CHAPTER 1
INTRODUCTION AND METHODOLOGY

1.1 Introduction

Retailing is the most prominent element of marketing where the marketer meets the ultimate consumer who exchanges value for the product and thus sanctions the very existence of business. Retailer is the last link in the distribution chain and his efforts to create demand and satisfy needs pave the way for the economic activity. Retailing is a business, easy to enter, with comparatively low capital and infrastructural requirements.

The Indian retail industry is the fifth largest in the world comprising organized and unorganized sectors. Retail industry is one of the fastest growing industries in India, especially over the last few years. According to Indian Brand Equity Foundation (IBEF) estimates, the retail sector in India is poised to grow from US$ 450 billion in 2012 to US$ 574 billion by 2015, at a 16.50% annual growth rate. The industry constitutes 16 percent, 15 percent, 12 percent and 7 percent of the economy in US, Brazil, Poland and China respectively. Retailing is a labour-intensive industry which serves to be the second largest source of employment and the job market is hugely receptive to retailing expertise as more and more B schools are now focusing on this sector and large retailers are setting up retail academies. Over 4 crore people are employed in the retail sector which constitutes 8 per cent of the total employment in India.

In India, initially, most of the retail industries were unorganized; however, with the change of tastes and preferences of the consumers, these industries have gained momentum and are getting more popular and organized now-a-days. With growing market demand, the industry is expected to grow at a pace of 14-18 per cent annually by 2015. Further the study done by KSA Techno park says that the organized retail market in India will grow by US$ 833 billion in 2014 and US$ 1.3 trillion by 2018, with a compound annual growth rate (CAGR) of 10% - which is quite lucrative. All these estimations are due to the fact that the consumer spending

---

has seen a rise of around 75 per cent, in the past four years\(^3\). Pantaloons, Tata group, RPG group, Reliance, AV Birla Group are some of the major retailers in India\(^4\).

### 1.2 The Various Retail Forms in India

**a. Mom-and-pop stores:** These are generally family-owned businesses catering to small sections of society. They are small, individually run and handled retail outlets.

**b. Category killers:** Small specialty stores have expanded to offer a range of categories. They have widened their vision in terms of the number of categories. They are called category killers as they specialize in their fields, a few regional players in the South already operate category killer stores, albeit mostly at a local level, like jewellery retailer GTR and Nalli sarees.

**c. Department stores:** These are the general merchandise retailers offering various kinds of quality products and services.

**d. Malls:** These are the largest form of retail formats. They provide an ideal shopping experience by providing a mix of all kinds of products and services, food and entertainment under one roof. Examples are Sahara Mall, TDI Mall in Delhi.

**e. Specialty Stores:** The retail chains, which deal in specific categories and provide deep assortment in them are specialty stores. Examples are RPG's Music World, Mumbai's bookstore Crossword, etc.

**f. Discount stores:** These are the stores or factory outlets that provide discount on the MRP items. They focus on mass selling and reaching economies of scale or selling the stock left after the season is over.

**g. Hypermarkets/Supermarkets:** These are generally large self-service outlets, offering a variety of categories with deep assortments. These stores contribute 30% of all food and grocery organized retail sales. Example: Big Bazaar.

**h. Convenience stores:** They are comparatively smaller stores located near residential areas. They are open for an extended period of the day and have a limited variety of stock and convenience products. Prices are slightly higher due to the convenience given to the customers.

---


i. **E-tailers:** These are retailers that provide online facility of buying and selling products and services via Internet. They provide a picture and description of the product. A lot of such retailers are booming in the industry, as this method provides convenience and a wide variety for customer. But it does not provide a feel of the product and is sometimes not authentic. Among the crowd of e-tailers functioning in India, a huge population of e-tailers have been extremely successful in making a huge profit. Some of the most popular e-tailers include Indiatimes.com; FabMart; Rediffshopping.com.

j. **Vending:** This kind of retailing is making incursions into the industry. Smaller products such as beverages, snacks are some the items that can be bought through vending machines. At present, it is not very common in India.

As per a study, India has experienced a high growth rate in the last four years, the consumers’ spending has claimed upto 75 per cent and as a result the Indian retail industry is expected to grow further in the future days. By the year 2018, the organized sector is also expected to grow a CAGR of 10 percent.

Since global competition had become acute, there was an entry of many multinational retail giants and there was a favourable climate for allowing foreign direct investment in the retail sector too. It had become a necessity on the part of the retailers of India to reconsider their retail strategy whether they belong to the organized or the unorganized category. There were arguments in favour of and against allowing the foreign direct investment the government however, allowed 51 per cent FDI in multi-brand retail sector and 100 per cent in single brand. A favourable atmosphere do exists in favour of foreign direct investment that can be allowed in a phased manner like it happened in China.

The changing profile of Indian customers due to variation in pattern of life style, way of living and standard of living, demography, level of income, expenditure pattern and the influence of foreign culture demands dramatic changes in the strategies being adopted by retail stores. Even if there is no entry threat or flow of foreign direct investment, the foregoing reasons necessitate that unless retail stores whether the organized or the unorganized change their strategies, their survival will be doubtful in the long run. Further the corporate houses like Reliance has made a foray into retail sector besides others. Even such corporate houses have to evolve strategies, which would help them to earn a competitive edge among local as well as global competitors.
Though there is a threat from the global players, as of now, the retailers have to evolve strategies, which would help them internally to survive and succeed in today’s retail business scenario. The current internal retail business system itself is fast changing as a result of varying profile of Indian customers and due to the threat from internal players of repute, such as Reliance, Spencer’s as well as the influx of FDI in the sector. As a result, the organized retailers have to evolve strategies which could ensure their success in the changing environment.

In view of the changing scenario, the changing strategies like store location, store layout, store exterior and interior atmospheres, merchandise and retail store service quality dimensions have become vital. However among all, retail store service quality dimensions such as tangibles, responsiveness, reliability, assurance and empathy have vital bearing on the success of the store. Further, what differentiates one store from another is the customer service that is service quality which ensures customer satisfaction.

Service sector is quite different from manufacturing sector. It directly deals with the customers and involves large volumes of transactions and paper work but very low amount is involved in transaction. There is no formal specification on the quality required and so the chances of making mistakes are more in the service sector. It is difficult to quantify the quality in this sector, as it is less tangible. Moreover, the expectation of the customer is dynamic and is not much strategically oriented and is focussed on a short term. Here the customer is directly involved in a service production process. Customers’ basically looks for quality in the aspect of reputation, accessibility, and communication as they cannot feel, see, bear or smell a service before it is purchased. The influence of such aspects has greater influence on purchasing from a particular store.

1.3 Departmental store

A department store is a retail establishment which specializes in satisfying a wide range of the consumer’s personal and residential durable goods, product needs; and at the same time offering the consumer a choice multiple merchandise lines, at variable price points, in all product categories. Department stores usually sell products including apparel, furniture, home appliances, electronics, and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photographic equipment, jewellery, toys, and sporting goods. Certain department stores are further
classified as discount department stores. Discount department stores commonly have central customer checkout areas, generally in the front area of the store. Department stores are usually part of a retail chain of many stores situated around a country or several countries. With the advent of new format of retail stores the departmental stores face a tough competition, unless the services rendered by these stores match with their expectations, the customers will be dispelled and the shops concerned would lose their business on the other hand. Hence there arises the need to assess the level of satisfaction obtained by the customers and the services rendered by these stores. The present study is a boon to both parties as it analyses both these aspects and suggests policies to make amends by the shops wherever necessary.

1.4 Customer Relationship Management

In the era of globalization, when there are so many enterprises offering very similar and substitute products to the customers, is there anything at all that can ensure the loyalty of the capricious customer? It may seems facile to state the obvious, i.e., the importance of retaining one’s customers. Paradoxically enough, for all the posturing and lip service paid to relationship building, companies only tend to wake up when things start going wrong. By then, it is often too late. However, to some extent, companies have now begun to increasingly realize that without customers, products don’t sell and revenue doesn’t materialize. This, combined with the often quoted factoid that is costs a company six times more to sell a product to a new customer than it does to sell to an existing one, makes companies understand that the cost of acquiring a new customer is very high. It therefore makes better sense to retain the existing customers by securing their loyalty Dyche (2008).  

Customer loyalty can be built through the process of regular interaction. But what actually is loyalty? It is definitely not just repurchase. According to one view, loyalty is like a ladder; where the closer the customer gets to you, the higher up the ladder he climbs. Repurchasing is just the lowest rung of this ladder. Loyalty has multiple dimensions. As customers get closer to a company, they being to tell others that doing business with this company is beneficial and worthwhile. When they do that, they bring in more revenues, they bring more revenues, they reduce the cost of serving them and the company will be able to retain them.

But retention is not everything in CRM. Companies must ask themselves: who are my most profitable customers? The Pareto principle, also known as the 80/20 rule, implies that in the marketing context, 80% of one’s profit would come from 20% of the customers. This means that a small group of customers make a substantial contribution to the company’s bottom line. As business become more consumer-driven, it is important to ensure that the company does not lose this group of customers and find various strategies for delivering greater value by building and nurturing relationships. Once the company build an enduring relationship with its customers, the customers themselves would also tell the company what they want. Recognizing, respecting, rewarding and managing this relationship becomes a business philosophy, which is termed as “Customer Relationship Management”.

CRM refers to all activities associated with both “relation exchanges” and “transactional exchanges”. It is an integrated effort to establish, maintain and grow the relationship, and to continuously strengthen this relationship through interactive individualized and value-added contacts, leading to a mutual exchange and fulfilment of promises over a period of time.

Most of organizations now advocate the idea that CRM should be a priority, but they are not sure about how to transform this desire into a business strategy, since they have no clear idea as to what relationship management actually means to a customer. More simply, they do not know how to make a customer loyal in the first place. Further, it is often not easy to track how many high value customers are being lost and what are the reasons behind this. This usually leads to devising a pitiable CRM strategy that barely addresses the real drivers of customer loyalty and is often just a promotional program in disguise.

1.5 Customer Satisfaction

Customer satisfaction is a critical issue in the success of any business system, traditional or online. In a turbulent commercial environment, in order to sustain the growth and market share, companies need to understand how to satisfy customers, since customer satisfaction is critical for establishing long term client relationships. It is evidenced by the fact that over the last few years, customer satisfaction surveys have become common in many financial institutions. Thus a fundamental

---

understanding of factors impacting customer satisfaction is of great importance to business.

A few scholarly studies, to date, have been undertaken to identify the dimensions and detailed aspects of services and their relationships with customer satisfaction. Achieving quality service in the eyes of the customer requires proactive organizational commitment. According to Berry et al., (1994)7 ‘service’ plays a key role in providing value and drives a company’s success. For the customer, this represents the benefits received against the burdens – like high price, an inconvenient location, unfriendly employees, or an unattractive service facility. Quality service helps to maximize the benefits and minimize such errors. Understanding customer expectations and measuring the organizations performance with regard to them are a central component of building customer satisfaction.

In today’s largely competitive market environment, departmental stores are increasingly realizing the need to focus on satisfaction of the customers and thereby retaining them as a measure to improve their competitive position. It is the element of customer service that plays a vital role to have competitive advantage. Good service or quality customer service includes politeness, responsiveness, promptness, care and commitment towards the customer and designing systems, procedures and responses with a view to make the customer feel secure, special and satisfied. Tom Peter, a famous American author of Corporate Management and Leadership books has quoted that “Listening to customers must become everyone’s business. With most competitors moving ever faster the race will go to those who listen and respond”. While this is true for all business, it has special relevance to retail; such a customer centric approach has taken the form of or dimensions such as Physical aspects, Reliability, Personnel interaction, Problem solving and Policy.

Further, the customer satisfaction is situation-specific and largely defined subjectively and qualitatively by the customer. On the other hand, customer relationship is the total of the customer’s expectation of the service rendered to them by the retailer. It is the degree to which the retailer conforms to the customers’ quality specifications that includes six factors such as Product, Employees interaction, Process Orientation, Environment, Post Sales Services and Customer Orientation.

Hence, this study assesses the customers’ relationship towards the departmental stores on the basis of these six dimensions.

1.6 Statement of the Problem

In the present study an attempt has been made to understand the various factors influencing the satisfaction level of the customers with regard to the six dimensions based on previous research findings and suggestions received from general public. A perfect parity between the services offered by sellers and the services expected by the buyers is vital to make the transaction smooth and hassle-free. So the services offered become an integral part of the marketing strategy of the firm. In this context it is imperative to study from the point of view of six dimensions offered by departmental stores in Coimbatore city and the present research work has tremendous relevance to the sellers in formulating their marketing strategies in this regard.

1.7 Scope and Importance of the Study

Retail is clearly the sector that is poised to show the highest growth in the next five to ten years. The sector is set for a revolution, as both the present players and new entrants are gearing up to explore the market. This sector contributes 10% of India's GDP and the current growth rate is 8.5% irrespective of the economic slowdown CII-McKinsey Report (2012). The present size of the organized retailing sector is approximately 3% and is expected to grow to 25-30%. There are about 300 new malls, 1500 supermarkets and 325 departmental stores currently under construction Ernst & Young Pvt., Ltd., (2012).

In this modern era Indian retail industry is eyeing the global retail players. Indian retail industry is one of the fastest developing industries which have inculcated modern techniques, exclusive retail outlets, emergency of retail chain etc., large Indian players like Reliance, K. Rahejas, Bharti and ITC are making significant investment in this sector. Global retail giants such as Wal-Mart, Tesco, Germany's Metro AG and many others are ready to enter the retail markets, due to which the present 12 million mom-and-pop shops and kirana stores fear losing their business.

---

8 CII-McKinsey Report on Retail 2012
Under this condition of market economy, every advantage, based on product, price, place and promotion are not lasting and quickly loses its significance Wu & Wu, (2005)\textsuperscript{10}. In such a situation the customer’s relationship management (CRM) replaces the traditional marketing model and introduces the relation with the client as the most important factor for the stability of the trade business. Therefore, it will be extremely difficult, even impossible, to manage the clients; but it is completely right to suggest that it is possible to manage the relations with the customers, hence – the desired effects from the trade activity and the improvement of the trade indicators.

This requires clarifications of the most important theoretical issues and the issues related to practice and application, in view of the customers relationship management, as every business that neglects the customers fails. From this standpoint it should be perceived that CRM as a systematic approach, which is manifested as a customer’s management process “in all points of contact, in order to increase the value of the relationships” Reinartz, M, & W.D, (2004)\textsuperscript{11}.

Two main factors exist for the growing popularity of CRM firstly, the fact that the attraction and the keeping of the customer is a main management priority, secondly, the growing significance of the electronic technologies and internet for the customer care and as a sale channel, creating a considerable insecurity for the companies Foss & Stone, (2001)\textsuperscript{12}.

In this context the present research was carried out to find out the requirements of the market and the expectation of the customers which will help the new entrants and the existing players to assess the ground reality. Although there is a variety of existing notions for CRM, one should always proceed from the understanding that no universal solutions exist, and CRM “is not panacea”, which will solve all problems of business.

\textbf{1.8 Objectives of the Study}

In a market like India, there is a constant clash between challenges and opportunities but chances favour those trying to establish themselves. To sustain in such a volatile market, retailers have to bring innovative solutions. As a sector, retail


has been slow to adopt CRM principles and practices Ruth. P. Stevens (2003).
Compared with such industries as financial services and telecom, retail appears
downright sluggish. The early CRM experiments at retail focused on store-based
efforts like branded credit cards and frequent-shopper programs, some of which have
taken root and been extended year after year.

The primary objective of this research is to map the echelon path among the CRM
variables which would enable the retailers to identify the variables that would result in
customer retention. Based on the above objectives the following specific objectives
were framed.

1. To identify the impulsive CRM values that enables customer retention in the
departmental store.
2. To explore the relationship between customer demographic pattern and CRM
values.
3. To track the momentum effect of CRM values.
4. To find out the factors influencing each dimensions in the echelon path of
CRM track.

1.9 Hypothesis of the Study

The above mentioned objectives would suggest many hypothesis, which were
framed and tested in the study and they are presented in the appropriate places in the
chapters.

1.10 Limitation of the study

Since the retail universe is very vast, widespread and diverse, obtaining a
nationally representative sample covering length and breadth of the country would
involve a very large budget and time. Although large number of variables with
regards to the six dimensions considered for the study was identified only selected
variables had been considered for analysis in each dimension. Since the study is
confined to departmental stores the outcome could not be generalized to other formats
of retail outlets. Findings will hold good only under similar conditions.

1.11 Description of Study area

Coimbatore known for its entrepreneurial skills and good climate is
geographically located in the foot hills of Western Ghats. The predominant location

---

http://www.ruthstevens.com/articles-columns/crm-for-retailers.html
has favourably helped in growth of many industry in the region more particularly cotton based hence the city is popularly known as “Manchester of South India”. The cities proximity to places like Palakkad, Cochin, Bangalore and a good rail and air and road linkage has made the city an education hub in the recent past. Since the city has a mixed population of business and students community there is a huge demand for entertainment sector. Introduction of Malls, Retail outlets and Departmental stores selling branded products was received with greater warmth. Since there is a mixed group of population of all age group and people coming from various parts of the country studying about customer satisfaction in this region would be apt as the population its self is heterogeneous and so the data collected will be more reliable.

1.12 Research Methodology

A pilot study was undertaken to generate the items presented in the questionnaire for this study. The respondents were the customers visiting departmental outlets in the South Indian city of Coimbatore. Respondents were explained the purpose of the research and the questionnaire were asked both in English and in local language to facilitate the respondents for a better understanding. Respondents were approached while shopping to use the walk-through-audit (WTA) approach that could accurately trace customer response towards the services offered by the departmental stores. As a result of these interviews with respondents of the pilot study, items in the questionnaire were reworded and presented to the final sample of respondents. Dimensions used in the finalized research instrument were “Product” (that include variety, standardization, quality, handling), “Employee” (the promptness or readiness of sales staff or employees to serve customers and provide requisite information, competencies and skills that staff possess in order to serve customers better), “Process Orientation” (the extent to which customers can depend on the promised offers and promotions), “Environment” (that include physical setting, layout, assortments and appearance of the sales staff), “Post Sales Service (the extent to which remedial measures are initiated when there is a complaint or suggestion) and “Customer Orientation” (that ability of the departmental store to design and deliver the service that matches customers expectation by managing its operating hours, layout, systems, recreational and other value added facilities). Each item in the questionnaire was rated by respondents on a five-point Likert scale ranging from Strongly Disagree to Strongly Agree.
A pilot study was carried out on a random basis from 200 respondents and the characteristic taken in the pilot study was whether the respondents visited the departmental outlet at least once. The study is confined to the retail format that are classified as departmental stores with broad variety, deep assortments, high service, low to high prices, located as regional store and has had been visited by the respondents at least once. For studying the customer satisfaction in departmental stores, it is obvious that Coimbatore is the right choice to conduct the survey for determining the influence of Customer Satisfaction in retaining the customers. The researcher stratified the geographical region of Coimbatore into North, East, South and West based on the number of departmental stores in each stratum the sample for the pilot study was identified as shown in Table 1.1

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Departmental Stores</th>
<th>Visited at least once</th>
<th>Never visited</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>28</td>
<td>40</td>
<td>9</td>
<td>49</td>
</tr>
<tr>
<td>East</td>
<td>22</td>
<td>32</td>
<td>7</td>
<td>39</td>
</tr>
<tr>
<td>South</td>
<td>27</td>
<td>39</td>
<td>8</td>
<td>47</td>
</tr>
<tr>
<td>West</td>
<td>37</td>
<td>55</td>
<td>10</td>
<td>65</td>
</tr>
<tr>
<td>Total</td>
<td>114</td>
<td>166</td>
<td>34</td>
<td>200</td>
</tr>
</tbody>
</table>

P = Percentage of population who have visited department store at least once

P = Visited at least once/Total pilot study respondents

North  = 40/200 = 0.200 = 20.00%
East   = 32/200 = 0.160 = 16.00%
South  = 39/200 = 0.195 = 19.50%
West   = 55/200 = 0.275 = 27.50%

Sample size determination (for Infinite Population)

\[
n = \frac{Z^2 \times (P) \times (1 - P)}{C^2}
\]

\[Z = 1.96 \text{ (For 95% confidence levels)}\]

P = Percentage of population with a particular choice

C = Confidence levels expressed as a decimal

Table 1.2 indicates how the sample size was identified using the above formula.
Table 1.2  
Sample chosen from each stratum

<table>
<thead>
<tr>
<th>S.No</th>
<th>Stratum</th>
<th>No. of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>North</td>
<td>384</td>
</tr>
<tr>
<td>2</td>
<td>East</td>
<td>323</td>
</tr>
<tr>
<td>3</td>
<td>South</td>
<td>377</td>
</tr>
<tr>
<td>4</td>
<td>West</td>
<td>479</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1563</td>
</tr>
</tbody>
</table>

The questionnaire was collected from 1563 respondents, since there was no structural changes made in the questionnaire presented to the respondents of the pilot study it was decided to include the 166 respondents, thus a total of 1729 filled in questionnaire were collected, on scrutiny of the response from the respondent’s 1638 questionnaire were found to be complete in all respect. After performing a reliability test among the responses only 1503 responses emerged to be fit to be considered for further analysis, for the purpose of computational convenience the total responses was taken up as 1500.

1.12.1 Analysis and Statistical techniques applied

The data collected were analysed with reference to each of the specific objectives. The tools of analysis such as Descriptive Tables, Percentages, Chi-Square, Analysis of Variance, Factor Analysis, Multiple-regression, and Path Analysis were applied to identify the variables contributing for the Customer Satisfaction.

1.12.2 Scaling technique used

Variables have measurable characteristics and there are instruments available to measure the impact on these variables. Data obtained were analysed by using the appropriate statistical tools. Qualitative data like Customer Satisfaction had to be quantified for this existing sophisticated statistical tool were employed for the purpose of analysis.

Sixty-two variables classified under six dimensions were identified for each of the variable the respondents have been requested to choose their answer under any one of the five clauses. The five categories will definitely help the respondents to distinguish between levels of the answers. The Likert five point scale is used to quantify the qualities. Allocation of scores from one to five does not have any basis and hence statistical tools cannot be used in the sense. In fact it is only coding and different persons use different methods. The Likert’s five point scale is constructed
under the foundation of normality of the variables in this study. Hence it paves the way for the application of any statistical tool.

1.13 Chapter Scheme

Following chapter scheme was designed for the purpose of the research report.

Chapter 1: Introduces the concept along with importance of the study, objectives, hypothesis, methodology adapted, scope and limitations of the study.

Chapter 2: The review of concepts, the historical review of various factors that were considered for the study.

Chapter 3: Gives an overview of the CRM practices in the retail industry.

Chapter 4: The analysis and the interpretation of the study are presented in this chapter.

Chapter 5: Presents summary of findings and conclusions.