kind of selling of goods still exists though it is not quite
popular in metropolitan cities. In some states van retailing may be subject to regulations and entail licensing. State regulations determine the area that van sales can cover and the products that are allowed to be sold. Van retailing is usually found in remote/rural areas and is of two types:

(a) Static retailing: Under this sort of retailing, such vans are parked in public areas where customer traffic is usually high. The items sold under static retailing are snacks and junk food.

(b) Roving retailing is where retailer takes his van to one house to another, selling merchandise to customers at their doorstep.

2) Conference/Party/Event Retailing: In this sort of retailing, retailer invite people from nearby localities and after describing positive aspects of the merchandise, sells it. These types of get together/events are organized by the franchisor (retailer) belonging to a big organization. The products sold under such form of retailing vary from cosmetics from small household items that are of low cost. In order to attract customers, retailer usually distributes sample merchandise or gives some demonstrations regarding effective use if his items offered on sale. Event retailing usually take place on national or regional level events such as Valentine Day, Mother’s Day, Father’s Day, Diwali, etc. Gold retailing on the day of ‘Akshaya Tritiya9’ in most of the parts of the country is one of such example of event retailing.

Some events are food related like Annual Mango festival at PragatiMaidan, Delhi organized by Delhi Tourism in collaboration with Delhi Government. Further food festivals, special food offers being offered on the occasion of ‘Karva Chauth10 and Navratra11 in India are none other than event retailing.

3) Distant Retailing: As the very name implies, under distant retailing, a customer place the order from a remote location by telephone, SMS, internet, pager etc, instead of visiting a store. Retailers who provide such home delivery facility may/may not have physical stores. The leading global retailers who follow such practice are Amazon, Wal-
mart, Arkay Hygiene. The main advantage of such sort of retailing is that any type of item can be supplied by the retailer on demand. The range of items offered depends on the customers’ demand, and retailers’ resources and the infrastructure of the concerned region.

4) Forecourt Retailing: A new emerging concept in retailing is the establishments of stores in front of large buildings of high traffic areas. This concept caught public attention with oil companies trying to allow private companies to set up convenience stores at their fuel station outlets. The aggressive players in this area are HPCL, IOC, BPCL and Reliance. According to a Business Standard report, Vishal Mega Mart has tied up with Hindustan Petroleum Corporation Ltd (HPCL) for opening forecourt retail stores chain, which has been branded as ‘Vishal Corner Mart’ will set up convenience stores at fuel station outlets of HPCL. These marts besides offering convenience goods and services would also provide travel solutions and other facilities as a ‘one stop solution’.

Previously, Apollo Pharmacy had tied up and set up ‘convenio’ stores at Indian Oil Corporation (IOC) petrol pump outlets for supplying groceries and medicines. This experiment was well appreciated by business critics but it did not succeed, perhaps, on account of problems in revenue sharing model. Similarly Kishore Biyani-led Future group had also tied up with IOC to set up fuel pumps in Big Bazaar premises and Big Bazaar stores in IOC premises. However, nothing seems to have emerged so far.

5) Trade Parks: Retailing through trade parks is a recent retail practice and is practiced only in metro and big cities. Under this concept, business complexes are being set up for promotion of retail trade especially the international trade. Some of the examples are India Exposition Mart set up by Handicraft Export Promotion Council in Greater Noida, International Home Deco Park (IHDP) set up by a group of private investors in Noida and World Trade Park coming up in Jaipur. IHDP plans to provide International buyers ready access to
approximately sixty world class Indian exporters belonging to Home Furnishings segment. This effort of IHDP would be beneficial to buyers as they would not have to go to remote towns to see the designs and samples of exporters. Exporters apart from getting increased visibility will also get other facilities such as design library, design studio, forwarding services and so on. The parks are built to promote trade and are open to international buyers and buying houses only.

1.6 RETAIL CUSTOMER

1.6.1 Introduction of Retail Customer

Consumer buying behaviour refers to the buying behaviour of the ultimate consumer. Consumer behaviour is the study of how consumers make decisions to use their respective resources such as time, money, and effort for buying, using, and disposing goods and services. The behaviour of humans as consumers is complex. Marketers’ understanding of the drivers of consumers’ buying behaviour will help them to serve their customers effectively and efficiently and attract new customers. In the retailing context marketers are required to understand customers’ shopping behaviour, which includes decision variables regarding, among other things, brand selection, shopping timing, and choice of retail format and store.

Consumers’ shopping behaviour can be understood by analysing the factors that affect behaviour. These factors could be demographic, psychological, environmental, or related to the lifestyle of the customer. It is equally important for the retailer to identify the various stages in the consumer decision-making process and the major influences at each stage. This would make possible an effective retail marketing strategy.

1.6.2 Consumer Behaviour

Consumer behaviour is the understanding of how consumers make decisions to use their resources such as time, money, and effort for buying, using and disposing goods and services.

In the retail context, marketers would specifically be more interested to know about consumers’ shopping behaviour, which involves an understanding of decision variables regarding when, where, and what to shop (shopping
timing, choice of retail format and store, etc.). Such decision variables are the factors to be considered by the retailer while taking decisions regarding the above criteria.

For instance, in case of packaged food like pickle, marketers will be interested in finding out the type of pickle consumers intend to buy (single vegetable/fruit or mixed, spicy or not, oily or dry, veg or non-veg); the brand preference (national, private, generic); the reason for using (to add taste, for food preparation, to eat along with snacks); the place of purchase (super bazaar, convenience store, vendors, home made); and frequency of purchase (weekly, biweekly, monthly). On the basis of various alternatives to consumer needs, marketers evolve the best possible marketing mix to attract the target market.

Therefore, shoppers' response to retail marketing mix has a great impact on the firms' success in the long run. As described by Cohen (1991), in consumer buying behaviour analysis the marketing mix inputs (or the four Ps of price, place, promotion, and product) are adapted and focused upon the consumer. Individual consumers consider each element of retail marketing mix in relation to their culture, attitude, previous learning, and personal perception.

Many a time consumers' patronize more than one retail outlet for the same product. The consumer is influenced by both the intrinsic and extrinsic factors. Intrinsically, his needs, motives, perceptions, and attitudes tend to influence what he purchases and where he purchases. However, extrinsic influences such as family, social class, the culture, and economic factors will also affect his behaviour. With the understanding of these elements retailers or marketers would be well placed to devise their retail marketing mix in accordance with their respective target segments.

To understand what and from where do the shoppers shop, it is important to analyse the reasons that prompt shopping behaviour.

1.6.3 Why do People Shop?

It has been suggested that consumer shopping activities are influenced by personal and social motives. Consumers’ motives are important and
positively related to their pleasure and satisfaction while shopping in terms of retail choices.

Personal Motives

- Role playing—shopping activities are learned behaviours and are expected or accepted as part of one’s position or role, such as mother or housewife.
- Diversion—shopping can offer a diversion from the routine of daily life and is a form of recreation.
- Self-gratification—shopping may be motivated not by the expected utility of consuming, but the utility of their buying process itself. Thus, emotional states or moods may explain why or when someone goes shopping.
- Learning about new trends—shopping provides consumers with information about trends and movements and product symbols reflecting attitudes and lifestyle.
- Physical activity—it involves considerable amount of exercise.
- Sensory stimulation—shopping can provide sensory benefits such as looking at and handling merchandise, listening to the sounds (e.g., noise, music) and smelling scents.

Social Motives

- Social experience outside home—shopping can provide opportunities for seeking new acquaintances, encounters with friends, or just ‘people watching’.
- Communication with other similar interests—it provides opportunity for interactions with other customers or sales people.
- Peer group attraction—certain stores provide a meeting place where members of peer group may gather.
- Status and authority—shopping may provide an opportunity to attain status and power by being waited.
- Pleasure Bargaining—shopping may offer the enjoyment of gaining a lower price through bargaining comparison shopping or visiting special sales.
Having understood why do people shop it is important to analyse the factors that affect the consumers’ decision making process regarding what, when, and from where to shop.

1.6.4 Types & Factors Affecting Consumer Decision-making

- Types of Consumer Decision-making:-

Consumers cannot devote extensive time to accessing and inferring information for purchasing all the products they want to use. As they become used to solving some of their problems, purchases for the purpose become routinized. Similarly, for many of their needs they depend on others to conduct the purchase.

For some goods they are required to go through an extensive search for information. Essentially natural, consumers’ decision-making varies with the level of involvement and familiarity with product usage and its purchase.

On the basis of the nature of decision-making one can classify the purchases into three categories:

- Routine buy refers to those transactions where the buyer reorders from a regular store without any modifications and on a routine basis. For example, normally Indian households buy their grocery stock from a particular retailer. For instance, newspapers, bread, milk, and high frequency items are purchased from regular shops in their vicinity.

- Modified rebuy refers to those transactions where buyers want to modify product specifications, prices terms, or suppliers. It usually involves more time and information. For example, if a particular product is not available at the regular shop, the customer may seek advice from the retailer concerned. In case he does not give credence to the retailer’s advice, he may start gathering information from other sources to shortlist retailers for the subsequent purchase.

- New product purchase refers to those transactions where a buyer purchases a product or considers visiting a particular retail outlet for the first time and therefore requires an extensive amount of information to be obtained and evaluated. This is largely true for infrequent purchases. For instance, if one desires to purchase a home theatre system, one may look
for the extensive information to compare various offers. One would also be required to evaluate various dealers and retail outlets on issues related to after-sales service and delivery of the product.

On the basis of effort required for purchase or the level of involvement, one can categorize the nature of consumer decision-making into four levels,

The four levels of consumer decision making are:

Levels of Decision making

- **Extensive decision making**
- **Limited decision making**
- **Routine response**
- **Impulse decision**

*Fig. 3 Level of consumer decisions*

- **Extensive decision-making/complex high-involvement**—this kind of decision-making usually happens for unfamiliar, expensive and/or infrequently bought products. These transactions involve a high degree of economic/performance/psychological risk. Examples include purchase decision for cars, homes, computers, and education. For such transactions, an individual has to spend a lot of time seeking information and making the decision. The information sources one uses for such purchases are mass media, friends and relatives, store personnel, etc. For such decisions consumers go through all the stages of the buying process.

- **Limited decision making** happens when an individual purchases a product occasionally and is required to look for a different brand or retailer for a product one is used to because of non-performance or non-availability. This requires a moderate amount of time for information gathering. Examples are clothes, utensils, crockery—essentially those products where the consumer is aware of the product class and not the brand.

- **Routine response/programmed behaviour** is observed in case of low-involvement, frequently purchased, and generally low cost products. They require very little search and decision efforts and are purchased almost automatically. Examples include grocery items from a particular retailer.
Impulse buying relates to those purchases that do not involve any conscious planning. Example could be a soft drink purchase that occurs due to the sighting of the advertisement or the product at the outlet.

- **Factors :-**
  
  A consumer’s purchase decision tends to be affected by the following four factors: 1. Demographic 2. Psychological 3. Environmental 4. Life Style

![Factors Affecting Consumer Decision Making Diagram](image-url)

**Demographic Factors**
- Gender
- Age
- Occupation
- Education
- Family size
- Income

**Psychological Factors**
- Motives
- Perception
- Learning
- Attitude
- Personality

**Environmental Factors**
- Physical Environment
- Social Environment—culture,
- sub-culture,
- social class

**Life Style**
- Activities and interests
- Nature of occupation
- Availability of leisure

*Figure-4 Factors affecting the consumer decision-making process*
a) Demographic Factors

Demographic factors are unique to a particular person. They are objective, quantifiable, and easily identifiable population data such as sex, income, age, marital status, etc. It also involves identification of who is responsible for the decision-making or buying and who is the ultimate consumer. Even Reliance Stores and Shoppers’ Stop have focused themselves on respective segments based on demographic factors such as income, age, family size, gender, occupation, education, nature and number of vehicles owned, etc.

b) Psychological Factors

Psychological factors refer to the intrinsic or inner aspects of the individual. An understanding of consumers’ psychology guides the marketers’ segmentation strategy. For example, consumers respond differently towards the same retail marketing mix due to their respective motives, personality, perception, learning, level of involvement, and attitude.

• Motives

A motive is an internal energizing force that orients a person's activities towards satisfying a need or achieving a goal. Actions are affected by a set of motives, not just one. If marketers can identify the relevant motives then they can develop a better retail marketing mix.

Maslow’s hierarchy of needs is one of the best frameworks used in this respect. It consists of the following five needs:

1. Physiological
2. Safety
3. Social
4. Esteem
5. Self-actualization

Retailers are required to determine the need level of the consumers to have a sound understanding of what motivates consumer preference towards a particular retail format or store.

An instance of satisfaction of social needs is presented when, in rural India, consumers regularly visit periodic markets not only to purchase goods
or services but also to enjoy an outing with family and friends and to participate in local festivals and other activities.

In Chennai, it is considered a status symbol if women shop for silk Sarees from Kanchipuram (a town famous for Silk work) avoiding a long list of leading silk saree stores in Chennai even though they offer better selection and at times lower prices. This occurs due to customers’ desire to satisfy their esteem needs.

In Indian metros, consumers are replacing milk vendor or milk store (traditional-independent) with Mother Dairy products, which they have to collect from their retail outlets at comparatively higher price, because of the emerging concerns about the quality of milk. This is largely an outcome of the consumers’ safety needs.

- Perception

Perception is the process of selecting, organizing, and interpreting information inputs to produce meaning. Recognition, selection, organization, and interpretation of particular stimuli is a highly individual process subject to individual needs, values, and expectations. A stimulus is any unit of input to any of the senses. The same stimulus may be perceived differently by different set of customers based on their unique personal and situational context.

Shoppers tend to seek out favourable information on products which are compatible with their needs, values, and expectation. They prefer to avoid unpleasant information. For instance, they prefer to pay more attention to advertising message that is in consonance with their value system and prefer to ignore a message that is in contradiction with their cultural values. This is done primarily to avoid the creation of cognitive dissonance. During Diwali most of the retail stores announce discounts and various other promotional schemes. Customers become highly uncomfortable if they do not get a good bargain at a particular market known for offering deals. Examples of some such markets are Palika Bazaar and Sarojni Nagar in Delhi, Linking Road in Mumbai, Relif Road in Ahmedabad.

Indian consumers initially perceived McDonald’s outlets as costly and were not well aware of its product offerings. To overcome this perception
among prospective consumers, McDonald’s management introduced a seven-rupee softy ice cream to attract the shoppers. Retailers or marketers design the retail marketing mix to ensure patronization of the retail store or format by the target segment and/or to attract new customers.

- **Learning**

Learning is the process through which a relatively permanent change in behaviour results from the consequences of past behaviour. There are various memories regarding the processes involved in causing such a permanent change in behaviour. Some of these theories are classical conditioning, operant conditioning, vicarious learning, and mere exposure.

Classical conditioning results from the association of two stimuli in the environment that work together to create an unconditioned response. The two stimuli in the environment are referred to as conditioned and unconditioned stimuli. The repeated association of conditioned and unconditioned stimuli may, in due course, lead the conditioned stimulus to produce the unconditioned response. Initially, self-service (conditioned stimulus) was resisted by Indian consumers particularly in smaller townships, but with repeated occurrence of benefits such as low price and fast service (unconditioned stimulus) people became more frequent visitors at eating joints (unconditioned response) with the policy of self-service.

Operant conditioning occurs when a person learns to associate its behaviour with the consequences or results of the behaviour. There are positive and negative types of operant conditioning. When a dog shakes its master's hand it gets a biscuit. If you work hard and study, you will get good grades. These are both positive parts of classical conditioning. Similarly, when a customer shops from an up-market store and receives appreciation from his peer group, the behaviour is likely to be reinforced, provided he values the opinion of his peer group. Operant conditioning is different from classical conditioning because the former is a learned behaviour and not a conditioned response.

Vicarious learning is defined as change in behaviour due to experience of others which could be a model, celebrity, or a member of the family or peer group. This is popularly used in case of advertising and publicity by ensuring
the association and endorsement of specific retail outlets by celebrities, examples being Priety Zinta with PVR cinema in Delhi, Jackie Shroff with IBP of Indian oil, and Shilpa Shetty with P.P. Jewellers.

Mere exposure effect, in case of retailing, may occur in case of development of an emotional preference for previously unfamiliar retail outlets because of frequent exposure to that store from personal or impersonal sources. For example, Shoppers’ Stop is briefly mentioned as a radio show’s sponsor each week on various FM channels.

According to all these theories, a permanent change in behaviour is caused by information and experience. Therefore, to change consumers’ shopping behaviour retailers need to provide them with new or modified information about aspects such as the nature of the store, product profile, shopping environment, etc.

- **Attitude**

  Attitude is consumers’ predisposition to respond favorably or unfavorably to an element of retail mix or the retail mix in its entirety. It comprises knowledge and positive and negative feelings about an object or activity. The object could be tangible or intangible, living or non-living. An individual learns attitudes through experience and interaction with others.

  Consumers’ attitude towards a store and its products greatly influences the success or failure of a retail outlet’s marketing strategy. Consumers’ personality and lifestyle influences attitude and attitude change. Consumers screen information that conflicts with their attitudes. There is a difference between attitude and intention, and ability to buy. For example, in India consumers have a positive attitude towards pizza. But its limited availability and high price restrict people from enjoying it frequently. Amul, the leading milk cooperative in India, found it an economically viable gap and introduced pizza at Rs 20. The offering was supplemented with extensive retail penetration.

  Fishbein’s multi-attribute model proposes that attitude towards an object is based on the summed set of beliefs about the object’s attributes weighed by the evaluation of these attributes.

  \[ A_b = \sum_{i=1}^{n} b_i e_i \]
Where $A_b$ equals the brand, $b_i$ equals the belief that performing behaviour $B$ leads to consequence $e_i$ equals evaluation for consequence and $n$ equals die number of salient consequences.

As a rule, marketers want their consumers to perceive their brand as: (1) possessing positively evaluated attributes (i.e., when $e_i$ is positive, $b_i$ is positive), and (2) not possessing negatively evaluated attributes. Both approaches are commonly employed in advertising for favourable attitudes. For example, Big Bazaar is most strongly advertised as a department store with low prices, and consumers are also told that the variety and quality of offerings were given due consideration.

Fishbein’s model is extremely helpful to retailers in, besides other things, devising their advertising strategy because it provides the reasons for consumer preferences, identifies unfulfilled needs, and provides suggestions for new products.

Theory of reasoned action says that a person’s behaviour is determined by his attitude towards the outcome of that behaviour and by the opinions of the person’s social environment. Ajzen and Fishbein proposed that a person’s behaviour is determined by his intention to perform the behaviour and that this intention is, in turn, a function of his attitude toward die behaviour and his subjective norm. This is more clearly explained through the following example: Attitude: ‘I think I must shop for furniture from the outlets selling branded imported furniture.’

Subjective Norm: ‘I bet my friends would be impressed by the branded furniture labels.’

Intention: ‘I want to shop for furniture at the outlets selling branded imported furniture.’

Behaviour: ‘I am going to the outlets selling branded imported furniture to make the purchase.’

- **Personality**

Personality refers to all the internal traits and behaviors’ that make a person unique. Uniqueness is derived from heredity and personal experience. In the retail context, consumers’ consistent and enduring patterns of shopping
behaviour represents a set of consumer characteristics which is used to target segments. Examples of such consumer characteristics are:

- Workaholism
- Compulsiveness
- Self-confidence
- Friendliness
- Adaptability
- Ambitiousness
- Dogmatism
- Authoritarianism
- Introversion
- Extroversion
- Aggressiveness
- Competitiveness.

Traits affect the way people behave. Marketers try to match the store image to the perceived image of their customers. For example, Indian consumers give due importance to retailers’ image to a great extent while selecting the store. This holds true even for branded goods.

This is because Indians value relationship and tries to attribute importance to relationship even in formal interactions. For example, most households in semi-urban areas depend on a particular set of retailers for their needs, right from grocery items to durable purchases.

c) Environmental Factors

Environmental factors cover all the physical and social characteristics of a consumer’s external world, including physical objects (goods and outlets), spatial relationships (location of the shopping centre and merchandise in stores), and the social factors (opinion leaders, the person’s family, co-customers, reference groups, social class, and culture). The environmental factors influence consumers’ wants, learning, motives, etc., which in turn influence affective and cognitive responses and, among other things, the shopping behaviour of the individual.

The environment can be analysed at two levels—macro and micro. The macro environment includes large-scale, general environmental factors such
as economic conditions with easy credit facility for durable goods and vehicles. Today, consumers in India are buying goods on easy installments. There has been an increase in the population owning vehicles. This has made it viable to locate shopping centres out of city, such as Metropolitan, DLF City centre, Sahara Mall on Mehrauli-Gurgaon Highway, and Fun Republic in Mumbai and Ahmedabad. The repeal of Land Ceiling Act and liberalization and poor performance by stock markets has led to shift of funds towards trading and organized retail business. This has helped die Indian consumers to experience new kinds of formats with excellent and varied facilities.

The microenvironment refers to the more tangible physical and social aspects of an individual’s immediate surroundings. Examples of physical environment include aspects such as nature of the market structure (planned or unplanned), temperature controlled environment, visual merchandise and display, roads and other infrastructural components. For instance, the congested lanes in the shopping centre and the transportation facility available are important aspects of the physical environment. Such factors have an immediate influence on consumers’ buying and shopping behaviour. For example, consumers with cars normally avoid congested lanes (Chandni Chowk and Karol Baugh in Delhi). In north India people prefer shopping at noon time in winters and in the evening in summers.

The social environment includes all social interactions among people. Consumers interact with friends, relatives, and salespersons regarding prospective or past purchases and sometimes observe others (family members or friends) buying and using the products. Consumers learn from both types of social interactions—participation and observation.

It is acknowledged that culture, subculture, and social class along with face-to-face social interaction among small groups of people such as families and reference groups are components of social environment, which influence values, beliefs, attitudes, emotions, and behaviour of individual consumers. Social interactions with fellow workers, family, and friends have significant influence on consumers’ perception and therefore on behaviour.

For example, people learn acceptable and appropriate behaviour and acquire many of their values, beliefs, and attitudes through direct social
interaction with family and reference groups. The influence of family is specially relevant in case of brand and store preference and loyalty.

In the Indian context, many studies claim that women play a major role in the need identification phase. Children have a major say in brand selection while the head of the family largely decides on financial matter and selection of the store.

In urban areas, Indian women are the key decision-makers for garments and food items for the entire family. In rural India, the male members of the family perform most of the city-based shopping. The female members participate in decision-making related to product and brand selection.

Hence, retailers need to provide the appropriate product profile and service environment as per the preference of shoppers and key decision-makers.

- **Social Class**

  Social class is referred to as the classification of members of a society into a hierarchy of distinct status classes, so that members of each class have relatively similar status and members of all other classes either have more or less status. Social class of an individual is then determined by variables such as education attained, occupation, wealth, and ownership of assets. Market research has established a link between social class and consumer attitudes concerning shopping behaviour. For example, most of the upmarket clubs or resorts, such as Sutlej Club in Ludhiana or Mahindra and Mahindra resorts, before granting membership to their facility, expect prospective members to fulfill certain conditions. Most of these conditions are meant to determine if their social status matches that of their existing members.

  Middle class and higher sections of society prefer to shop for grocery items once a month from a particular shop. They, therefore, look for packaged products to maintain their quality during the storage period.

  They usually prefer stores with wide variety and those which possess most of their requirements. On the other hand, lower sections of the society usually shop for such items on a daily basis. They are also not very particular about the shop from which the purchase is to be made.
In urban centres, the re-emergence of the periodic markets is attributed to the immigration of rural sections of society and the labour class. They perceive urban retail set-ups as costly and find themselves in an alien environment while shopping in retail outlets selling the same product range which they buy from periodic markets.

Social status of an individual plays an important role even in determining the frequency of purchase. Most of the middle-class people prefer to buy fresh vegetables and fruits from the vegetable market in morning time on a daily basis even though it may be available at a higher price. On the other hand, lower classes prefer to buy vegetables and fruits in the evening at lower prices. Similarly, the lower class prefers to buy snacks prepared by street vendors rather than going to a snack bar.

- **Culture and Sub-culture**

  Culture refers to the set of values, ideas, and attitudes that are accepted by a homogeneous group of people and transmitted to the next generation. Culture also influences the nature of retail advertising. Culture determines what people wear or eat, and where and how do they reside and travel. India is known for its cultural diversification specifically based on language, symbols, religion, rituals, and customs.

  In India, religion is not the only basis for segmentation as is the case of the Arab world. Hindus and Muslims do not form a homogeneous group to enable consistent marketing mix. There are three significant influences on the local culture, Westernization, emergent national cultural styles, and popular culture. The pre-independence Western way of living was patronized by the feudal class and high-ranking civil servants. Later it seeped into the upper and middle classes. During the freedom struggle and revival of political nationalism a new nationalistic style emerged. Some aspects of it persist even today—Swadeshi, cultural nationalism, boycotting of foreign goods, spartan living, etc. Lastly, popular culture, largely an output of the mass media, is a unifying factor. The impact of films (Hindi, English, and regional), TV, radio, and newspaper has reshaped images and attitude of the masses.

  Consumers in semi-urban India are not very attracted towards credit offered by banks or companies for acquiring the consumer durable. For the
purchase of consumer durable like CTV, microwave, CD system, two wheeler, etc., many consumers prefer to obtain credit facility from a known person in their social circle, such as a relative, friend, or well-known retailer. Hence, some retailers in the semi-urban areas started the system of a pool party where a person is required to pay a monthly instalment for the product acquired at a monthly party organized by the retailer. This party comprises most people from the social group of the concerned members. Here retailers obtain the assured payment of their instalment because the social group creates sufficient pressure on the individual concerned and his family for such payments. A defaulter is not given due respect in Indian society. This system involves no paper work for retailers and consumers in comparison with bank loans.

d) Lifestyle:-

Lifestyle refers to an individual’s mode of living as identified by his or her activities, interests, and opinions. Lifestyle variables have been measured by identifying a consumer’s day-to-day activities and interests. Lifestyle is considered to be highly correlated with consumer’s values and personality.

An individual’s lifestyle is influenced by, among other things, the social group he belongs to and his occupation. For example, double-income-no-kids (DINKS) families in metros shop very regularly at the super malls because of the limited time at their disposal, and they also look for entertainment while shopping on weekends. At the same time, they are higher spenders than, for e.g., single-income families.

1.6.5 Stages of the Consumer Decision Process

When people buy things, they engage in a decision-making process. Decision is defined as the selection of an option from two or more alternatives. By understanding their needs and concerns as they progress through the decision-making cycle, marketers can build better and more successful retail marketing mix. The consumer decision making process is the process consumers go through when they decide to make a purchase. In the retail context, a marketer is concerned about shopping decisions like what,
when and where, how, and from whom to purchase, and the frequency of purchase.

Fig.-5 Stages of the decision-making process

![Diagram of decision-making process]

1.6.5.1 Need Recognition

Need recognition occurs when a consumer realizes a significant gap between his or her present state and some desired level of state. Social and physiological stimuli arouse the consumer about his specific need. The consumer also has to acknowledge that a certain set of goods can satisfy felt desire or shortage. This leads to the need for a particular good or set of goods, which in turn translates into desire for a particular product or service. To satisfy this desire the consumer looks for possible sources to shop for the specific offering. Therefore, decision regarding particular retail formats, private or national brands, and retail stores follows the awareness of the need for a good or service.

Needs are classified as simple or complex. Simple need recognition is referred to as a problem that occurs frequently or periodically and can be solved through known ways. For instance, housewives depend on nearby retail shops (Kirana) for their immediate grocery requirements. Complex need recognition is referred to as a problem, which is faced infrequently by the consumer and evolves over time. For example, purchase of colour television and other consumer durables.

Marketing communication is devised to make the consumer aware of the problem and then highlight the solution provided by them. For example,
these days both national food chains and eating joints in the unorganized sector are providing home delivery facility to their customers.

Marketers attempt to create two kinds of demand, primary and secondary. In case of primary demand, marketers encourage consumers to use a particular good, service, or retail set-up regardless of the brand they choose. Such needs are often encouraged in the early stages of a product’s life cycle. An example is the advent of shopping mall as a new place of shopping in India. Secondary demand, which refers to the situation where consumers are stimulated to prefer a specific retail outlet to others, can occur only if primary demand already exists. For example, Pizza Hut, Pizza Corner, Dominos, and Pizza Express are marketing themselves as the best places to have pizza. In this case, retailers or marketers make a sustainable effort to convince their target segment that their specific need can be satisfied best by their offerings.

1.6.5.2 Information Search

Once the individual has acknowledged a need or problem, he or she looks for information to resolve the need in consideration. Information search is the process where the prospective buyers examine their environment for appropriate information to make a sound decision.

Shoppers, at times, enjoy looking for information and keeping a record of new developments. This they may do just for pleasure or to collect information for future use. For instance, opening of a new garment store, or a promotional scheme by a leading store.

An individual usually derives or acquires information from two sources, namely internal and external. A person’s past experience accompanied with shopping exposure might provide him with substantial guidelines to make the current decision with the help of his or her internal memory. At the same time, a consumer with no or limited prior experience has to indulge in extensive information search from the external environment in order to evolve the list of all possible alternatives and list of criteria to solve the present problem. An Information Search
1.6.5.3 Evaluation of Alternatives

After information search for the required product, the consumer is expected to take a final decision on one of the choices. The search also helps the consumer to acquire knowledge about the criterion to be used to evaluate the various alternatives evolved at the information stage. The alternatives, which are actively considered during the consumer decision-making process, constitute the individual’s evoked set.

Retailers require an effective marketing programme, especially in terms of their communication strategy in order to inform and position the store as per the needs of the target segment. At the same time, retailers need to revise its offerings and attributes as per the changing preferences of their target segment.

1.6.5.4 Purchase Decision

After evaluating various alternatives, an individual is in a position to focus on the preferred product category, good, retail outlet, or brand. This is followed by a purchase decision by the consumer. Final choice from multiple alternatives leads to the purchase stage or decision. This involves an exchange of cash or credit note for the ownership or usage of offering. It is the purchase stage which generates revenue for the retailers and marketers in the value chain.

In the retailing context, the purchase stage plays the most important role in consumer decision-making with regard to place of shopping. In the Indian context, one can obtain many products from multiple retail outlets or formats. For example, Paras Pharmaceutical’s OTC brands—Krack, Moov, Borosoft, Itchguard, and D’Cold etc.—are available not only from the chemist shops but also at grocery stores and outlets selling cosmetics etc.

With all these retail options available with consumers, retailers have to make a serious effort to understand the decision variables, which influence consumer choices and the role played by situational variables among various consumer segments.

The extensive research on store image provides an insight into some of the aspects considered by shoppers while selecting or evaluating the viability of patronizing any particular store. These factors are as follows.
• Physical characteristics such as store size, location, appearance, and convenience of store layout.
• Social interaction such as between sales people and customers, co-customer behaviour.
• Assurance such as warranty, adjustment or returns, complaint handling, and alteration if required.
• Policy such as operating hours, payment options, loyalty programmes, parking, and so forth.
• Merchandise such as product category, brand spread, length and breadth, quality, style, price level, and SKU’s.

The particular good or service is likely to be purchased by the prospective customer in case he is satisfied by the respective retail set-up on parameters discussed above.

1.6.5.5 Post-purchase Dissonance

After purchasing a particular good or service or visiting an outlet, consumers evaluate its performance against their expected level of satisfaction on account of important attributes. For example, in case of a multiplex theatre a consumer is expected to examine the experience on account of sound effect, air conditioning efficiency, other consumer behaviour, etc.

This kind of evaluation is likely to lead to three possible outcomes.
(a) Actual performance meets expectations, leading to a neutral response. Hence, the individual may like to evaluate it further.
(b) Performance exceeds expected levels, resulting in satisfaction. This may lead to repeated purchase and positive word-of-mouth publicity.
(c) Performance may fall short of the expectations, resulting in dissatisfaction. This may lead to discontinuation of purchase of the particular good or from the retail outlet.

In case of post purchase evaluation, the basic concern of the consumer is to reassure himself that he or she has opted for the best available option from amongst various alternatives. This helps to minimize the post-purchase cognitive dissonance.
In order to ensure long-term customer relationship, most retailers or marketers operate programmes to minimize the post-purchase dissonance through various innovative schemes. For example, customers are requested to fill up feedback forms after their purchases. This serves many purposes. This helps to make the customer feel important, take his suggestions to make improvements, extend invitations to special events, and offer special packages for celebration of birthdays and anniversaries.

1.6.6 Consumer Decision Rules

Consumer decision rules are classified into two categories, namely compensatory and non-compensatory.

1.6.6.1 Compensatory Decision Rule

On the basis of compensatory decision rule, a shopper evaluates store or brand alternatives in respect of each salient attribute and assigns weight or summated score for each store or brand in a consideration set. The computed value reflects the store’s relative edge as a potential purchase choice. The proposition is that the shopper will select the store or brand that scores the highest among the options evaluated.
1.6.6.2 Non-compensatory Decision Rules.

In comparison with compensatory decision rule, non-compensatory decision rules do not allow consumers to balance positive assessment of store on one dimension against a negative escalation on other dimensions. Three non-compensatory rules are considered briefly here:

1.6.6.3 Conjunctive Decision Rule

Here the shopper establishes a specific, minimal acceptable level as a cut off point for each dimension. If a particular prospective store falls below the cut off point on any dimension (evaluative criteria), it is dropped from the consideration set.

This helps the shopper to evolve or acknowledge acceptable options from multiple alternatives, which can be further evaluated with the help of other decision rules to select the restaurant to be visited.

1.6.6.4 Disjunctive Decision Rule

While applying this decision rule, a prospective shopper sets up a specific, minimal acceptable level as a cut off point for each dimension. Under this rule the shopper accepts the store or brand if it meets or exceeds the limit established for any one dimension. In this case also the shopper may have to resort to other decision rules to decide on the final selection of store from a refined set of alternatives.

1.6.6.5 Lexicographic Decision Rule

In this rule a shopper first ranks the dimensions in terms of their perceived salience or importance. The shopper then compares the various brand alternatives in terms of a single attribute that is considered most important. If one brand scores sufficiently high on this top-ranked dimension (regardless of the scores on any of the other attributes), it is selected and the process ends. When there are two or more surviving brand alternatives, the process is repeated with the second highest ranked dimension (and so on), until reaching the point that one of the brands is selected because it exceeds the others on a particular dimension.
The understanding of this decision rule helps the retailers and marketers to devise their marketing strategy in general and communication strategy in particular. One has to have an in-depth understanding of the decision rules employed by its target segment while selecting a particular store. This will provide indication about not only the level of involvement and concern of the shopper for a particular purchase but also the mechanism used to decide the final store.

1.6.7 Influence of Situational Variables on Shopping Behaviour:

A shopping situation is a particular act of buying behaviour occurring at a specific point in space and time. An interesting example would be a customer seeking service at the Lakme beauty parlours these beauty parlours are open to customers on all the seven days of a week, from 10 a.m. to around 7 p.m., in the midst of soft lights while the strains of sarangi and sarod soothe the customers’ frayed nerves, which is simply a behaviour setting. The situation serves as an interface between the person (e.g., salon consumer) and the stimulus-object (beauty treatment such as facial, pedicure, etc.) and all those factors defining that interface constituting situational variables.

Situational variables refer to all those factors particular to a time and place of observation which do not follow from a knowledge of personal (intra-individual) and stimulus (choice alternative) attributes. Such attributes range from store location and layout to time of day and the presence (or absence) of others. These can be classified into four distinct dimensions of situational influence:

- Physical setting
- Social setting
- Temporal perspective
- Task definition

- Physical Setting

The physical setting covers geographical location of the retail but might equally be seen in terms of the environment in which the consumer reads a catalogue, or accesses a shopping centre and a particular store. Shoppers who travel for half an hour or more are considered ‘far shop-pers’; those who
travel for less than half an hour are considered ‘near shoppers’. At the same
time, shoppers who usually shop before 3 p.m. are designated ‘early
shoppers’, and those who usually shop after 3 p.m. are designated ‘late
shoppers’.

It also subsumes influences on behaviour resulting from environmental
conditions, such as weather or climate, placement of merchandise, access to
information in a store, and background music or colour scheme.

- **Social Setting**

  The social setting describes the presence or absence of others,
together with their social roles, role attributes, and opportunities for
interaction. Therefore, it encapsulates everything - security staff in the
shopping centre or store, opportunities for interaction with sales staff, friends
or relatives accompanying the consumer on the shopping trip and even to
proximity of other customers present in the store or servicescape. The
shoppers who are accompanied by other people are considered to be ‘social
shoppers’; those who are unaccompanied are designated ‘solitary shoppers’.

- **Temporal Aspects**

  Temporal aspects are very important elements that affect the
situational variables. Time of day and constraints upon time available for
shopping are variables with very obvious effects on buyer behaviour, for
instance, factors such as seasonal variations in the available product range-a
particularly important situational variable within the context of both fashion
shopping and perishable purchase. Milk is purchased from vendor or retail
outlets by most of the people in India in morning hours or evening hours.
Women prefer shopping in post-lunch hours after attending to their children
and returning before the rest of the family reaches home. Therefore, retailers
open their shops in accordance to shopping hours of their target segments.
Shoppers who spent less than an hour were considered to be ‘quick
shoppers’; those who spent more than one hour or more were designated
‘slow shoppers’.
• Task Definition

Task definition is more individual-specific and encompasses cognitive and motivational indications of the shopping situation, effectively capturing situational influences on the task definition, information search, and evaluation stages depicted in traditional consumer decision making models. The difference in the degree of information processing behaviour varies for practical or hedonistic products, products for self-consumption versus gift purchases for others, etc.

Consumers’ image of a retail outlet plays an important role in determining the nature of shopping behaviour. In this context, it is important to understand the factors that affect the image formation of a retail store along with the process of its formation.

1.6.8 Consumers’ Image of Retail Stores

A consumer’s image of a store is the summation of his attitudes towards various aspects of that store. Retail marketers have provided considerable importance to consumers’ attitude and images in store selection and rejection. Every retail store possesses an individuality that differentiates it from its competitors. A retailer must devise a strategy to communicate its individuality or personality across to its target segments to build their confidence in its merchandise and services.

Consumer decision-making is a process of matching self-images with the image of relevant retail store to meet their specific needs. It is argued that where there is some degree of congruity of individual's self-image and his image of a store or brand, there is a strong possibility of positive behaviour towards that particular store or shopping centre. The measurement of consumers’ images of the store and measurement of consumers’ self-images aid retailers in segmenting the consumer population into groups by demographic characteristics or patronage practices based on differences in the image of the retail store or shopping centre.

It is important to discuss the factors influencing the development of these attitudes. Figure depicts the process of attitude formation and the resultant image (defined as constellation of attitude). Attitude and image formation takes places within and is affected by the physiological, sociological, and psychological environments. Within these environments the
individuals’ perceptions, motivations, interpersonal responses, traits, and concept of self interact to form attitudes towards various dimensions of retail store. These attitudes in turn affect the person’s perception, motivation, interpersonal response traits, and self-concept. The summation of all relevant attitudes is termed as the image of the retail store.

1.6.9 Indian Shoppers

Time of day is considered a physical dimension rather than a temporal one. Shopping in the Indian market during the daytime is a rather different physical experience than shopping during the evening hours. Consequently, it is hardly surprising that the Indian shoppers tend to visit the market in the later part of the day rather than the earlier and hotter daytime, especially during summers. Whereas, during winters consumers prefer to shop during day time before sunset. There would be no such distinction in the climatically controlled Malls emerging in India, particularly in the metros. Consequently, the time of day situational variable may undergo a metamorphosis as the years pass. In India, retailers, in particular service providers, highlight the fact that their outlets or stalls possess superior cooling fans to beat the heat. For example, in the last two years, most of the Cineplexes in the major cities carried out a drive to introduce effective air conditioning systems in their theatres to attract the crowds during morning or noon hours in north India.

A higher proportion of shoppers in India prefer to purchase products other than food or beverages in the company of their relatives or friends. There may be marketing implications to this phenomenon. One interpretation is that in the Western countries a mall visit can be a recreational activity—given the comfortable and pleasing environment (physical surroundings)—whereas in India a visit to an open traditional market carries a more specific purchase intent (task definition). From a retail-marketing point of view, the difference in the layout of the two sites dictates a particular shopping behaviour. Malls are equipped with restaurants, cafes, food courts, and other places to eat. Customers are thus encouraged to interrupt their shopping and eat or drink while sitting down comfortably. On the other hand, even though the traditional market has many stalls providing food and beverages, these items are consumed right next to the outlet selling other products or while the customer is walking around the market. Thus, a marketer might be able to stimulate additional sales by providing enhanced physical surroundings.
The frequency of market/mall visit can be influenced by actions of the managers of the market/mall and the individual establishments. Inducements as prizes, drawings, special sales, or other encouragements may be offered to increase frequency of visit. The more frequently a consumer patronizes a market/mall, the greater the opportunity for purchase. Some retailers and malls also organize special events, exhibits, contests, and special sales. For example, In Ahmedabad Big Bazar & Himalaya Mall organizes the FM contest in association with Radio FM channel in their market every fortnight on weekends to attract youngsters. Even the retailers along with the mobile traders organize the periodic market, which attracts masses. In some of these ways retailers can encourage people to come at varying periods of the day or week.

Time spent in the market/mall is also deeply related to shopping behaviour. The longer a patron can be persuaded to remain in the market the greater the likelihood of affecting a purchase. Special displays of merchandise, presence of celebrities or announcements of special promotions are frequently used to encourage longer visits. Similarly shopping malls introduce a special section for kids so that while they remain occupied their parents can spend more time at the shopping centre. Some retail outlets frequently arrange some programmes with well-known personalities to attract potential customers to their store.

1.6.10 Profile of Gujarat State:
Gujarat is a state with a rich tradition in trading and finance, whose growth is leading the nation’s high growth path. All sectors have been performing better than the national trend, except for a few years when droughts, industrial recession and natural calamities affected the performance. However, the state has always picked up after the set backs, and with its high emphasis on infrastructure growth is a leading destination for industrial investment. While the state has shown excellent results on the economic front, there is much more to be achieved in social development parameters, such as education, health, balanced district growth, etc.

One of the leading industrialized states situated on the western coast of India, Gujarat was formed in the year 1960. The state having a long coast-line of around 1,600 km has an international boundary with a common border with Pakistan. It is bounded by the Arabian Sea in the west, by Rajasthan in the
Gujarat is leading in the reduction of poverty from state in both region viz. Rural and Urban as ahead as to effective programme implementation to Country’s performance. The said data also states that the Gujarat’s per capita
income or over all purchasing power has been increased at higher rate as to national level.

Being the fifth largest economy in the nation, the state income of Gujarat has been growing at a rate of 9.9 per cent per annum since 2000 much above India's growth rate. The exceeding low growth rates in the three years 1997-98, 1999-2000 and 2000-01 are a result of droughts, industrial recession, and the earthquake which disrupted the economy in January 2001. The resilience of the state shows in the renewed high pace of growth thereafter. The state occupies the eighth position in terms of per capita income with the citizen of the state earning Rs 42,411 per annum in 2007-08. The percentage of population below poverty line was 18.9 per cent in 2004-05 much lower than the national average of 27 per cent and much lower than the neighboring states of Maharashtra and Madhya Pradesh with poverty ratios of 37 per cent and 30 per cent, respectively. A sector-wise assessment of the state income reveals that the highest share comes from the tertiary sector contributing to around 41 per cent of the total GSDP. The secondary sector contributes around 38 per cent while the primary sector contributes the remaining 21 per cent.

Agriculture is one of the vital sectors of the state's economy with 52.3 per cent of the total workers in the state engaged in the primary sector in 2006-07. It has grown at the rate of 14.1 per cent per annum from 2001 to 2006 which is much above the national average of 2.8 per cent. Food grain yield averaging 1,325 kg per hectare during the period 2000-05 is higher than the neighboring states of Madhya Pradesh and Maharashtra with 1,091 and 845 kg per hectare, respectively. However the ratio of net irrigated area to net sown area at 34.4 per cent which is lower than 42.4 per cent at the national level needs attention. Cash crops are the dominant feature of the cropping pattern as Gujarat is one of India's leading producers of castor, cotton, tobacco, groundnut, sesame seeds and fennel seeds.

Mining contributes around 4 per cent of state income as Gujarat has vast reserves of limestone, bauxite and natural gas. It is the second largest producer of lignite, oil and natural gas and one of the largest producers of soda ash. India's first LNG terminal has been commissioned at the port of Dahej and a gas pipeline grid is operating at 80% capacity which caters the
demand of the industrial gas at very cheaper rate. Gujarat is a leading industrial state of the nation with world class production capabilities. GSDP from manufacturing has been growing at a rate of 10.9 per cent per annum from 2000-01 to 2006-07. The major industries of the state include cotton textiles followed by the manufacture of non-metallic mineral products. There are also other industries like chemicals, petrochemicals, fertilizers, engineering, electronics, etc. The state owns the largest petro-chemical complex in the country and accounts for 40 per cent of India's pharmaceutical production. Gujarat Industrial Development Corporation (GIDC) has developed around 257 mega industrial estates such as the ones at Jhagadia, Vagra, Savli, Dahej, Ankleshwar, etc. The state tops in the value of proposed investment through EMIs where 15.7 per cent of the proposals received are implemented. The state ranks eighth in the country in terms of the number of small-scale industry owned. A large number of small-scale industries are pertaining to metallic work, chemical industries, cotton industry, etc. Gujarat is the first state in the country to have dairy industry with a milk procurement of 35 lakh litres. In fact, it is well known for its success in dairy cooperatives as the brand Amul, owned by the Gujarat Cooperative Milk Marketing Federation is a significant player in the national market for dairy goods.

The services sector which has the highest contribution to the state income has been growing at the rate of 8.4 per cent per annum from 2000-01 to 2006-07. Within the services sector, trade and hotel services have the highest share. Of late, other services like IT and ITES sector are also being developed in the state. Gujarat has good infrastructure facilities and has made rapid progress in the field of IT. However, a lot more effort needs to be put in to realize the true potential of the state in the IT/ITES sector. The IT/ITES policy (2006-11) of the state government mentions that the state aims at attracting investments in the IT sector in the state to achieve a turnover of Rs 5,000 crore in 5 years. The state also aims at promoting employment opportunities in the IT sector and providing direct employment to 200,000 persons in 5 years. As a first set of action, the state government has identified some urban centres/conglomerates for promotion of IT parks, like Ahmedabad, Vadodara, Rajkot and Surat.
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The State’s GDP growth rate is also higher as to the other state as well as it serves as the benchmark country’s growth rate. The state is growing higher than the national.

### Table - 9

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The infrastructure base of the state is strong as a result of the various initiatives taken by the government from time to time. One such effort is the 'Jyotigram Yojana' which aims at providing 3-phase, 24-hour, uninterrupted power supply to all the 18,065 villages and also to the 9,680 suburbs.
attached to these villages. This has resulted in the increase of generation of electricity thereby further strengthening the infrastructure base. Gujarat is also trying to tap non-conventional energy sources such as wind and tidal power and has also started commercial production of bio-diesel. In terms of asset ownership, Gujarat has 1,084 cars per lakh population as of 2004 which is much higher than the neighbouring states of Madhya Pradesh and Maharashtra with 233 and 926 cars per lakh population, respectively. In India Gujarat is the only state which has 100% electrifying its village areas without interruption at all since last five years. Not only is that Gujarat the only state in the country who generates excess electricity which is provided to neighbouring state.

The state located on the west coast of India, has a 1,600-km long coastline, representing a third of the nation's water front. Gujarat's ports handle 20 per cent of India's total cargo and Kandla is India's largest port. The state has 40 minor and intermediate ports geographically dispersed across South Gujarat (13 ports), Saurashtra (23 ports) and Kachchh regions (4 ports). The state is also the first in the country to privatise the construction of ports and to announce a separate Port Policy, integrating industrial development, power generation and infrastructure development. The state is also connected to other major cities in the country through air with 10 domestic airports and one international airport at Ahmadabad. State has achieved a remarkable achievement in terms of energy production.

Despite the strong performance on the economic and infrastructure fronts, Gujarat has shown an average performance on social development. The literacy rate of 69.14 per cent is marginally above the national average of 64 per cent as of 2001. In fact, the rise in literacy from 1991 to 2001 has been only of 8 per cent points compared to Maharashtra's progress by 12 per cent points. With a much higher drop out ratio of 46.34 per cent compared to Maharashtra's 28.99, it is clear that Gujarat lags behind its neighbour in the provision of basic educational skills. Yet, around 78 per cent of the children of age 10 years and above have completed primary schooling which is much higher than the all-India state average of 67 per cent. The state also displays an average performance in health sector. The sex ratio of the state is 920 as per the Census 2001, lower than the national
average of 933. The death rate has been reduced from 16 per 1,000 in 1971 to 7 per 1,000 in 2001. The infant mortality rate (IMR) of the state is 53 per 1,000 live births as of 2005 which is lower than the neighbouring state of Madhya Pradesh with an IMR of 74 per 1,000. This might be due to better medical facilities provided in the state. Around 45 per cent of the percentage of children in the age group of 12-23 months in the state is fully immunized as of 2005-06, higher than the national average of 43 per cent. Again, around 65 per cent of births are assisted by trained personnel as of 2005-06 much above the national average of 48 per cent.

Gujarat has fared very well on the fiscal front. The Gross Fiscal Deficit to GSDP ratio is 2.5 per cent in 2006-07 compared to 3.2 per cent in 2005-06 and it has achieved the Gross Fiscal Deficit to GSDP ratio target of 3 per cent set by the Twelfth Finance Commission (TFC). Gujarat was a revenue surplus state in 2006-07 and has performed well in raising its tax revenues; it has to work at raising its non-tax revenue collections. The share of the developmental expenditure to GSDP ratio is 10.5 per cent which is lower than the all India median of 16.5 per cent.

Gujarat experiences wide intra-state disparity within its 25 districts. Districts of Ahmadabad and Surat are more prosperous than others in the state. These two districts occupy the 5th and 7th positions in the country, respectively, in terms of the total market size. Again, these two districts are among the top 20 districts in the state in terms of registered four-wheelers. As per the NASS-COM study, Ahmadabad is well ahead of cities like Mumbai, Pune, Delhi and Mangalore in view of the lowest cost of real estate, lower cost of human resources, uninterrupted power supply and investment friendly state IT policy initiatives. The district of Jamnagar has the world's largest industrial estate and Kandla is Asia's first and India's largest multi product SEZ.

Gujarat has been a leading state on growth and most development parameters, a major investment destination. The pace of development, however, has been hampered by the natural calamities from time to time. The state government has been taking various initiatives to make the state distinguish itself among others. For instance, the state has set up single-window facilities at the district level to attract investment, kiosks are being
set up at various important places to disseminate information regarding regulations governing new investment. The state is also actively looking for private partnerships to improve infrastructure facilities. If these initiatives are undertaken successfully the state will position itself more strongly as an important investment destination not only in the country but throughout the globe.

1.6.11 Recent Trends of Consumer Behavior in Gujarat:

The Gujarat consumer has undergone a remarkable transformation. Just a decade or two ago, the Gujarat consumer saved most of his income, purchased the bare necessities and rarely indulged himself. Today, armed with a higher income, credit cards, exposure to the shopping culture of the west and a desire to improve his standard of living, the Gujarat consumer is spending like never before. Organized retail with its variety of products and multitude of malls and supermarkets is fueling his addiction. His new mentality, in turn, is fueling the growth of organized retail in Gujarat.

Young Shoppers

Gujarat’s population is young, very young. Most consumers have grown up with television, the internet, and have been exposed to the standards of living and consumer culture abroad. This generation is also making money at a younger age and lots of it, thanks to call centers and other avenues of employment opening up that cater to students in college and schools. As a result they are ready to spend most, if not all of their income on apparel, accessories, and electronics.

Higher Incomes

Liberalization of the country’s economy has brought a number of employments opportunities. With the entry of a number of multinationals and the expansion of domestic corporations, job prospects in the country are looking up. As a result, incomes and consumption are projected to increase rapidly over the next couple of years. This sets the stage for a very exciting and promising retail market in the future.

No Money, No Problem
The finance sector has already seen a huge expansion. Unlike a decade ago, credit cards and short-term loans have become easily accessible and have contributed to the emergence of a consumer culture in Gujarat. Credit card rewards schemes, flexible financing options and all the other common lures are tempting the Gujarat consumer to shop. With loans for everything from a home to an automobile freely available, the Gujarat consumer can start spending on big-ticket items that were traditionally within his reach only after years of savings.

Urbanization

Growing urbanization is also responsible for the changing consumer psyche. As urbanization spreads beyond the major cities, it converts the local population from net savers to net spenders. This is consistent with what has been observed in developing countries like Thailand, Malaysia and developed countries like U.S.A and the U.K. Gujarat has highest Urbanisation rate in the country which lead to the increase in cosmopolitan population who finds Organized retailing most comfortable.

The Lure of Organized Retail

Another important factor to consider is the effect of existing organized retail in Gujarat in fueling consumerism. New malls and supermarkets with their modern decors and multiple products are enticing Gujarati consumers. This is one of the most direct factors responsible for the mentality change of the Gujarati consumer. As people see their relatives, friends, neighbors shopping at these new establishments, they are bound to jump on the bandwagon as well.

1.7 ORGANIZED RETAIL MARKET SEGMENTATION

A market is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and services that can satisfy these needs. The marketer has the option of either approaching the entire set of customers with a uniform marketing approach or adopting a differentiated approach for different sets of customers. While the
former refers to mass marketing, the latter refers to the strategy of market segmentation.

The argument for mass marketing is that it creates the largest potential market, which can lead to higher sales. Mass marketing approach can also lower costs since the retailer does not have to spend on specific communication and promotional programmes. This can result in higher margins and profitability.

However, with increase in competition, the mass marketing approach may not be feasible. Consumers have many shopping options today. A consumer can buy groceries from a neighborhood store or a large supermarket; she may buy jewellery from a specialty store or from a large department store. The proliferation of distribution channels and retail formats is increasing competition and forcing retailers to focus their selling efforts on select groups of customers. Each type of retail format offers distinct benefits in terms of product variety, pricing, shopping ambiance, etc., which appeals to a particular group of customers.

1.7.1 Market Segmentation

Market segmentation is the process of dividing the heterogeneous total market into small groups of customers who share a similar set of wants. Each of these smaller groups possesses somewhat homogeneous characteristics. As in case of marketers in other businesses, marketers in the business of retailing may also seek the benefit of market segmentation depending on his unique market and business context. A retailer may divide women customers into two segments, working women and housewife, if it finds that these two groups have different sets of needs. Segmenting is thus an aggregating process—clustering people with similar needs into a market segment. A segment is a relatively homogeneous group and hence responds to a marketing mix in a similar way. Different groups or segments require different promotional strategies and marketing mixes because they have different wants and needs. A niche is a more narrowly defined group seeking a distinctive mix of benefits.

Marketers usually identify niches by dividing a segment into sub-segments. For example, the retailer may divide the segment of working women into two sub-segments, those with children and those without children.
Segmentation helps the retailer to customize the product/service and tailor its promotional campaigns. This helps it to reach out to and meet the specific needs of a narrowly defined customer group. Segmentation of markets is imperative and often crucial to the development of effective marketing programmes in today’s competitive marketplace. The impetus for market segmentation is heterogeneous customer needs and shopping behaviour/patterns, which no single retailer is in a position to serve as per their desired level of needs.

1.7.2 Advantages of Market Segmentation

Retailers segment the market to identify specific groups of customers in their trade area on whom their selling efforts can be concentrated. Such focused selling efforts are aimed at making the retailer the preferred destination for such identified segments for the products or services it deals in and to develop a dominant position in the target segments. Following are the benefits of segmentation:

1.7.2.1 Development of marketing mix: Segmentation helps a retailer in identifying the target population and developing a customized marketing programme in terms of product/service offering, pricing strategy, and promotional programme.
1.7.2.2 Store location decision: Segmentation helps a retail chain in deciding locations for its new stores. The retail outlets can be located where there is a concentration of the target population.

1.7.2.3 Understand customer behaviour: Segmentation helps a retailer to gain insight into why the target group acts the way it does. The buying behaviour of the target segment can be understood once the market is segmented. This can help in the development of an effective marketing strategy.

1.7.2.4 Merchandising decisions: Segmentation helps a retailer in merchandising decisions. Merchandising is essentially the skill that decides which items will go on the shelves. An understanding of preferences of target segments is essential for a successful merchandising programme.

1.7.2.5 Promotional campaigns: Segmentation helps the retailer in developing more effective and accurate promotional campaigns.

1.7.2.6 Positioning: Segmentation helps a retailer in positioning itself in the market. Thus, Shoppers' Stop and Crossroads have targeted the upper income class while Westside has targeted the larger base of middle and upper middle-class consumers.

1.7.3 Segmenting, Targeting, and Positioning

Retail marketers are required to recognize the three stages of market segmentation: segmenting, targeting, and positioning (STP) (Koder 1984). According to this approach, illustrated in Figure, the segmentation process begins with the aggregation of customers into groups to maximize homogeneity within, and heterogeneity between, segments. Once the market segments are identified, detailed profiles of customers in each segment should be developed. Such profiles would include demographic information on age, income level, education, etc., on psychographic variables such as motives, attitudes, perceptions, values, and beliefs, which help to understand customers' life-style and behavioural information such as customers' shopping and consumption habits including product usage, frequency of purchase, etc. Customer profiles help the retailers in understanding the behaviour of target markets. The retailers should also be constantly looking for the emergence of
new segments and search new dimensions on which the markets can be segmented. After the markets are segmented and profiled, the retailers have to decide which segments to target and focus on and how many segments to target. The retailers have to evaluate the attractiveness of each segment by estimating its size, rate of growth, etc.

Table – 10

<table>
<thead>
<tr>
<th>Segmentation</th>
<th>Targeting</th>
<th>Positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Choose variable for segmenting market</td>
<td>1. Decide on targeting</td>
<td>1. Understanding the target segment</td>
</tr>
<tr>
<td>2. State a profile of segment</td>
<td>2. Identify which segments will be targeted</td>
<td>2. Place offering in the mind of the target segment</td>
</tr>
<tr>
<td>3. Verify prospective segment</td>
<td>3. How many segment should be targeted</td>
<td>3. Evolve marketing mix</td>
</tr>
</tbody>
</table>

Before selecting the target segments it should also ensure that needs of the target segments match with retailer’s business model—its product range, promotional programme, etc. After the target segments are identified and chosen, the retailer has to develop its positioning strategy. For effective positioning, a detailed understanding of the needs of the target segment is necessary. Market research may be carried out to get such an understanding. Finally, an appropriate marketing strategy has to be developed to create positive perceptions in a customer’s mind and achieve the desired market positioning.

Types of Markets
A market is any group of existing or potential buyers of a product. There are three major types of markets—consumer, industrial, and re-seller:

- The consumer market includes individuals and households who buy goods or services for their own use. Grocery and stationery items are among the most common types of consumer products.
• The industrial market includes individuals, groups, or organizations that purchase products or services for direct use in producing other products.

• The re-seller market includes middlemen or intermediaries, such as wholesalers and retailers, who buy finished goods and re-sell them for a profit.

• Retailing is associated with that aspect of the transaction where the final customer in the value chain purchases products or services for self-consumption. Our focus in this chapter is on segmentation of retail markets which deal with consumer products.

• Consumer products are those products that are intended for the ultimate consumer. Consumer products can be sub-divided into four sub-groups:

  • Convenience products: Convenience products are products that are purchased frequently but on which the consumer is not willing to spend much time or effort. These include staples like packaged foods, milk, bread, and emergency products like medicine, umbrellas, etc.

  • Shopping products: Shopping products are products that a customer feels are worth the time and effort to compare with competing products. These include furniture, clothing, washing machines, television sets, etc.

  • Speciality items: Speciality products are consumer products that the customer makes a special effort to purchase. The consumer is willing to search for such speciality products. Any branded product that customers insist on by name is a speciality product.

  • Unsought items: Unsought goods are products that potential customers do not yet want or know about. Customers do not buy such products unless promotion shows their value. Life insurance and encyclopedias are examples of unsought products.

A retailer has to understand the product class it is dealing with in order to understand customers’ buying behaviour and to be able to segment markets.
1.8 INDIAN RETAIL INDUSTRY

Retail, India’s largest industry and the country’s largest source of employment after agriculture, has the deepest penetration into rural India, and generates more than 11% of India’s GDP. With close to 15m retail outlets, India has the highest retail outlet density in the world.

Bringing in bigger Indian and multinational operators on to the scene. With the advent of these players, the Indian consumer is on his way to becoming the king in the market place as what his counterparts in the more developed countries of the world have been for decades.

Table-11
Some interesting facts on Retail

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Every 10th billionaire is a retailer.</td>
</tr>
<tr>
<td>2</td>
<td>25 of the top 50 Fortune 500 companies are in Retail. (2010)</td>
</tr>
<tr>
<td>3</td>
<td>In India the Retailing Industry provides employment to over 18 million people, second largest after agriculture.</td>
</tr>
<tr>
<td>4</td>
<td>1 out of every 25 families in India are engaged in the business of retailing</td>
</tr>
<tr>
<td>5</td>
<td>Total Indian retail outlets are more than combine retail outlets of USA and UK.</td>
</tr>
<tr>
<td>6</td>
<td>In India Per Capita square feet area under retail is just 2 sq or 0.2sq.m</td>
</tr>
</tbody>
</table>

Source: CII Conference on Retailing

The past decade has witnessed a tremendous revolution in the Indian retail scenario. Market liberalization and an increasingly assertive consumer population is now sowing the seeds of a retail.

The past 6-7 years have been especially exciting for the Indian retail industry. Sweeping changes have affected both the supply and demand fronts in the market. On the demand front, customer spending has been on the rise and brand consciousness has also increased substantially. Consumers have started demanding a better shopping experience as global media exposes them to different lifestyles. Consumer research shows that households in metropolitan cities are gravitating towards supermarkets and other modern retail channels.
The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets' and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike introducing the Indian consumer to a shopping experience like never before.

1.8.1 The Evolution of the Indian Retail Industry

The Indian retail industry is evolving in line with changing customer aspirations across product groups, with modern formats of retailing emerging. This is in line with what has been observed in other developed markets organized retailing in most economies has typically passed through four distinct phases in its evolution cycle. In the first phase, new entrants create awareness of modern formats and raise consumer expectations. In the second phase, consumers demand modern formats as the market develops - thereby leading to strong growth. As the market matures, intense competition forces retailers to invest in back-end operating efficiency. In the final phase, retailers explore new markets as well as inorganic opportunities as growth tapers off.

For Indian retailing, things started to change slowly in the 1980s, when it entered the first phase of the Retail evolution when India began opening its economy. The textiles sector (in companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim) was the first to see the emergence of retail chains. Later on, Titan, maker of premium watches, successfully created an Organized retailing concept in India by establishing a series of elegant showrooms.
For long, these remained the only organized retailers, but the latter half of the 1990s saw a fresh wave of entrants in the retailing business. This time around it was not the manufacturer looking for an alternative sales channel. These were pure retailers with no serious plans of getting into manufacturing. These entrants were in various fields, like - Food World, Nilgais in food and FMCG; Planet M and Music World in music; Crossword and Fountain-head in books. And there was an emergence of discount stores (Hypermarkets) in India, which was never the case before. Discount stores are slowly arriving in India and industry insiders feel they will spearhead a revolution in organized retailing.

India is currently in the second phase of this evolution, with Indian customers becoming more demanding with the rising standard of living and changing lifestyles. Change in customers focus from just buying to shopping (buying, entertainment and experience) has led to a pickup in momentum in organized formats of retailing.

As the sector enters the third phase of evolution, supply chain management will attain top priority. Fierce competition will force retailers to quickly respond to changes in the market - bringing forth the importance of supply chain management in managing stock availability, supplier relationships, new value added services and cost cutting. Traditional retailers are expected to enhance their investments in supply chain, whilst new entrants are likely to look at supply chain first before rolling out their national reach.

- Number of Retailers:

India has sometimes been called a nation of shopkeepers. This label has its roots in the huge number of retail enterprises in India, which totaled over 12 million in 2003. Currently, India is estimated to have around 15 million retail outlets, making it the country with the highest retail outlet density in the world. In terms of the structure, the industry is fragmented and predominantly consists of independent, owner-managed shops.

The retail businesses include a variety of traditional retail formats, such as kirana stores (local grocery outlets) which stock basic
household necessities (including food products), street markets—regular markets held at fixed centres retailing food and general merchandise items, street vendors—mobile retailers essentially selling perishable food items—fruits, vegetables etc and small non specialized retailers.

Table 12

<table>
<thead>
<tr>
<th>Country</th>
<th>Traditional Channel</th>
<th>Modern Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>15</td>
<td>85</td>
</tr>
<tr>
<td>Taiwan</td>
<td>19</td>
<td>81</td>
</tr>
<tr>
<td>Malaysia</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>Thailand</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Brazil</td>
<td>64</td>
<td>36</td>
</tr>
<tr>
<td>Indonesia</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Poland</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>China</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>96</td>
<td>4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>99</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Cygnus Business Report, 2007

About 785 of these are small family business utilizing only household labour. Even among retail enterprises that employ hired workers, the bulk of them use less than three workers. If we see the distribution about 8 to 9 million are primarily hawkers and there are only 1 Million grocery outlets in urban area.

Table 13

<table>
<thead>
<tr>
<th>Types of Retail Stores</th>
<th>No. of Retail stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawkers</td>
<td>12-15 Million</td>
</tr>
<tr>
<td>Total Grocery Outlets</td>
<td>8-10 Million</td>
</tr>
<tr>
<td>Grocery Outlets in urban areas</td>
<td>1 Million</td>
</tr>
</tbody>
</table>

Source: CII Conference on Retailing
1.8.2 Industry Structure and Segmentation

In India the retail industry is characterized by several factors listed below.

- The Indian retail industry is unorganized

  There are nearly fifteen million retail outlets in India and the numbers are growing. Two thirds of these stores are in rural location. A vast majority of the twelve million stores are small "father and son" outlets. According to the "Retailing in India" report published by the PwC Global Retail Intelligence Program, share of the unorganized sector is 96.5%.

- The Indian retail industry is fragmented

  Retail stores in India are mostly small individually owned businesses. The average size of an outlet is 50 sq. ft. and through India has the highest number of retail outlets per capita in the world, the retail space per capita at 2 sq. ft per person is amongst the lowest in the world. Extremely high intermediation.

Different types of the retail formats followed in retail Industry.

  - Unorganized
  - Fragmented
  - High Intermediation
  - Complex distribution network
  - Rural Bias

  The road all products in India take, from the original producer to the end customer, is indeed long and tortuous. Various estimates put the supply chain costs in India, across product categories, at between 12% and 50%. This is largely 'cost' and not 'value added'. In the case of basic products, a significant portion of these costs is sheer wastage. A pioneering study done by McKinsey for its 'FAIDA' report on food and grocery retailing estimated Wastage' loss in the Indian food chain at over Rs500 billion annually. Almost all of it is attributable to the archaic intermediary food chain that it has to go to reach the end customer. It’s a double whammy, so that while the customer ends up paying more, the original producer, in many cases the Indian farmer, gets paid much less than what he would have got in a modern retail environment.
Complex Distribution Network The hugely fragmented retail structure has given rise to a distribution network that is quite unique to India. Indeed, the cost and complexity of such a structure makes it a huge competitive barrier for new entrants or products. It also severely restricts the ability of India's small-scale manufacturers to reach customers.

- The Indian retail industry has rural bias
  - Nearly two thirds of the stores are located in rural areas. The retail industry in rural India has typically two forms: "Haats" and "Melas".
  - Haats are the weekly markets: they serve groups of 10-50 villages and sell day-to-day necessities. They are frequently used as replenishment point for the small village retailer.
  - Melas are larger in size and more sophisticated in terms of the goods sold. Mela merchandise would include more complex manufactured products such as televisions.

Table-14

<table>
<thead>
<tr>
<th>MARKET SHARE: Urban and Rural Retailing in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
</tr>
<tr>
<td>Clothing &amp; Footwere</td>
</tr>
<tr>
<td>Misc. Consumer Goods</td>
</tr>
<tr>
<td>Durables</td>
</tr>
<tr>
<td>Consumer Services</td>
</tr>
<tr>
<td>Entertainment</td>
</tr>
</tbody>
</table>

Source: NSSO 5th round: KPMG, Cygnus Research

Counter stores, kiosks, street markets and vendors, where their ownership and management rest with one person are classified as traditional or unorganized retail outlets. These formats typically require employees with low skills and account for 96% of the sector's output.
These are highly competitive outlets, with
1. Minimal rental costs (unregistered kiosks or traditional property),
2. Cheap labour (or family members working) and
3. Negligible overheads and taxes.

However, unorganized retailers suffer due to
1. Their inability to offer a wide range of products,
2. Poor shopping experience, and
3. Their inability to offer overall more value to their consumers due to lack of sourcing capabilities.

The modern consumer is seeking increasingly more value, offered by way of wider assortment, improved availability, pleasant shopping environment, reliability of quality, financing options, trial rooms for clothing products, return and exchange policies besides competitive prices. This has created a rapidly growing opportunity for organized, modern retail formats to emerge in recent years and grow at a fast pace. Inefficiency in existing supply chains present further opportunity for organized players to draw on this large market even as lack of consumer culture and low purchasing power, in the past, restricted the development of modern formats.

India is the only one country having the highest shop density in the world, with 11 outlets per 1000 people (12 million retail shops for about 209 million households). Rather we can see the democratic scenario in Indian Retail (because of low level of centralization, low capital input and due to a good number of self organized retail).

India started its Retail Journey since ancient time.

In Ancient India there was a concept of weekly HAAT, where all the buyers & sellers gather in a big market for bartering. It takes a pretty long times to & step to shape the modern retail. In between these two concepts (i.e. between ancient retail concept & the modern one there exist modern kirana/ mom and pop shops or Baniya ki Dukan.Still it is predominating in India.

So the Indian retail industry is divided into two sectors- organized and unorganized.
1.8.2.1 Unorganized retail

Unorganized retailing refers to the traditional formats of low-cost retailing, for example, hand cart and pavement vendors, & mobile vendors, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hardware shop at the corner of your street selling everything from bathroom fittings to paints and small construction tools; or the slightly more organized medical store and a host of other small retail businesses in apparel, electronics, food etc.

Characteristics of unorganized retail are as under.

Small-store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour. It is generally family run business, lack of standardization and the retailers who are running this store they are lacking of education, experience and exposure. This is one of the reason why productivity of this sector is approximately 4% that of the U.S. retail industry.

Unorganized retail sector is still predominating over organized sector in India, unorganized retail sector constituting 98% (twelve million) of total trade, while organized trade accounts only for 2%.

The reasons might be-

1) In smaller towns and urban areas, there are many families who are traditionally using these kirana shops/ 'mom and pop' stores offering a wide range of merchandise mix. Generally these kirana shops are the family business of these small retailers which they are running for more than one generation.

2) These kirana shops are having their own efficient management system and with this they are efficiently fulfilling the needs of the customer. This is one of the good reasons why the customer doesn't want to change their old loyal kirana shop.

3) A large number of working class in India is working as daily wage basis, at the end of the day when they get their wage, they come to this small retail shop to purchase wheat flour, rice etc for their supper. For
them this the only place to have those food items because purchase quantity is so small that no big retail store would entertain this.

4) Similarly there is another consumer class who are the seasonal worker. During their unemployment period they use to purchase from this kirana store in credit and when they get their salary they clear their dues. Now this type of credit facility is not available in corporate retail store, so this kirana stores are the only place for them to fulfill their needs.

5) Another reason might be the proximity of the store. It is the convenience store for the customer. In every corner the street an unorganized retail shop can be found that is hardly a walking distance from the customer's house. Many times customers prefer to shop from the nearby kirana shop rather than to drive a long distance organized retail stores.

6) This unorganized stores are having n number of options to cut their costs. They incur little to no real-estate costs because they generally operate from their residences.

Their labour cost is also low because the family members work in the store. Also they use cheap child labour at very low rates.

As they are operating from their home so they can pay for their utilities at residential rates. Even they cannot pay their tax properly.

Currently the value of the retail market is estimated at around $ 270 billion with a growth rate of 5.7 per cent per annum according to the Indian retail report which creates a big threat for the small unorganized retailers.

The well established organized retail sector in India are Pantaloon Retail, Shoppers' Stop, Spencer's, Hyper CITY, Lifestyle, Subhiksha & newly emerging Reliance etc.

Over 20,000 new retail outlets are expected to open within this segment. Major corporate retail like Wal-Mart and have started to try and take over the Indian retail sector.

But in India the unorganized retail is a source foods and other necessities of millions of Indians , major link between rural and urban societies. Not only that it is also act like a convenience store for the customer offering right product at right time at right place. In a country with large
numbers of people, and high levels of poverty, this model of retail democracy is the most appropriate.

So these unorganized retail sector need to be promoted so that they can organize & supply food to Indian consumer.

Now the question is how to promote this sector-
The suggestions might be-
a) Establishment of Retailer co-operatives among retailers which is highly required for the sustenance of the unorganized retail sector
b) Merger and buy-out of weak retailers by a stronger one that would give a new horizon to the small retailer
c) Setting up of franchisee organization may also help in strengthening the position of the retailers. The franchiser can exert a tremendous control over the way retailing is done.
d) There must be good network connection between retail organizations, the suppliers and other channel members to use compatible technology so that they can build strong distribution set-up to satisfy the customers.
e) Setting up of more and more non-store retailing centers would also ensure a strong retailing organization. Non-store retailing makes implementation of modern principles easier and less costly.
f) Moreover there must be a change in the mindset of the unorganized retailer. They have to understand the pulse of the trend. They have to understand, come forward & lead this change management then only this sector not only can exist but flourish.

1.8.2.2 Organized Retail Industry

Organized retail industry on other hand refers to the sectors undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate retail formats of the exclusive brand outlets, hypermarkets, supermarkets, departmental stores and shopping malls.

India, with more than 11 million retail outlets is known as Nation of shopkeepers. The magic wand of 1991- LPG has revolutionized every facet of Indian economy. Organized retail also got its share of refinement with the
establishment of organized players like Shoppers’ Stop, Big Bazaar, Westside, D-Mart, Pantaloons and Crosswords etc. But it’s only after 2002 organized retail took off with an unparallel brisk pace. Flourishing with an exponential rate, Indian Retail Sector is rated as the fifth most attractive retail destination in the world map. In the Global Retail Development Index of 30 developing countries. Indian Retail strongly stood at second position. Statistically the total volume of retail trade in India was $330bn in 2007 which has touched to touch the milestone of $427bn in 2010 and estimated to touch $500bn in 2011 and $637bn in 2015. The pie of modern retail in total retail industry is set to touch 22 percent by 2010 from present 5 percent share thus creating room for additional 3-3.5 million employment opportunities. Presently retail sector is bestowing 10 percent to Indian GDP, and provides a living to 7 percent of the national workforce. The makeover of retail sector is reflected in the rapid rise of retail sales.

There was a growth rate of 8.3 percent per year in retail sales as compared to 7.1 percent growth of consumer expenditure during the respective period. Organized retailing in India is currently in the second phase of the evolution cycle of retail. AT Kearney elaborates that the Chinese retail market has entered the diminishing stage while its neighbor Indian retail market has entered the growth stage. Sri Krishna International Research & Educational Consortium currently constitutes around 6 percent of overall retail sales. It is projected to grow at 25-30 percent per annum, and touch the mark of $23bn by 2010 and $64bn by 2015. It is estimated that in the next five years growth rate of Indian organized retail will be higher than the GDP growth rate. The revenues generated from the organized retail sector are anticipated to grow triple i.e. US$24 billion by 2012 from the current US$7.7 billion. Retail tycoons are projected to explode with a compounded growth rate of 50 percent every year till 2011. To enhance its share further, the organized retail business has decided to target the 300 million —middle class‖ consumers, including those in the rural areas, who form a consumer market worth more than $100bn. Hitherto, large cities were the drivers of retail boom in India, but the scenario has switched as organized retailing in large cities is growing at the diminishing rate of 35-40 percent while growth rate of 50-60 percent is registered in small cities.
1.8.3 Emerging Trends in Indian Retailing
1.8.3.1 Unorganized Retailing Is Getting Organized

To meet the challenges of Organized retailing that is luring customers, the unorganized sector is getting organized. 25 stores in Delhi under the banner of Provision mart are joining hands to combine monthly buying. ‘Bombay Bazaar’ and ‘food mart’ have also been formed, which are an aggregation of Karanas.

The share of Organized retailing as a percentage of FMCG sales is also increasing as shown in Figure 41. Also, in a novel move, six Delhi-based restaurants have come together and formed a consortium NFC, to promote New Friends Colony, a posh locality in the Capital, as a branded place in town. The aim is to increase footfalls in the area, which is fast losing its sheen to its closest and upcoming destinations such as large cineplexes, and malls, which are backed by the corporate house such as ‘Ansals’ and ‘PVR’.

Table-15
Share of Organized Retail in FMCG sales

<table>
<thead>
<tr>
<th>City</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delhi</td>
<td>2%</td>
</tr>
<tr>
<td>Nagpur</td>
<td>8%</td>
</tr>
<tr>
<td>Vadodara</td>
<td>8%</td>
</tr>
<tr>
<td>Madurai</td>
<td>10%</td>
</tr>
<tr>
<td>Bangalore</td>
<td>15%</td>
</tr>
<tr>
<td>Chennai</td>
<td>15%</td>
</tr>
<tr>
<td>Pune</td>
<td>16%</td>
</tr>
<tr>
<td>Mumbai</td>
<td>20%</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>22%</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>23%</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Ficci & KPMG Study

1.8.3.2 Increased Focus of Global Players on Sourcing from India

Indian subsidiaries of global players have proved themselves in terms of quality and production capabilities. This has led several international companies to source from India. Hindustan Lever, the subsidiary of Unilever, exports a wide range of products like soaps, detergents, oral care and skin care products to other Unilever subsidiaries.
A new Export Orientated Unit is being set up by Hindustan Lever in Pune, to cater to the needs of this business. Unilever is also setting up a global sourcing office in India to buy products and raw materials from low-cost locations for its subsidiaries across the world.

India is moving towards embracing global patent and trademark standards that will facilitate outsourcing by global companies. With quotas in textiles sector also being relaxed, global retailers are increasingly focusing their sourcing efforts (both apparel and non-apparel) from India.

1.8.3.3 Forward integration / Alternative channels

In a bid to close the distance between the company and the end-consumer by cutting down the distribution channel, some manufacturers of consumer goods are establishing company-owned stores and service formats and exploring the store-in-store concept to enhance margins and increase customer value.

1.8.3.4 Rapid Expansion and Format Migration

After making years of investments in customer acquisition, setting up of systems / processes and consequent operational losses, many leading retailers have passed their “learning” phase and are getting into the consolidation/aggressive rollout phase. Today, few of them are making good money out of the business. This provides confidence to the investors to infuse much needed capital in the business, and will lead to further expansion, innovation and format migration.

For example, leading retailers such as Trent (Westside) and Landmark Group (Life Style) are also considering new formats in home improvement and hypermarkets. Some examples of migration of formats are cited

Table 14.1.

<table>
<thead>
<tr>
<th>Formats Adopted By Key Players</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Original Formats</strong></td>
</tr>
<tr>
<td>RPG Retail</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

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In other expansion moves, the department store chains like Shoppers Stop, Pyramid and Pantaloons launched their Initial Public Offering (IPO) and are using all the funds raised, for rapid expansion in existing format and rollout of grocery stores.

Experimentation with New Formats also Continue

Currently new formats are also being tested; some of these are listed in table below.

Table-17
New Formats being experimented currently

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Current Format</th>
<th>New formats being experimented with</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shoppers’ Stop</td>
<td>Department Store</td>
<td>Quasi-mail, adding Food retail</td>
</tr>
<tr>
<td>Ebony</td>
<td>Department Store</td>
<td>Quasi-mail, smaller outlets, adding food retail</td>
</tr>
<tr>
<td>Crossword</td>
<td>Large bookstore</td>
<td>Corner shops</td>
</tr>
<tr>
<td>Pyramid</td>
<td>Department Store</td>
<td>Quasi-mail, adding Food retail</td>
</tr>
<tr>
<td>Pantaloon</td>
<td>Own brand store</td>
<td>Hypermarket</td>
</tr>
<tr>
<td>Subhiksha</td>
<td>Supermarket</td>
<td>Considering moving to self service</td>
</tr>
</tbody>
</table>

*Source: Cygnus Research*
Retailers are also trying out smaller versions of their stores in an attempt to reach a maximum number of consumers. Crossword bookstore is experimenting with Crossword Corner, to increase reach and business from their stores. Food World is experimenting with a format of one-fourth the normal size called Food World Express.

With Organized retail penetrating into Tier II cities, retailers have started differentiating and experimenting with store sizes and formats. For example, in the departmental store format, while most Tier I cities and metros have large stores of 50,000+ square foot in size, stores in Tier II cities have established in the 25,000-35,000 square foot range.

1.8.3.5 Creative Store Designs

Irrespective of the format, the biggest challenge for Organized retailing is to create an environment that pulls in people and makes them spend more time shopping and also increases the amount of impulse shopping. And, that is why retail chains like Music World, Batista, Pyramid and Globus are laying major emphasis on investing heavily in store design.

1.8.4 Growth Drivers of Organized Retailing

1.8.4.1 Media Proliferation

Another factor that accelerated the concept of organized retail is media proliferation. The resultant exposure to advertisements and brand promotions across product categories has led to a growing consumer spending across a wide range of product categories.

1.8.4.2 Availability of Quality Real Estate & Mall Management Practices

Availability of quality real estate has been one of the main constraints for development of organized retail in India. In the past, negative yield on leased property, lack of bank funding and the unorganized property market resulted in dearth of quality retail space in the country. The spread between

<table>
<thead>
<tr>
<th>Vitan</th>
<th>Supermarket</th>
<th>Suburban discount store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodworld</td>
<td>Food supermarket</td>
<td>Hypermarket, Food world express</td>
</tr>
<tr>
<td>Globus</td>
<td>Department Store</td>
<td>Small fashion stores</td>
</tr>
</tbody>
</table>

Source: Cygnus Research
yield on property and the financing cost has turned positive with the fall in interest rates. Attractive yields on investments have resulted in sharp increase in property development.

Table- 18
Shopping Malls Space Growth in India

<table>
<thead>
<tr>
<th>Years</th>
<th>Total Mall Space (mn sq.ft)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>26.9</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>47.4</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>87.86</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>154</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>204.7</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>236.4</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>261.8</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>282.3</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>309.8</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>350</td>
<td></td>
</tr>
</tbody>
</table>

Source: F&R Research, Malls in India, 2007

From about 179 operational Malls with 47.4m sq ft of quality retail space in 2007, India will have 412 malls offering 205m sq ft of retail space in 2010, according to the “Malls in India 2007” study that was conducted by the F&R Research. Also die study reveals that by year 2015 there would be more than 715 operational malls offering 350m sq ft of retail space and a very large chunk of these developments would come up in India’s tier-II and tier-III cities. Based on a complete list of shopping centre developments taking place across the country, the projection for listed developments by 2007 end is 358 shopping centres with a total built up area of 87.8m sq ft, growing at the rate of over 60% per annum. There would be at least 20 more developments, details of which were yet to come and which could not be incorporated for publishing in the book. Adding diem to the listed developments the total built up area is expected to exceed 90m sq ft.
Some key facts

- Based on ongoing projects, the built-up Mall area is to increase from 16.7m sq.ft in 2005 to 87.8 million sq.ft in 2007.
- Rate of growth in mall space to drop from 99% in 2005 to about 81% in 2007.
- By the end of 2007, North zone may account for about 39% of total mall space followed by West zone (33%), South zone (18%) and East zone (10%).
- Smaller B-Grade cities to have about 12.8m sq ft of mall space by 2007 - Ludhiana accounting for about 2.5m sq ft and Ahmedabad about 3.4m sq ft each.
- Lot more activity is expected from the smaller cities in the years to come.

India Real estate Development By 2006-07

- 90m sq ft of quality space under development
- 7 major cities to account for 41m sq ft development
- Over 400 malls, shopping centres and multiplexes under construction
- To open 35 hypermarkets, 325 large department stores, 1500 supermarkets and over 10,000 new outlets
- To add US$10 billion of business to organized retail.

*Source: Images KSA study*
In addition, the various States governments have taken proactive steps to release large tracts of land for commercial development. Growth of property funds and permission for Real Estate Investment Trusts (REITs) to be set up will further help create a secondary market for real estate in the country. By the end of 2007 there were 179 operational shopping malls/shopping centres with a space of about 47.4m sq ft of built-up area.

1.8.4.3 Availability of Brands and Merchandise
Consumerism and brand proliferation has been another enabler for Organized retailing in India. Most of the world’s leading brands are now present in India. Brands like L’Oreal, Espirit, Louis Vuitton, Marks & Spencer, Tommy Hilfiger, Louis Phillipe, Levis, Pepe, Lee, Arrow, Dockers, Red Tape, Clarence, Hugo Boss, Tiffany, Bulgari, Ecco, Chambor, Revlon, Philips, Corel, Magpie, Nike, Reebok, Parker, Ray Ban, Lego, Mattel are now present in India.

1.8.4.5 Enhanced Funding Options
Supply side changes such as consumer finance help in shaping a markets buying power. Consumer credit, especially through credit cards, has been growing healthily year on year. Financial card usage in India has witnessed tremendous growth with volume transactions experiencing greatest
growth at 3,009% since 1998. At that time, value transactions also grew by 1,339%.

1.8.4.6 Implementation of Vat to Reduce Cost and Complexity

A differential sales tax rate across states and the incidence of multi point local levies added to costs and complexity, and have hampered aggregation of sourcing. The implementation of Value Added Tax (VAT) is also expected to narrow down the cost advantage that unorganized retailers enjoy over the organized ones.

1.8.4.7 Changing Demographic Profile

The composition of the Indian population is shifting towards a larger composition of people in the age group 20-49 i.e. the working population with purchasing power. This shift is expected to be a major driver of consumption.

Table-21
Median Age in Years

<table>
<thead>
<tr>
<th>Country</th>
<th>Median Age in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>24</td>
</tr>
<tr>
<td>USA</td>
<td>31</td>
</tr>
<tr>
<td>China</td>
<td>36</td>
</tr>
<tr>
<td>Russia</td>
<td>39</td>
</tr>
<tr>
<td>UK</td>
<td>44</td>
</tr>
</tbody>
</table>

India has the advantage of younger generation with better purchasing power to drive growth

Source: KSA Technopack

The low median age of the population means a higher current consumption spend vs. savings as a younger population has both, the ability and willingness to spend. Higher consumption is a direct booster for the retailing industry.
1.8.4.8 Changing Lifestyles

Nuclear family structure, a growing number of educated and employed women (which translates into increasing disposable incomes), media proliferation and growing consumerism have all contributed to the growth of organized retail.

1.8.5 TECHNOLOGY
1.8.5.1 Role of Technology in Retail

The Organized retail industry is realizing the importance of information technology in bringing about process improvements, which would result in greater operating efficiencies and hence increased profits.

But the awareness of IT systems is low, resulting in poor decision-making. Effective retailing requires functions such as front-end cashiering, transaction automation, retail shelf and floor management and vendor and supply management. Retailers have employed many technologies for a better management eg scanners that quickly read Universal Product Codes (UPCs) reduce checkout times and eliminate the need to put price tags on individual products. UPCs also allow firms to track inventories more closely. Supply chain management software helps firms make better purchasing decisions, improves transportation logistics, and increases coordination with manufacturers. Global positioning systems allow firms to track the location of goods in transit.

Technology affects top line performance of retail industry through:

- Better store system
- Planning applications
- Supply chain capabilities

1.8.5.2 Supply Chain Management

Supply Chain Management is the backbone of retailing that coordinates with the merchandising function, ensuring delivering of replenishments with efficiency. The global supply chain management market is estimated to be around US$7 trillion in 2006 and is expected to reach at US$10 trillion by 2010-11.
1.8.5.3 European Article Numbering

Almost 75% of consumer products that retailers sell currently in India comes from suppliers with European Article Numbering (EAN) barcodes. This helps in faster identification of needs and resultant actions, critical for ordering, dispatching and invoicing processes. Absence of 100% compliance impacts the efficiency in movement, storage, forecasting and sales of goods. Recently, Retail Association of India (RAI) along with ECR India proposes total EAN barcode compliance agreement among retailers with effect from October 2006 to achieve global standards in retailing efficiencies.

1.8.5.4 Efficient Consumer Response

Efficient Consumer Response (ECR) is a global movement in an FMCG Industry. It is a joint initiative by members of the supply chain to work to improve and optimise aspects of the supply chain and demand management to create benefits for the consumer eg lower prices, more choice variety, and better product availability.

In India, ECR movement was launched in 1999; EAN India facilitated the formation of a core group by bringing together retailers/manufacturers, thus eliminating internal barriers resulting in reducing cost and response time.

Figure-8
ECR Model

Source: Cygnus Research
1.8.5.5 Logistics Management

In the retail industry, logistics focus is on distribution or outbound logistics. The importance of IT in the area of logistics has grown substantially over the past number of years. Substantial benefits can be derived from the use of IT in logistics and SCM systems, especially because the use of these systems is still relatively unexploited, particularly in most developing economies.

ECR works on the following areas:
- Collaborative planning, forecasting and replenishment (CPFR)
- Just in time production and inventory control systems
- Logistics
- Activity-based costing

Trends that will shape the future of IT in the area of logistics
- The first and probably biggest trend that will continue to revolutionise the logistics and supply chain industry must be the Internet. Customer self-help, information on load or manufacturing status, supplier collaboration networks etc, will continue to change the way retailers have traditionally done business.
- Another trend is the quest for greater integration between disparate systems to enable organisations to share information effortlessly between spreadsheets and database management systems.

Enterprise Resource Planning: An Enterprise Resource Planning (ERP) describes software systems designed to manage most or all aspects of a manufacturing or distribution enterprise (an expanded version or MKP systems). ERP systems are usually broken down into modules such as Financial, Sales, Purchasing, Inventory Management, Manufacturing, MRP, and DRP. The Indian experience in implementing Retail ERPs has been difficult due to the lack of trained ERP package implementers in India. Hence, the cost of implementation has gone up, as package experts have to be brought in from abroad.
An efficient ERP system helps the retailer in

- Maintaining one’s stocks
- Getting supplies on time
- Preventing stock-outs

In the future, there will be a need to evaluate if retail ERP packages like JDA, SAP IS Retail and Retek are suitable for Indian retailers. These products have an integrated solution for demand forecasting, merchandising, replenishments, supply chain, etc. Most of these packages have built-in CRM, OLAP tools, collaborative planning and supply chain systems that are tightly integrated with the merchandising and forecasting functionality. Though the flip side is that these packages are costly, the return on investment takes longer time and expertise to implement the systems. Hence, it would be a good idea to evaluate these packages, determine the cost-benefit analysis, and wherever possible, source the software from one vendor organisation that would provide all the functional requirements of the retailer from an information technology perspective.

1.8.5.6 Inventory Management

It is the direction and control of activities with the purpose of getting the right inventory in the right place at the right time in the right quantity, in the right form and at the right cost. Effective Inventory Management enables an organisation to meet customer’s expectations of product availability while maximising net profits or minimizing costs.

Radio Frequency Identification. Radio Frequency Identification (RFID) is identification or tagging method that functions similar to a barcode on an apparel product or shipping carton. The tags can be read through packaging and cartons without the line of sight necessary for reading barcodes. RFID technology has three components: microchip tags that carry the data, antennas that send the data, and readers that interpret the data. Cartons or products using RFID technology carry a transponder made from a microchip attached to an antenna.
RFID applications

• Improving inventory management
• Improving customer service
• Boosting customer loyalty

The technology is transforming the retail industry by offering retailers real-time visibility into inventory and product movement to improve store productivity and loss prevention.

1.8.5.7 Emerging Technologies

In the future, new stores will be opened; different formats will be experimented with, and the existing IT systems will be extended, or additional licenses will be bought for IT applications. The emphasis would be on using the existing IT resources to generate more information. At this stage, retailers plan to leverage gains from their IT investments. One way of ensuring this is to have information about their customers and devise ways to get repeat business from existing customers. In order to do this, the retailer would need Customer Relationship Management (CRM) or On-Line Analytical Processing (OLAP) software to run on top of its existing database.

1.8.5.8 Customer Relationship Management

CRM could be used for, amongst other things, campaign management, to understand the buying patterns of ‘loyalty cardholders’ and the integration of multi-channel sales. The database to be analysed by the CRM package only records purchases identified through the customer loyalty cards of the retail chain, which adds up to about 25 to 30% of all sales. The retailer gets detailed information of the buying patterns of his/her existing customers and he/she can plan strategies to get more customers to come back to the store.

1.8.6 Issues & Challenges

1.8.6.1 No Industry Status

The Indian retail sector suffers from one basic problem: Technically speaking, it is not an industry. In spite of being one of the largest employers in India, the Indian retailing sector hasn’t been recognized as an industry by the government. Some problems regarding this is as follows.
• Absence of a single nodal Agency: Retailing does not come under the purview of any specific ministry. Retailing policy is currently in a state of chaos. The finance, trade, industry and commerce ministries randomly regulate retailing on a random basis. There is no single body responsible for this industry. As a result, the growth of this industry has been severely affected.

• Operational hurdles: The Indian retailer faces operational hurdles at tour levels: The Central, state and municipal governments and the financial institutions. The government factor plays a big role considering the fact that every government body has its own sort of clearances, and given the level or efficiency that we have in government bodies in India, the delay involved in procuring these licenses translates into huge operational and opportunity cost for retailers.

Benefits to Retail sector due to industry status
• Greater focus on retailing development.
• Facilitating Fiscal incentives for retailing.
• Availability of organized financing.
• Establishment of insurance norms.
• Lack of established lending Norms: The financing of the activities by non-corporate sectors, particularly in areas of wholesale & retail trade is mainly from the private money markets where the rates of interest are much higher, at least twice of that of nationalized banks. These are cash-flow based lending rather than assets based and are undertaken more by the unincorporated type of financing agencies.

The organized non banking sector is more into asset based lending for the items like machinery, equipments etc. This is one of the major reasons for the large margins seen in wholesale & retail trade.

The segmented financial markets present an ironical picture of huge funds being available with bankers on die one hand and prohibitive interest rates at which funds are made available to the non-corporate, unorganized sector on the other.
1.8.6.2 Gaps in the Retail Sector

A major gap in Indian industry is its fragmented structure with a dominance of small scale. Even though the government policies that created this distortion have gradually been removed, their impact will still be felt for some time.

- One of the greatest implications is that since most of the companies are small, there are very few clear examples of leadership and reference points that can be aspirational or inspirational for the rest of the industry. The ones THAT are - Arvind Mills, Reliance or Raymond - far exceed the scale of most of the industry players, and do not provide a clear “roadmap to growth” for the rest of the industry.

Gaps in the Retail Sector

- Fragmented
- Dominance of small scale
- Few examples of leadership
- Low productivity
- Lack of integration in supply chain.

- Small scale also brings with it the problem of productivity. - Various authors and researchers have placed the current productivity of Indian factories at half to one-third of levels that might otherwise be achievable. Smaller companies often do not have the resources to invest in appropriate technology or retraining, or in the re-engineering of processes. While skilled Indian labour is inexpensive in absolute terms, due to lower productivity levels, much of this advantage is lost by small firms.

- Fragmentation of the supply base also creates barriers to achieving true integration between the various links in the supply chain. This creates issues of lack of control and lack of consistent or reliable performance. The huge geographical spread further complicates this.

1.8.6.3 Limitations Due to Land and Property Laws

There is a shortage of good quality retail space and rents are high for what is available. Compounding these shortages are the following problems-
• One of die drivers of property prices is the high demand for space in die cities. This demand is exasperated by the flow of black money (undeclared for tax purpose) that is generally invested in the property sector.
• Only Indians can own property in India, which compliments the restrictions placed on FDI and restrict the entry of foreign players.
• Stamp duties on property deals are significant (12.5% in Gujarat and 8% in Delhi). The lease alone can cost up to 6-10% of sales while it’s just 3-5% globally.
• The initial urban planning of cities was done with smaller plots in mind which along with rigid building and zoning laws makes it difficult for procurement of retail space.
• The urban land ceiling act and rent control acts have distorted property markets in cities, leading to exceptionally high property prices.
• The presence of strong pro-tenancy laws makes it difficult to evict tenants and make people reluctant to give real estate on rent. The problem is compounded by problems of lack of clarity over titles to ownership.
• Land use conversion is time consuming and complex.
• Time consuming legal process for property disputes.
• City urban planning projected smaller commercial plots and this, together with rigid building and zoning laws make it difficult for procurement of retail space.

1.8.6.4 Limitations Due To Stringent Labour Laws

Existing labour laws in India forbid employment of staff on contractual basis which makes it difficult to manage employee schedules especially the 365-day operations. The labour laws instituted to protect store workers are not flexible enough to support the modern formats of retailing. These rigidities in law constrain die operations of modern retail outlets. Working hours are restricted, with shops required to close one day of the week, while die hiring of part-time employees is difficult.

To avoid any potential trouble with labour unionization, companies have often broken their business down into small units, which have, in turn, lost the efficiencies of scale. In recent years, there has been movement
towards labour reform and it is hoped that this will make the business environment even more conducive.

For eg: In Bangaluru, the State Government has permitted flexibility in the use of labour without doing away with the associated benefits accruing to it.

1.8.6.5 Other Regulatory Disadvantages

• The historical reservation of manufacturing: Among the other regulatory disadvantages, one of the most insidious is the historical reservation of manufacturing for very small companies. While the original political intention might have been to spread self-reliant industry across a large population base, this reservation has created the fragmentation that shackled the competitiveness of Indian industry. Most of the sectors have now been de-reserved, and entrepreneurs and corporates are investing significant sums of money in setting up new, large factories, or expanding their existing manufacturing plants.

• Lack of FDI: Secondly, the government has, in the past, also kept foreign investment out of textile and apparel manufacturing. It has gradually removed these restrictions, and has also brought down import duties on capital equipment, creating grounds for foreign investors to set up manufacturing plants competitively in India. In recent years, when India has started becoming a global manufacturing base for products such as cars (Ford, Hyundai) and fast-moving consumer goods—FMCG (Unilever), it can certainly provide a competitive base for textiles and apparel companies to invest in.

• Tax imbalances: Some other problems remain, such as excise and other tax imbalances. The political diversity of India’s 35 states and Union Territories, and a coalition of ruling parties have led to slow progress in rationalizing these imbalances due to debate and discussion. However, a VAT framework is being put in place, though in fits and starts, which will clear these imbalances once it is implemented fully, and create a truly unified economic space.
1.8.6.6 Lack of Basic & Secondary Infrastructure

Most of the existing retail outlets are modification of properties meant for various commercial purposes. Renovation cost thus for a substantial cost of the initial setup costs. Logistics and supply chain management are crucial to retail functioning. In the absence of logistics companies in India these have to be developed in house by retailers, which add to costs apart from being set up on experimental basis, as no set-working format exists.

1.8.6.7 Non Availability of Quality Real Estate At Prime Locations

The retail boom currently being witnessed in India is likely to have a significant impact on the commercial real estate sector. Presently, most major Indian cities have sizeable retail construction projects underway. In the past, real estate costs have been high in India. However, die scales of supply and demand have recently tipped in favour of a rationalization of property prices across the country.

In most cities it is difficult to find suitable properties in central and downtown locations for large format retail stores. This is primarily because private holdings are fragmented and the auctioning of large government owned vacant plots is rare. This has led to a shift towards the suburbs of metropolitan cities. There has been a spurt of shopping malls in these areas, such as Gurgaon and Noida near Delhi and Bandra Kurla Complex, Navi Mumbai near Mumbai and S.G.Highway near Ahmedabad. While most Indian players have ready and easy access to prime real estate locations, foreign companies have to depend upon shopping malls and rentals for their outlets.

1.8.6.8 Poor Distribution Network

The Indian market is dominated by over 12-15m small “mom and pop” retail outlets, of which about 65% are in rural areas. Accessing these outlets is one of the biggest challenges facing the CPG companies who need to either set up their own extensive distribution networks or enter into strategic alliances.
1.8.6.9 Supply Chain Issues

In India, both vendor management and logistics management are still underdeveloped. However, with growing size of operations, supply chain efficiencies will become a key differentiator of profitability in retail. Supply Chain Management (SCM) efficiencies are essential to retailers to maintain and improve margins. SCM includes vendor management and logistics management. Vendor selection is an important outcome of the sourcing process and a key to most efficient sourcing. Logistics management aims to get the goods from the vendor to the store in the shortest possible time thereby avoiding unnecessary stocking of goods.

Similarly, supply chain tools and techniques are still developing in India with the increase in organized retailing and entry of international brands. Bar coding is now being implemented, driven by the retailers for whom it is an essential ingredient for supply chain management.

1.8.6.10 ECONOMICS OF TRADE

Another constraint concerns economics of the trade.

Low margins to the organized players:

Organized retail in India is largely a proposition of poor economies of scale. As in any other industry, the unorganized sector has low operation costs and therefore offers cheaper product to consumers. This forces modern retail formats to operate at abysmally low margins. While retail margins in the FMCG sector in India ranges between 10-12%, the same margins abroad are in the region of 25-30%.

Emerging: Manufacturer supplier relationships to decrease cost:

Some of the leading chains have succeeded to a degree in convincing consumers that their quality products come at equal, if not lower, prices. It has largely to do with efficiencies achieved in supply chain management. Such stores have done away with intermediaries in the supply chain. It is a direct manufacturer-to-retailer relationship where the sheer popularity of stores and their capacity for effecting bulk purchases gives the retailer an upper hand.

Use of IT to decrease cost in the long run:
Also, advanced IT tools have contributed towards better logistics and inventory management at lower operational costs. Value-additions are provided through measures like privileged customer cards and promotions across brands/counters which may be in the form of freebies or direct discounts. Service value add-ons such as valet-parking/ replacement policy/ cafe, etc, also provide extra value to the consumers. Retail biggies are powering ahead this way despite policy problems.

1.8.6.11 Non Availability of Skilled Manpower

The non availability of trained manpower, especially at the management level, poses a key risk for the retail sector. With growing opportunities in the emerging service sectors, the ability of the retail business to hire and retain quality people is under pressure. Further, as organized retail grows rapidly, there will be pressure on existing players as new entrants look for trained manpower at various levels. Opening up of FDI in retail could see the entry of international retail majors and put further pressure on the manpower of existing retailers.

1.8.6.12 Differentiation and Reach

Too many department stores, too many exclusive outlets all too close to each other. There's hardly enough differentiation and this could make it hard to build store loyalty. Besides, customers don't want to travel more than 20 minutes to visit a store. So, building higher levels of traffic when catchments are shrinking is a tough challenge.

1.8.6.13 Differences Between Urban-Rural Consumers

The rural Indian consumer is economically, socially and psychologically very different from his urban counterpart. Urban growth in the CPG sector is spread over a diverse basket of goods like low priced mobiles, cheap financed consumer goods and new entertainment options. Rural spending and demand is fuelled by good monsoons resulting in disposable income that is spent on medicines, fertilizers and interest repayments.

Cultural preferences and tastes that differ from the “global economy” given the strong and diverse cultures in India, multinational firms have to
develop and customize products specifically for the Indian market. For instance, Domino’s has introduced pizzas with Indian cuisine toppings, and over one third of its revenues are attributed to such additions.

1.8.6.14 Growth in Non-Metros

Most retailers concentrate on the top eight metros. That’s because the market in metros is ready for Organized retail and a premium pricing strategy is easier to adopt. But the question to be asked is that does that leave enough room for growth. Already malls are coming up in small cities like Indore, Vadodara, Ludhiana, Chandigarh, Surat, Meerut & Rajkot.

1.8.6.15 Disadvantages of India as A Country

Finally, there are certain macro-level disadvantages that India faces as a country.

- For one, it has a global logistics disadvantage due to its geographic location. Unlike its competitors Mexico (for the US), Turkey (for the EU), and China (for Japan and the US West Coast), India is distant from all the major markets. Therefore, the cost of shipping is high and shipping time adds to the disadvantage. Cost of shipping is also affected by the fact that inbound freight traffic has been low - therefore, container movement is not at its most cost-efficient. This is changing as India imports more products and inbound freight traffic increases.

- India also lacks any serious trade pact memberships, and therefore does not receive preferential access to the major markets. This leads to quota and duty disadvantages, which depress the sourcing volumes from India far below their potential.

1.8.7 CRITICAL SUCCESS FACTORS

Critical success factors highlight the aspects of the business which are critical for the success of any business venture. Critical success factors in an industry context are the factors/elements which will decide the player’s survival and hence success in the industry. In retail these critical success factors have evolved over a period of time from location to information.
1.8.7.1 Location

Location provided a strong source of competitive advantage in the pre-1980s (before the proliferation of computers into business management and adequate infrastructure to travel long distances). Where to physically locate a retail store may help or hinder store traffic. Well placed stores with high visibility and easy access, while possibly commanding higher land usage fees, may hold significantly more value than lower cost sites that yield less traffic. Understanding the trade-off between costs and benefits of locations is an important retail decision and is critical for the success of any retail venture. Location is a key factor in India for another reason. Poor infrastructure (particularly, roads and ports) leads to inefficiency in the supply chain, which impacts profitability. The retailer has had to ensure proximity to his source and his customers.

Figure: Evolution of Critical Success Factors in retail

Source: David Oliver, Partner, Kurt Salmon Associates, UK

1.8.7.2 Merchandise

Merchandise planning became a critical success factor in retailing in 1980s as infrastructure bottlenecks were removed the location became less of a constraint. Hence, merchandise became a key success factor in addition to a good location. Good quality and the diverse range of merchandise availability became very important to attract customers and still plays a very important role in retailing.
1.8.7.3 Knowledge and Information

Knowledge about customer tastes and preferences and information on inventory management to efficiently run the business has now become one of the most important success factors. Therefore, efficient knowledge and information systems have become necessary for success while location and merchandise continue to be important conditions.

1.8.7.4 Customer Satisfaction

Retailers know that satisfied customers are loyal customers and they are the ones who bring revenue to the company. Hence in today’s world of fierce competition customer satisfaction has become very vital. In fact Customer Relationship Management (CRM) is big business, with retailers investing huge amounts of time, money and resources in software and products in this category. For most, CRM should rank among their most vital business tools. After all, if a retailer misinterprets customer needs or shows any indication that profit will always have priority over customer satisfaction, competitors will be circling, ready to swoop.

Consequently, retailers must develop strategies intended to build relationships that result in customers returning to make more purchases. Today lot of retail players are launching loyalty programmes for their high value customers with die objective of retaining them. For example Pantaloons has “Green Card”, Shoppers Stop has “First Citizens Club” etc.

1.8.7.5 Ability to Acquire The Right Products

A customer will only be satisfied if they can purchase the right products to satisfy their needs. Since a large percentage of retailers do not manufacture that own products, they must seek suppliers who will supply products demanded by customers. Thus, an important objective for retailers is to identify the products customers will demand and negotiate with suppliers to obtain these products. Retailers must have a right product mix to sell in line with the market demand and customer preferences, to succeed in the competitive environment.
1.8.7.6 Product Presentation / Placement

Once obtained, products must be presented or merchandised to customers in a way that generates interest. Retail merchandising often requires hiring creative people who understand and can relate to the market. The retailers are competing to get the high visibility in shelves. Nowadays most of the low price items are placed at the counter so that customers can pick them up while paying the bills. High visibility is hence very important to sell the products.

1.8.7.7 Traffic Building

As it goes in Retail; the higher the number of footfalls (a measure of the average number of people who visit the store in a day), the higher will be the probability of conversion. Hence traffic building becomes very critical for a retailer. Like any marketer, retailers must use promotional methods to build customer interest. For retailers a key measure of interest is the number of people visiting a retail location or website. Building “traffic” is accomplished with a variety of promotional techniques such as advertising, including local newspapers or Internet, and specialized promotional activities, such as coupons.

1.8.7.8 Layout

For store-based retailers a store’s physical layout is an important component in creating a retail experience that will attract customers. The physical layout is more than just deciding in what part of the store to locate products. For many retailers designing the right shopping atmosphere (e.g., objects, light, and sound) can add to the appeal of a store. Layout is also important in the online world where site navigation and usability may be deciding factors whether a retail website is successful.

1.8.7.9 Keeping Pace with Technology

Technology has invaded all areas of retailing including customer knowledge (e.g., customer relationship management software), product movement (e.g., use of RFID tags for tracking), point-of-purchase (e.g., scanners, kiosks, self-serve checkout), web technologies (e.g., online shopping carts, purchase recommendations) and many more.
1.8.8 Regulations and Policies

The Government of India has over the years formulated various legislations, which apply to companies engaged in the business of retail and those establishing retail stores in India.

1.8.8.1 Shops and Establishments Acts

Under the provisions of various Central Government and State Government statutes, each of the department stores is required to obtain and regularly renew certain licenses / registrations and/or permissions required statutorily to operate department stores. Hence the companies are governed by the various Shops and Establishments Acts as applicable in the states where it has stores. These acts regulate the conditions of work and employment in shops and commercial establishments and generally prescribe obligations in respect of inter alia registration, opening and closing hours, daily and weekly working hours, holidays, leave, health and safety measures and wages for overtime work. A sample of the statutes/ legislations are

- The Andhra Pradesh Shops and Commercial Establishments Act, 1988
- The Bombay Shops and Establishments Act, 1948 in Gujarat and Maharashtra
- The Delhi Shops and Establishments Act, 1954
- The Karnataka Shops and Commercial Establishments Act, 1951 ect.

1.8.8.2 In respect of goods/products

The company is required to comply with the provisions of the Standards of Weights and Measures Act, 1976 and the rules made there under, particularly the Standards of Weights and Measures (Packaged Commodities) Rules, 1977. Similarly, the company is required to comply with the provisions of the Prevention of Food Adulteration Act, 1954 and the rules made there under. In addition to the above, the company is governed by the Provisions of the Insecticides Act, 1968.
1.8.8.3 Fiscal Regulations

In accordance with the Income Tax Act, 1961, any income earned by way of profits by a company incorporated in India is subject to tax levied on it in accordance with the tax rate as declared as part of the annual Finance Act. The company, like other companies, avails certain benefits available under the Income Tax Act, 1961. Further, the import of some of the company’s merchandise stocked at its stores involves the levy and payment of customs duty in accordance with the prevalent rates prescribed in the Customs Act, 1962 and rules and notifications issued there under from time to time. The company is also required to obtain a license under the provisions of the Export Import Policy 2002-07.

1.8.8.4 Value Added Tax (VAT)

In terms of the policies enumerated in the Central Government’s proposed budget for the current fiscal year 2005, implementation of value added tax (VAT) is scheduled to be completed within this fiscal year. While VAT is a state subject and therefore the states will have the freedom for appropriate variations in their VAT regimes, it is expected that these variations will be consistent with the basic design as laid down in the White Paper on State-Level Value Added Tax dated January 17, 2005 prepared by the Empowered Committee of State Finance Ministers. After the introduction of VAT, not only will the various state sales taxes be abolished, but the central sales tax will also be phased out.

1.8.8.5 Employment Related Regulations

The company is governed by the provisions of the Employees’ Provident Funds Act, 1952 and the rules made there under. It is accordingly required to make periodic contributions to the Employees’ Provident Fund Scheme and the Employees’ Pension Scheme as applicable. The company is also required to make contributions under the Employees’ State Insurance Act, 1948. It is also governed by the various state legislations applicable in the states where it has stores.
1.8.8.6 Contract Labour (Regulation and Abolition) Act

The company engages for each of its stores the services of various contractors for various activities including gift wrapping, house keeping, security, maintenance, tailoring and valet services. These contractors in turn employ contract labour whose number exceeds twenty in respect of some of the stores. Accordingly, the company is regulated by the provisions of the Contract Labour (Regulation and Abolition) Act, 1970 which requires the company to be registered as a principal employer and prescribes certain obligations with respect to welfare and health of contract labour.

1.8.8.7 Foreign Investment Regulations

An industrial policy was formulated in 1991 in order to implement the economic reforms initiated by the Government of India. It has since amended the Industrial Policy from time to time in order to enable foreign direct investment (FDI) in various sectors of the Indian industry in a phased manner, gradually allowing higher levels of foreign participation in Indian companies. However, as per the current Central Government policy on FDI, investment in Indian companies carrying on retail trading activity is prohibited.