CHAPTER I

INTRODUCTION

Retail - this means, ‘the sale of goods to the public for use or consumption rather than for resale’ according to Oxford English Dictionary. Retailing is derived from the French word ‘retailer’ which denotes ‘breaking bulk’, and more specifically it can be explained that breaking bulk quantities into smaller saleable units. Usually, a retailer buys goods or products in larger quantities from manufacturers or importers, either directly or through a wholesaler and then sells individual items in small quantities to general public or to the end users.

The retail sectors play a considerable role in the world economy because of the contribution that it makes to the economy of the country. To be more precise, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. It covers the business activities involving goods and services to their consumers for their family and household use.

The retail sector has strong backward and forward linkages with other sectors like agriculture and manufacturing industry through inspiring demand for goods and through marketing, packaging, storage and transport. In addition, it creates considerable direct and indirect employment in the economy. Also, the consumers have benefited in terms of wide range of products available in a market. The Retail sectors have become one of the most dynamic growing sectors in recent times. Retailing is considered always as an integral part of economic development.
1.1 BACKGROUND OF THE STUDY

1.1.1 Retail Industry – Global Scenario

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. It is also the second largest industry in US in terms of numbers of employees and establishments. It could not be denied that, most of the developed economies are very much relying on their retail sector as a locomotive of growth. Worldwide, retail industry is one of the most attracting industries being controlled by a handful of powerful corporations based mainly in the U.S and Europe, namely, Wal-Mart, Tesco, Carrefour and Metro\(^1\). Beside these, there are many other MNC retailers, who have saturated in their home countries, are looking for penetrating emerging markets like India, China and Russia. As these MNC retailers provides a world class shopping experience to the consumers, today consumers become more demanding want for world class products as well as experiential shopping. Thus the shift in consumer behavior in these emerging markets attracts world biggest players. The saturation in US retail market and other existing markets in developed Countries are forcing them to move in new markets like India and china. Retail has played a major role world over in increasing their activity across a wide range of consumer goods and services. The impact can be seen in countries like U.S.A., U.K., Mexico, Thailand and more recently China. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are also heavily assisted by the retail sector. Globally, retailing is a big business and its turnover accounts to US $ 6.6 trillion\(^2\).
1.1.2 Retail Industry – Indian scenario

Retailing is one of the largest industries in India and second largest employer after agriculture. The retailing industry provides employment to over 18 million people. One out of every 25 families in India is engaged in the business of retailing. India has highest shop density in the world. India has around 12.5 million retail outlets thus providing second highest employment after agriculture. It employs 7% of total workforce and contributing more than 10% of India’s GDP. The retail market in India is estimated at US $ 530 billion in 2011. Of this the unorganized market is worth around US $ 480 billion in 2011 and the organized market is worth around US $ 50 billion in 2011 constituting 10 percent of the total retail market in India\(^3\). In sharp contrast to the retail sector in developed economies, retailing in India, though large in terms of size is highly fragmented and unorganized. This industry is expected to grow further which is evident from the statistics provided in the next paragraph.

The real GDP of Indian economy is expected to grow at 8 to 10 per cent per annum in the next five years\(^4\). As a result, the consuming class of population with annual household incomes above Rs. 90,000 is expected to rise from about 620 million in 2010-11 to 1140 million in 2015-16\(^5\). Consequently, The estimation’s that are being projected on Indian Retail market is estimated to grow from the current US $ 530 billion in 2011 to US $ 940 billion by 2016\(^6\).

The international consulting firm, A.T. Kearney, annually ranks emerging market economies based on more than 25 macroeconomic and retail-specific variables through their Global Retail Development Index (GRDI). It is a very big surprise that India has been ranked as number one, signifying that the country is the most gorgeous market for international retailers to enter. The high economic growth during the last
few years, raising disposable incomes rapidly, favorable demographics placing incomes on younger population with less dependency, and urbanization are some of the major factors fueling the Indian retail market.

The Indian retail sector is growing at compound average growth rate (CAGR) of 30 per cent over the next five years. However, the share of modern organized retail sector is likely to grow from its current 10 percent to around 20 per cent over the next five years. The country is rated as fifth most attractive emerging retail sector and ranked second in a Global Retail Development Index of 30 developing countries as drawn up by A.T. Kearney.

The Indian retail sector is highly uneven, consisting predominantly of small, independent, owner-managed shops. Unlike most other countries, Indian retail sector is disjointed and bulk of the business is in the unorganized sector which constitutes 90 per cent like local ‘wet’ market vendors, roadside pushcart sellers or tiny kirana (grocery) stores. In India, the majority of food consumption is still at home. Out of estimated 12.5 million retail outlets, almost 7 million sell food and grocery products. The vast majority of these are small kiosks (17 per cent), general provision stores (14 per cent) and grocery stores (called kirana; 56 per cent of all rural retail outlets) run by a single trader and his family. With more than 71 per cent of the population living in small villages are engaged in agriculture, where most of the Indians still do their food shopping at small-scale vendors in the local village, or at large-scale weekly markets which are often serving several villages in one area, where small individual vendors trade. In the towns and cities, most consumers do their food shopping at the local neighborhood, independent small retailers, kiosks and street hawkers.
1.1.3 Trends in retail industry (growth drivers, challenges and opportunities)

The share of organized retail is more so in case of developed countries due to the busy life schedule and lack of time for shopping for the common man, high literacy rate, exposure to media, greater availability and penetration of variety of consumer goods into the interiors of the country and better shopping experience. Whereas, the share of organized retail outlets in developing countries was very less, it was 17 per cent in China and a meager, about 10 per cent in India because of the poor literacy rate, lack of exposure to media, non-availability and low penetration of consumer goods to rural areas of the country and lack of shopping experiences.

The domestic organized retail industry is at a nascent stage. At the macro level factors such as rising disposable income, dominance of the younger population in spending, urbanization, shift of the traditional family structure towards the nuclear family are buttressing the organized retail growth in India. Being considered as a sunrise sector of the economy, several large business houses are entering the retail industry under multiple modern retail formats. On the one hand, the advancement of information technology is improving end-to-end business processing by integrating the entire value chain, backward and forward, for operational efficiencies. On the other hand, rising real estate prices, infrastructure constraints, and expensive technology are making the retail industry capital intensive. But an important aspect of the current economic scenario in India is the emergence of organized retail. There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans.
Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. The demand for giant malls with large department stores, Cineplex’s, supermarkets, and pharmacy chains is the result of higher incomes and urban customers looking for convenience in shopping. Large chains such as Wal-Mart, McDonald’s, Wall-Mart and other organized retailers have reached across the world sharing their retailing expertise. The unorganized mom and pop retailers and independent retailers continue to fulfill a need. The organized retailing giants are trading organizational expertise for a share of the markets across the world. These formats typically require employees with low skills and account for around two-thirds of the sector’s output. These are highly competitive outlets, with minimal rental costs (unregistered kiosks or traditional property), cheap labor (work is shared by family members) and negligible overheads and taxes. However, unorganized retailers suffer due to poor shopping experience and inability to offer a wide range of products and value-addition due to lack of sourcing capabilities.

The modern Indian consumer is seeking more value in terms of improved availability and quality, pleasant shopping environment, financing options, trial rooms for clothing products, return and exchange policies and 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 the existing supply chains presents further opportunity for organized players to draw on this large market even as lack of consumer culture and low purchasing power restricted the development of modern formats. Migration from unorganized to organized retail has been visible with economic development in most countries. The last 3 to 4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in
total retail business has remained low. In detail the organized sector of retailers and the unorganized sector of retailers are discussed below.

1.1.4 Organized retailing

a. Meaning of organized retailing

Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail\textsuperscript{11}. Organized retailing in India has come of age especially during the last decade.

b. Formats of organized retailing

(i) Shopping malls are the largest form of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts. Generally this has an area around 60000 to 700000 square feet and the point of differentiation is Multi format, Multi products, Multi brand categories, and Lifestyle needs and so on\textsuperscript{12}. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Pyramid, and Pantaloons.

(ii) Hyper market has an Area around 50000 to 100000 square feet and the point of differentiation is Multi vertical. Large self-service outlets, catering to varied shopper needs are termed as hypermarkets. These are located in or near residential high streets. These stores today contribute to 30% of all food and grocery organized retail sales\textsuperscript{13}. 
(iii) **Super markets** with an average the Area of a super market is around 5000 to 10000 square feet while the point of differentiation is low cost, low margin high volume, self service operations design to serve total need for food, laundry and household maintenance products. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from of 3,500 sq ft to 5,000 sq ft. having a strong focus on food and grocery and personal sales.\(^{14}\)

(iv) **Departmental stores** large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. It is further classified into localized departments such as clothing, toys, home, groceries, . Departmental Stores are expected to take over the apparel business from exclusive brand showrooms while their point of differentiation is single vertical and several product lines.\(^{15}\)

(v) **Apparels store** stores which sell clothing, footwear and accessories to consumers. Since they focus on providing assortment of similar merchandise to particular type of consumer, these stores are considered as apparel retailers. This has an area around 20000 to 25000 square feet and the point of differentiation is Multi branded, Single vertical and focusing on high end consumers.\(^{16}\)

(vi) **Specialty store** has an area around 2000 to 5000 square feet and the point of differentiation is Narrow product line with deep assortment, multi branded, Single vertical on specific needs of the customers.\(^{17}\). Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.
c. *Growth drivers of organized retailing*

The reasons for the growth of organized retailers are clearly explained in the following lines.

1. **Higher Disposable Income**

   The disposable income has been showing a rapid increase from the last few years and is expected to grow steadily because the proportion of the major consuming class (population having incomes higher than Rs 90,000) is expected to reach 1140 million in 2015-16 from 620 million in 2010-11 over the next 5 years leading to new consumption patterns due to increasing depth in the consumers’ pocket\(^\text{18}\).

2. **Growing Working women population**

   The propensity to spend in the case of working women is higher by 1.3 times as compared by housewives. According to the census report, the population of working women increased to 38 percent in 2011 as compared to 26 percent in 2001\(^\text{19}\).

3. **Adoption of Nuclear Family culture**

   The increase in per capita income paved way to increase the nuclear-family culture. The proportion of nuclear families as a percentage of total household population has increased as shown by fall in average household size from 5.57 in 2001 to 5.02 in 2011. This will fuel the growth of organized retail\(^\text{20}\).

4. **Baby Boomer Effect**

   The demographics of Indian population have a steep growth in earning population which constitutes age group of 15 years to 60 years. In 2000, 593 million people constituting 59 percent of total population comprised of population in the age bracket of 15 years to 60 years, over the next 15 years, the earning population is
expected to increase to 63 percent in 2015, translating into a population of 782 million\textsuperscript{21}.

(6) Growth in Urban Population

Urbanization has increased at a rate of 2.7 percent over the last 10 years from 2000 to 2010. In 2000, the urban population was estimated to be 281 million which comprised of 28 percent of the total population. This trend is likely to continue and urbanization is expected to grow at 2.4 percent between 2010 and 2015. In 2015 the urban population is expected to be 401 million, constituting 32 percent of the total population\textsuperscript{22}.

(7) Robust Outlook towards Branded products

Due to liberalization of manufacturing sector, various organized branded products have entered into Indian markets, thereby developing and widening the basket for branded finished goods. With the advent of International competition, new trends and lifestyles are evolving among India masses resulting into 10-15 percent growth in branded products. This has established the base for organized retail market in India\textsuperscript{23}.

d. Strategies used by organized retailing

The retailers in organized retail industry have used some of the following strategies for growth. For example, Subhiksha uses Low-price high-volume strategy by keeping no fancy frills front-end and by becoming an intermediary at the back end, Subhiksha leverages on discounted prices on bulk purchases and cash payments. Trent Limited uses Single- brand strategy which leverages on high margins in private labels, and targets consumers in socio-economic class B and C. Spencer’s Retail Value uses
the “duck and the duckling” model by having two- or three- value segment stores, backed by a cluster of small-sized Fresh, Daily, and Express stores, to leverage on economies of scale at back-end value chain.\(^{24}\)

In the organized retail one-stop shopping model, Subhiksha distinguishes itself as the “no fancy frills” store working on mass consumers’ daily needs. The company’s business model focuses on high volume and low margin by: (i) keeping small-sized functional stores within the range of 1,000-1,500 sq. ft. area; (ii) clustering in close proximity to each other; and (iii) locating in high population density residential area. The company concentrates on daily-need essentials and repeat buying nature of its product categories in fruit and vegetables, fast moving consumer goods (FMCG), and medicines. Trent differentiates itself by building its own-label route. This strategy allows Trent a better control over the product range, design (value-added portion of the supply chain), and merchandise pricing.

The company’s business proposition in building customer relationship through membership programmes and liberal exchange policy has helped Trent in strengthening the Westside brand. The Star India Bazaar caters to the mass-market segments in meeting their regular needs. Although, the footfalls differ from store to store, the average customer footfalls range between 800 and 3,000 a day at a given store. However, Trent claims that their conversion rates are higher by 10-15 per cent per day than other stores.\(^{25}\) Pantaloon India Retail Limited is the pioneer of India’s modern retail in the hypermarket format and is recognized as an organized multi-format retailer across value and lifestyle segments. The firm’s business strategy is to capture a greater share of the consumer wallet by covering all customer segments in all age-groups, in all product categories through multiple retail formats nationwide.
The company’s Big Bazaar (hypermarket chain) cuts across entire customer segments. In a lifestyle store, the average customer footfalls are around 1,000 of which 350 convert into sales transactions.

In the value segment, the company attracts an average of approximately 3,000 customer footfalls, of which the sales conversion is between 220 and 250\(^2\). Indian Tobacco Company (ITC), leveraged on information-technology, enabled a unique business platform to directly integrate backwards with the source of supply, the farmers. The company not only optimized efficiencies in the procurement chain for export markets but also created a market place for rural retailing in the domestic market.

ITC leverages in backward linkages through its expertise in agricultural extension services and strategic partnerships for handling temperature-control technologies and logistics support. By extending agricultural services at the farm level, ITC is managing the quality of the produce and building an ITC brand in fresh fruit and vegetables. Spencer’s differentiates itself on product quality, assortment of imported food products, and shopping experience. Leveraging on the perception of high-quality imported goods that was attached to the old Spencer’s & Co. brand name, Spencer’s business strategy focuses on an array of food-related products and activities spanning across intercontinental and domestic culinary, and chef demonstrations. Spencer’s follows the “duck and duckling” (pyramidal) strategy for its retail expansion and cost benefits in back-end procurement; it has a small set of destination stores (Spencer’s hyper), followed by the supermarket format (Spencer’s Daily), and a larger set of convenient store format (Spencer’s Express and Fresh) located close to the local neighborhood.
The market penetration strategy of the organized retailers is explained as follows. The modern retailers follow either a spiral or a cluster approach for retail expansion, and in India typically the cluster approach is more popular. In the cluster approach, the firm initially launches in an urban city and then expands towards surrounding tier-1 towns belonging to the same cluster catchment area. Each cluster covers its own region for direct sourcing, distribution, and logistics like a separate business unit. This approach is favorable for retailers because they can build a more efficient logistics network and take advantage of cultural similarities among consumers in the same region in order to develop their product offerings. The real estate constraint however is restricting the retailers’ expansion plans in large formats. The new crop of retailers across the country are acquiring or leasing mega sized store spaces in newly constructed malls in an approved market space. Paradoxically, modern retail is diverting the shoppers’ traffic and noise congestion away from residential localities and minimizing the possibility of land encroachment beyond the store area as it is currently being done in the case of traditional retail outlets.

However, in recent years, large retailers are heading for a pyramidal approach by launching several small-sized neighborhood convenience stores in tandem with a few large hypermarket or department store formats. This strategy is beneficial to large retail firms because they can absorb supply-chain costs across formats. Further, bulk purchases enable them to squeeze profit margin from suppliers. However, the local traditional retailers in the nearby locations feel more intense competition. In the spiral approach, a firm starts in a large city and expands further and further, but maintains synergies in buying, logistics, and relationships. In the cluster approach, a firm expands around the major urban centers like a separate business unit, each covering
its own region. Subsequent expansions in other regions tend to follow the stepwise cluster pattern.

The hypermarket format is predominantly the backbone and primary driver of the modern retailers’ Fruit and vegetables, mobile phones, alcohol-based beverages and pharmaceutical electronics and household durable product categories encompass a much smaller share. Although, the supermarket format has been in India for a while, the new crop of modern retailers expanded the product mix incorporating FMCG goods, packaged food products, and private labels in staples and general merchandize. Another dominant format used by modern retailers includes the department and specialty stores focusing primarily in clothing, cosmetics, artificial jewelry and watches, and household durables. The discount and convenience formats largely concentrate on fruit and vegetables and grocery products.

The product margin strategy of growth for the organized retailers is explained as follows. Clearly, the share of product category in modern retail formats is driven by the level of profit margin retailers make and the consumer adoption rate. Modern retail penetration and consumer adoption in the apparel and clothing category is the highest. The firms’ competition strategy is differentiated in the lifestyle segment and cost focused in the value segment.

**e. Penetration of Organized Sector**

Organized Share of retail sector is expected to increase to 16 percent in 2015-16 from around 10 percent in 2011. The following are the various segments in the organized retailing.
(i) Food and Grocery

This is the largest vertical of 74.4 percent of retail size comprising fruits and vegetables, milk and milk products, staples, cereals, grains, pulses, processed food, ready to cook and ready to eat meals, spices and other eatables. This is least penetrated segment across all verticals of around 1.5 percent, being the most untapped pie. According to NSSO 60th round, 54 percent of the rural and 42 percent of urban expenditure was on food\textsuperscript{30}.

(ii) Apparels

Clothing and textile is a large organized sector dominated by textile manufacturers Raymond, Bombay Dyeing, Vimal, and by big retailers like Pantaloon, Pyramid, Koutons having 16.4 penetration levels. Increasing disposable incomes and change in the lifestyle needs have pushed the segment\textsuperscript{31}.

(iii) Consumer Durables

The electronics and consumer durable is the biggest organized segment penetrated to 20 percent\textsuperscript{32}. There lies more unearthed growth in the verticals as the craze for electronic gadgets have been picking up with the advent of nuclear families.

(iv) Home Décor and furnishing

The demand for furnishing is going to be spearheaded by a huge demand for the real-estate, paving way to tap the unorganized segment. Presently only a few players like Gautier, Godrej, &Durian function as organized entities.
(v) Jewelry and Watches

Titan is the early entrant in the segment followed by MNCs Oyzterbay, Tanishq, Swaroski, Orra, Gitanjali, & D’damas driven by demand for fashion accessories, and huge advertising and promotion campaigns.

(vi) Beauty Care

The organized players in Beauty Care are HLL (Lakme Salons), Marico (Kaya), Health and Glow are having a huge growth impetus.

(vii) Footwear

Leaving aside the Apparel, Footwear segment is forming a big pie in the organized retail sector, expected to grow to greater heights with foreign players like Crocs Inc.

(viii) Books, Music and gifts

In addition to Tier-II and Tier-III cities, the habit of reading books and listening to music is picking up among the Tier-I cities. The stores like Oxford Bookstore are experiencing this upswing.

f. Impact of organized retailing in the Indian economy

The growth of organized retail is having positive multiplier effect on the Indian economy. Retail industry is attracting inward investment both at the domestic and global level in several support industries: IT industries, cold chain infrastructure, and logistics and warehouse distribution services in order to strengthen the supply chain. The surge of private labels have generated demand and sourcing tie-ups with manufacturers across product categories. In the case of fruit and vegetables, the direct procurement is bringing quantitative benefits from higher price realization and
qualitative benefits in improvements of agro-processing services. Finally, organized retail is creating quality labor class that is gaining vocational training in skilled and unskilled jobs. Nevertheless, there is a timely need for a fresh regulatory framework and competition policy so that both traditional retail and modern retail can continue to grow in harmony eventually closing the gap between the organized and unorganized sector. Organized retailing has begun to tap the enormous market but its share indeed is small. A number of large business houses have entered the retail business with very ambitious expansion plans. Big foreign retailers are also keen to invest in India but their entry depends on changes in the government’s FDI policy regarding retailing.

Organized retailing played a significant role in the present-day developed countries during their period of high growth. In India, organized retail is poised to make a mark in the near future.

**f. Benefits of growth of the organized retail industry**

**Benefits for consumers:** Organized retail will offer consumers several benefits, such as wider product choice more in line with consumer needs, lower prices, better shopping experience because of improved store ambience and increased browse ability, enhanced service, and quality levels.

(i) **Greater job creation:** Organized retail will create employment at several levels. The most significant increase will be in front-end jobs for retail staff, where the contribution of organized retail will be not only in the greater number of the people employed but also in making jobs that were otherwise considered “menial”, more dignified, thereby, giving even those without higher educational qualifications a decent livelihood.
(ii) Efficient supply chain: The robust sourcing and distribution network likely to be set in place by modern trade would result in a more efficient supply chain management -- reduced lead times, fewer stock outs, reduced wastage, and consistent product quality. Manufacturers believe that both small and large retailers would continue to co-exist in India. Small retailers account for the bulk of retail sales today and will remain a significant force in the future since growing consumption will itself warrant the growth of both organized and traditional retail. Traditional retailers will also innovate, upgrade their stores and enhance value-added services to retain and strengthen relationships with their customers. Consumers have generally gained with the emergence of organized outlets through the availability of better quality products, lower prices, one-stop shopping, choice of additional brands and products, family shopping, and fresh stocks.

1.1.5 Unorganized retailing

a. Meaning

“Unorganized retailing” is defined as an outlet run locally by the owner or caretaker of a shop that lacks technical and accounting standardization. The supply chain and sourcing are also done locally to meet local needs\(^{37}\). The unorganized retail sector basically includes the local kiranas, hand cart, the vendors on the pavement and so on\(^{38}\). The term “unorganized retail” is better understood when comparing this form of retail to the organized retail that one is familiar with in developed countries. Unorganized retail is characterized by Family-run stores, lack of best practices when it comes to inventory control and supply-chain management, lack of standardization and essentially a sector populated by anyone who has something to sell\(^{39}\).
The major difference between organized and unorganized retailing lies in its number (chain) of store operations. An unorganized outlet may be just stand alone or can have maximum of 2 to 3 outlets in a city, where as the organized outlets are "any retail chain (more than two outlets) which is professionally managed (even if its family run), has a accounting transparency (with proper usage of MIS and accounting standards) and organized SCM with centralized quality control and sourcing (certain parts can be locally made) can be termed as an "organized retailing" in India. Organized retailing is based on the principle of unity and unorganized retailing is based on the principle of singularity.\textsuperscript{40}

The average space of unorganized retail outlets are explained as follows. The traditional retail outlets had an average size of 217 sq. ft. including the storage area, with textiles and clothing shops having a higher average size of 256 sq. ft. and fixed fruit and vegetable shops an average size of 129 sq. ft. The grocery and general stores have an average size of 216 sq. ft. including the storage area. Regarding the employment statistics for an outlet in the unorganized retail outlet is as follows. The unorganized retail outlets employ more family labor than hired labor; on an average they employ 1.5 persons per shop from the family, and hired employees of 1.1 persons. However, there has been a general increase in employment in the South and East but a decline in the West and virtually no employment change in the North.\textsuperscript{41}

\textbf{b. Formats of unorganized retailing}

(i) Kiranas

These are food and non-food neighborhood counter stores, also called 'mom and pop stores' in western countries. These are big chunks forming the segregated and
unorganized retail segment. These are family owned and-run retail-outlets picking the goods from wholesalers totaling to around 12 million stores across India\(^4\).

(ii) Mandis

These are the largest chunk of unorganized retail catering to urban and rural masses. Mandis are physically located at different regions to enhance convenient shopping. The sellers bring across various products like eatables, vegetables and fruits, pulses, cereals, spices. The most prominent of them are sabzi mandis found in most of the localities across India\(^4\).

(iii) Village Hats

This form is operating in rural areas where buyers and sellers gather once in a week or month from nearby villages and small towns to cater their livelihood and leisure needs. These hats are a source of entertainment and socialization among rural masses.

(iv) Push Cart Vendors

They are categories of vendors roaming from door to door in various localities selling fruits, vegetables, and other eatables, from which mostly housewives makes purchases that too on credit.

(v) Convenience Stores

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

In India, under the foray of retail unorganized is the dominating. This sector constitutes about 90% of the total retail trade in India in 2011. In the retail sector Foreign Direct Investment is expected to dampen the employment in the unorganized sector and expand that in the organized one. The retail business in India contributes around 10 percent of GDP. And out of this, the share of organized retail sector is only for about 10 percent, and the remaining share is contributed by the unorganized sector which is mostly a family owned business in India. Therefore retail in India is essentially unorganized as 90% of the retail industry is made up of counter-stores, street markets, hole-in-the-wall shops and roadside peddlers\(^44\).

*d.* **Challenges of unorganized retailing**

Even though the unorganized retail sector constitutes 90% of retail industry in India, the weak financial state of unorganized retailers and the physical space constraints on their expansion prospects makes this sector not be able to meet the growing demand for retail. This stimulates the growth of organized retailers in India. Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers. The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses. The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum\(^45\). There is competitive response from traditional retailers through improved business practices and technology upgradation. Unorganized retailers in the locality of organized retailers have been adversely affected in terms of their volume of business and profit.
e. Strategies and Competitive response by unorganized retailing

Unorganized retail has maintained employment levels perhaps as a result of competitive response. The adverse impact on unorganized retailers spins off over time. The major factors that attract unorganized retailers to consumers are proximity, goodwill, credit sales, bargaining, loose items, convenient timings, and home delivery. There is clear evidence of a competitive response from traditional retailers who are gearing up to meet the threat from organized retailers. While kiranas stores are trying to increase credit sales to retain customers, their own confidence on institutional finance remains very low. Unorganized retailers have indicated a number of steps taken in response to competition from organized retail, such as adding new product lines and brands, better display, renovation of the store, introduction of self service, enhanced home delivery, more credit sales, acceptance of credit cards, and so on.

Another interesting finding is that a section of traditional retailers are currently using a number of modern technological facilities and this section is going to widen in the future. For example, acceptance of credit cards by small retailers is a new phenomenon resulting from the presence of organized retailers. Currently 7 per cent of the unorganized retailers have installed credit card machines and the survey showed that a huge additional 24 per cent plan to use a credit card machine in the future. Computerized billing is done by 10 per cent of these retailers and an additional 27 per cent is planning to use it in the future. Scanning and bar coding is done currently by 4 per cent and an additional 17 per cent plan to use it in the future. Computerized accounting and inventory control is practiced by 5 per cent now and 19 per cent more want to do it in the future. Refrigerant, freezer, and hot case facilities
are already being used by 36 per cent and in addition 14 per cent wish to utilize it in the future. About 10 per cent of the traditional outlets are air-conditioned and another 21 per cent will opt for it in the future. Surprisingly, about 45 per cent of these retailers have an electronic weighing machine, and an additional 15 per cent want to set up this machine in the future.

Despite the unfavorable impact so far, a large majority of unorganized retailers showed their determination to continue in business. This is indicated by their response to the need for making changes to keep up with the changing times. A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise. Small retailers have been extending more credit to attract and retain customers. However, only 12 per cent of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit. Most unorganized retailers are committed to remaining independent and barely 10 per cent preferred to become franchisees of organized retailers.

In spite of the negative impact of the organized retailing on the unorganized retailing, at a macro level, manufacturers felt that the impact of modern retail will be positive. According to them, the advent of organized retail in India was both welcome and inevitable for the Indian economy. In their opinion, the benefits that organized retail would bring by far dismay the negative effects of inadequate retail services in a country like India. Manufacturers believe that both small and large retailers would continue to co-exist in India. Small retailers account for the bulk of retail sales today and will remain a significant force in the future since growing consumption will itself warrant the growth of both organized and traditional retail. Traditional retailers will
also innovate, upgrade their stores and enhance value-added services to retain and strengthen relationships with their customers.

1.1.6 Insights from the retail industry in India

India is at the crossroads with regard to the retail sector. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion and the picture still remains unclear as to its future direction. There is no doubt that traditional retail has been performing a vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies as a result of which consumers do not get what they want, and farmers often get prices for their produce much below what is considered fair. In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. It gives farmers a better alternative channel for selling their products at a better price. The competition from organized retail has affected the business of traditional retailers but they are making efforts to stay on. In their struggle to face this competition, they are handicapped by a lack of access to formal credit from commercial banks. As in other countries, government policy could play an important role in exhilarate the unorganized sector and improve its competitiveness. On the other hand, a policy of protection of traditional retailers by restricting organized retail will harm the growth prospects of the country by foregoing the enormous benefits that are generated by organized retail.

Retail trade is expected to grow at 13 per cent per annum during the period 2012 to 2015. With this expected increase it is inconceivable that the rising demand
would be effectively met by the unorganized sector. As in other countries, this provides the basis for the expansion of organized retail\textsuperscript{47}.

As retail industry in India can create such effects, the study on service quality offered in retail industry plays a significant strategic role in creating quality perceptions. With the rapid development of modern retailers in India in terms of number of stores and value, understanding of retail service quality and identifying determinants of retail service quality has become strategic importance for retailers. In India consumers are showing a rapid change by shifting their buying from unorganized outlets to organized outlets.

At this juncture the researcher is concerned with the service quality provided by the retailers in the organized and unorganized sector and thus the need for this arises which is explained below.

\subsection*{1.2 NEED FOR THE STUDY}

Over 8\% of India's population is engaged in retailing\textsuperscript{48}. The total retail market is expected to grow by 20\% annually and is one of the fastest growing sectors in India\textsuperscript{49}. As the local retailing industry continues to experience tremendous expansion, one observation is clearly evident: the rapid growth in the number of retail stores. The explosion of retailers, both domestic and foreign, aggressively target only for the consumers’ attention. The marketplace is becoming increasingly challenging for companies because of more intense competition among the retail sectors organized and unorganized and more demanding customers. The competitive pressure that already exists due to the creation of look-alike, similarly priced brands is being intensified by the exponential growth.
This study focuses on Food and grocery stores which are the stores that carry out retailing activities as they deal with the sale of goods and also offer services to their customers in the occasion of selling goods. The food and grocery stores play a vital role in the lives of every individual because they provide goods and services of various categories in order to satisfy their needs and wants.

The retail food industry is considered highly competitive and challenging. Food and grocery stores in India are facing strong competition. This is because they offer similar products and services to their customers. Due to the competition faced by these food and grocery stores, it is crucial for retailers to gain a better understanding of the food and grocery consumer in order to attract and maintain them. This competition faced by these retail businesses has led them in seeking ways to be profitable through differentiating themselves in their activities. This is why there is a need for these retailers to measure service quality because some consumers consider quality aspects of goods and service when doing their purchasing. This also will enable service providers to identify the key items of service quality by assessing the perceptions of consumers and finding out which items or dimensions need improvements in case of any weaknesses.

Service quality is required to be first measured in order to improve the quality in any organization. Practitioners and academics are eager on measuring service quality accurately in order to have better understanding of its indispensable antecedent and consequences, and eventually ascertain methods for improving and measuring service quality in search for competitive advantage. As service quality can be the cornerstone to retailing success, retailers need to constantly evaluate their service quality through the use of a reliable measuring instrument. Such an
1.3. STATEMENT OF THE PROBLEM

As the local retailing industry continues to experience tremendous expansion, one observation is clearly evident: the rapid growth in the number of retail stores. The increase of retailers, both domestic and foreign, all of which aggressively look for the consumers’ attention. The marketplace is becoming increasingly challenging for companies because of more intense competition among the retail sectors organized and unorganized and more demanding customers. The competitive pressure that already exists due to the proliferation of look-alike, similarly priced brands is being intensified by the exponential growth. Considering the competitive environment, there is a need for a retailing strategy that differentiates one retail store from another. This can be achieved through the delivery of high service quality. Therefore it is very important to analyze the service quality performance between the organized and unorganized retail sector to know the gap where they differ. In the highly competitive retail industry, service becomes one of the most important elements for gaining a sustainable competitive advantage in the marketplace. Consequently, the efforts of service managers and academic researchers are directed towards understanding how customers perceive the quality of service.

This can be done with the help of SERVQUAL method. The SERVQUAL method is a technique that can be used for performing a gap analysis of an organization's service quality performance against customer service quality needs. SERVQUAL is an empirically derived method that may be used by a services organization to improve service quality. This method involves the development and
understanding of the perceived service needs of target customers. These measured perceptions of service quality for the organization in question, are then compared against an organization that is "excellent". The resulting gap analysis may then be used as a driver for service quality improvement.

1.4 OBJECTIVES OF THE STUDY

The major aim of this study is to compare the service quality performance between organized and unorganized retail sectors using SERVQUAL method. Following objectives are framed with a view to attain the aim of this study.

1. To measure the satisfaction level of the customers towards various services provided by the service provider in organized and unorganized retailing with reference to Food and Grocery sector.

2. To find out the influential factors to choose organized or unorganized retail outlet.

3. To analyze the reliability, assurance, tangibility, empathy and responsiveness factors in organized and unorganized retailing.

4. To analyze the customer’s expectations regarding the service delivered and the customer’s actual service experience in organized and unorganized retail sectors.

5. To offer recommendations for the retailers to market their products successfully through effective implementation of service quality performance.
1.5 SIGNIFICANCE OF THE STUDY

After carefully analysing various research studies conducted so far using the SERVQUAL model, the researcher identifies that many research works have been carried in different service industries such as telecommunication, education, hospitality, banking and health care but limited empirical study has been conducted using the SERVQUAL model to assess service quality in food and grocery stores. Surprisingly, these researches focus more on organized retail formats rather than unorganized retail formats. It is solid that food and grocery stores deal with retailing of goods to consumers and in the course of retailing these goods they offer services in order to facilitate the shopping experience of consumers.

Due to pioneering technology and other global challenges, these food and grocery stores are now striving hard to offer better goods and services to their customers in a profitable way. Food and grocery stores face competition among themselves because of the similar products and services they offer. This why there is a need for these retailers to focus in delivering superior service quality to achieve high levels of customer satisfaction. Competing services often become similar in design and, as buyers become more aware of service quality dimensions, they also become more price sensitive and value oriented. This clearly highlights the impact of service quality in food and grocery stores dealing with retailing activities. It is very vital to measure service quality and find out how consumers perceive it in order know dimensions that need improvement in case weaknesses are found. In order to do this, firms must know what service quality is and how it is measured so that data can be used for quality management.
This research provides an assessment of the gap between desired and actual performance, together with a ranking of the importance of service criteria in organized and unorganized retail sectors. This may allow these sectors to focus its resources to maximize service quality at the same time as costs are controlled. This research has started with the concept of service quality and has demonstrated the model of service quality gaps. SERVQUAL as an effective approach has been studied and its role in the analysis of the difference between customer expectations and perceptions has been highlighted with support of comparative study of shopping experience in organized and unorganized retail outlets.

In the emerging Indian retail environment, this study will bring new insights into retail service quality. The managerial implications of the present study will thus help unorganized retailers and organized retailers to frame effective marketing strategies in creating a service quality module to face the rising demands of the Indian consumers. The current study is aimed to explore the components of retail service quality in the case of retail industry in India. This study investigates the relationships between each of retail service quality components and customers’ overall evaluation of retail service quality in a comparative scale between organized retail outlets and unorganized retail outlets.

The potential outcome of this piece of research is that, improving the effectiveness of service quality performance by the retail industry. Service quality is a wide area where many of the concepts are unearthed. The service quality performance process involves a number of areas where more research could be carried out. This research is practical and viable considering the current status of the retail industry and efforts taken by the researcher through this research work to come out with
suggestions to make the distribution system of this retail industry through organized and unorganized retail outlets an effective one.

1.6 SCOPE OF THE STUDY

SERVQUAL takes into account the perceptions of customers of the relative importance of service attributes. This allows an organization to prioritize and to use its resources to improve the most critical service attributes. The Researcher has collected information pertaining to the organized and unorganized retail outlets in Chennai and their service performances. For comparing their service performance, SERVQUAL method is used by the researcher to understand the perceptions of target customers regarding their service needs. Most users would agree that a comprehensive and thorough examination of service needs and service quality provides an invaluable approach to improving service quality. This research would provide detailed information about Customer perceptions of service provided by the organized and unorganized retail sectors, Performance levels as perceived by customers, Customer comments and suggestions and finally Impressions from employees with respect to customers expectations and satisfaction.

1.7 LIMITATIONS OF THE RESEARCH

Like any other social research, this research also has the following inherent limitations: This study is restricted to Chennai city only. Hence the study findings could entirely be applicable to Chennai city only. They might not be generalized to other regions. This study is confined only to the customers of Food and Grocery industry, so the findings of the study on the service quality performance are fully applicable only for the Food and Grocery industry and may not be applicable to the service providers of the other industries as these findings may not be generalized.
Since the study also addresses the role of demographic variables of the customers, which is of highly subjective in nature, where the room for personal bias is high for the study to produce a concrete result. The study of service quality is an extremely vast topic; therefore the whole dynamics of service quality is not studied in this thesis. As this research involves collecting primary data, sampling technique has been used; thereby there is very chance of non sampling error to be present in the study. The question type in the research are also limited as they are predominantly structured due to the close ended questions designed by the researcher, which means that the respondent is restricted to only those responses provided in the questionnaire, therefore the study of service quality in this thesis has been restricted to only those areas where the researcher has tested the participants through the close ended questions. Finally another limitation in this study due to the implementation of the stratified random sampling technique is that the customer has to choose only one option while filling the questionnaire either the shopping experience from organized retailer or the shopping experience from unorganized retailer which might include a personal bias in the study due to sampling technique error. These limitations clearly indicate the fact that more extensive research is required in this area of study.

1.8 BRIEF SUMMARY OF THE STRUCTURE OF THESIS

This research work is organized in five chapters, which are described briefly as follows

CHAPTER 1: INTRODUCTION

The chapter I introduces the research work and provides an overview of the context in which this study is conducted by having framed the research objectives based on the need for the study. The purpose is to provide the reader with a broad
understanding of the rationale for this study and how it will be structured. Apart from this, the researcher has highlighted the significance for the study which will give a sense for the reader of why this research work has been into existence and to bring into sight the areas that are covered by this study.

CHAPTER 2: REVIEW OF LITERATURE

This chapter provides a review of the academic literature on the key concepts involved in this study. It covers the concepts of service quality, what the service provider has to understand through the service quality concepts, the concepts revolving around service quality performance management, the service quality process and about various models of service quality. This chapter has also highlights the various perspectives of SERVQUAL model.

CHAPTER 3: RESEARCH METHODOLOGY

In this part of the research report the researcher has outlined the type of research design to be adopted for the study, the method of collecting data, the type of sampling method used to collect the data and finally the techniques used for analysing the data.

CHAPTER 4: ANALYSIS AND INTERPRETATION

In this chapter the researcher has presented the analyzed data with interpretation using charts and statistical tools like percentage analysis, correlation analysis to analyze the data. The interpretation of the data collected has been presented diagrammatically through charts and tables. Each key interpretation is presented according to the list of questions asked in the survey questionnaire.
Wherever possible, links with secondary data have been used to explain the findings more extensively.

CHAPTER 5: SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

The findings from the data analysis are presented and explained in Chapter five. Also the researcher has discussed about the implications of the study and also provides a room for the basis of future research analysis. In the final part of the research work the researcher will be presenting the findings of the study and most importantly the recommendations to the service providers in the retail industry in devising the marketing strategies to succeed in the overall Indian market.

   March.
7. Payal Malik (2011), Retail Global Expansion: A Portfolio of Opportunities”.
   AT Kearney.


47. Rohit Bannerjee (2011), "Retailing strategies in India". The Economist.

48. A.T. Kearney (2010), Expanding opportunities for global retailers, Global Retail Development Index.