CHAPTER 1
INTRODUCTION

The retailing sector in India has undergone a significant transformation during the last two decades. Traditionally, Indian retail sector has been characterized by the presence of a large number of small unorganized retailers. However, in the past decade there has been development of organized retailing, which has encouraged large private sector players to invest in this sector. Today’s retail ‘store’ is built around customers, not commodities. The true experience of consumption begins in the marketplace for most consumers, and today’s consumers face a broad range of choices in that marketplace for how they use their resources, time, and the retail outlets available to them. Of late, Retailers and retail managers have realised the importance of customer in retailing. A study on Asia Pacific retail sector reports that Retail sales for the Asian countries in 2011-12 were a forecast of US$3.09 trillion. China and India were predicted to account for more than 91% of regional retail sales in 2011-12, and by 2014 their share of the regional market is expected to be more than 92%. Total retail sales will grow from INR18.85 trillion (US$392.63 billion) in 2011 to INR26.64 trillion (US$674.37 billion) by 2014. Unless there are potential customers, the report cannot predict the growth of retail sector to this huge volume. A.T.Kearney’s (GRDI) has ranked India as the 3rd most attractive nation for retail investment among 30 emerging markets. Within Asia, India is expected to account for the third largest share at US$ 2.7 billion in 2015, according to a report released by research firm in 2011.

1.1 Retail in India

Strong underlying economic growth, rapid population expansion, the increasing wealth of individuals (spending money) and the rapid construction of organised retail
infrastructure are key factors behind the forecast growth. The growth in the overall retail market will be driven largely by the explosion in the organised retail market. Not only in metros, the expanding middle and upper class consumer base will also be an opportunities in India's second- and third-tier cities. The greater availability of personal credit and a growing vehicle population providing improved mobility also contribute to a trend towards annual retail sales growth of 12.1% \(^1\). India's average annual GDP growth of 8.1% is predicted through to 2014. With the population expected to increase from 1.19 bn in 2011 to 1.23 bn by 2014, GDP per capita is forecast to rise by nearly 77% by the end of the forecast period, reaching US$2,563. The forecast for consumer spending per capita is for an increase from US$830 in 2011 to US$1,439 in 2014.

### 1.2 Growth of Retail sector

Two decades ago consumers had a relatively limited choice of organised stores for their major weekly food-shopping trip. This has recently changed and consumers now have the ability to choose from a large variety of retail formats. The revolution started as people got to feel the product before purchasing them, they had a variety to choose from and the ambience added to the beauty of the concept. The scenario remained and conceptualise to the whole world. This has not only opened the avenues for global retail but also provided a next level revolution called ‘Retailing’. Retailing both reflects and determines culture as consumer goods are the focus of our labour, our economy, and our collective lifestyle.

Mass grocery retail (MGR) sales in India are expected to undergo enormous growth over the forecast period. It is predicted that sales through MGR outlets will increase by 145% to reach US$21.35bn by 2014. This is a consequence of India's dramatic, rapid shift from small independent retailers to large, modern outlets, although it must also be noted that this growth is forecast to come from a very low starting point.
A report by McKensy, states that out of 200 million households in India, only about 13 million households are comfortable and have the income to patronise organised retail. This relevant consumer segment would grow five folds from 13 million to 65 million households in the next eight years. Organised retail in India is expected to increase from 5 per cent of the total market in 2008 to 14-18 per cent and reach US$ 450 billion by 2015, according to a McKinsey & Company report. Driven by the growth of organised retail coupled with changing consumer habits, food retail sector in India is set to be more than double to US$ 150 billion by 2025, according to a report by KPMG.

According to the report PricewaterhouseCoopers, India's retail sector, which is currently estimated at about US$ 500 billion, is expected to grow to about US$ 900 billion by 2014. Foreign direct investment (FDI) inflows between April 2000 and January 2011, in single-brand retail trading, stood at US$ 128.34 million, according to the Department of Industrial Policy and Promotion (DIPP).

In India FMCG is such a stable sector that even during the economic slowdown of 2008-2009, FMCG companies lived up to their reputation as the classic defensive bet by managing growth rates that were well ahead of the rest of the corporate India. Even as most other sectors struggled to expand revenues – imparted by a combination of demand drop and freeze on capital spending – listed FMCG makers closed the fiscal year with a hefty 31% expansion in their combined sales. Sales growth in fact had revved up from 14% the previous year 2009.

1.3 Changing Retail formats

In addition to the high growth rate in the organized retail in the recent times, the store format choice becomes an area of concern for a retailer as well as consumer. In fact,
both retailers and shoppers are currently in an evaluation phase with no clear verdict as to what may drive the choice of store formats and patronage in the longer term.

Along with the rapid growth, retailing scenario has also been characterised by increasing competition and the emergence of 'Hybrid Western' format typologies such as convenience stores, discount stores, super markets, specialty stores and hyper markets as per the Indian context, Jayasankaraprasad, (2010).

Retail success mantra in today’s competitive environment is all about getting the right product to the right place at the right time; at the lowest cost possible (Thiruvenkadam, (2011)). It is important to realize that management cannot be effective unless it has some understanding of the way retail consumers make decisions and act in relation to the consumption of retail products.

As discussed earlier, the key drivers of growth of retail in India are – Growth in population – Growth in GDP and per capita income – Change in consumer behaviour and patterns of consumption – Explosion in media. Over the last two decades, there has been a significant growth in the country and a significant change in the purchasing/spending power and shopping habits of Indian consumers. The rapid spread of Modern Format Stores (MFS) – supermarkets/departmental stores/hypermarkets/retail chains—is perhaps the most vital feature of the retail sector development in India in the recent years. They now account for a sizeable chunk of the retail business, especially in urban India. In Chennai for example 20% to 25 % of all food retailing now flows through MFS. MFS are becoming popular, not only in the metros but also in Class I and Class II towns as well, Ramaswamy et al,(2009).

The change in the working format of the retail in Indian context is inevitable that, McKinsey & Company suggest that the retail in India can be profitable but not with 'cut and paste' global formats. The report said profitable retailers will need to keep four mantras in
mind as they explore this high potential market. First, develop innovative formats for material
differentiation for which three decisions will be critical- where to participate in the retail
value chain, which geographies to play in and what price points to offer. Second, craft a
customer-insight driven merchandise strategy to stimulate consumption and lock in core
customers. Third, create an efficient retail operating platform consisting of a self sufficient
system of suppliers, logistics providers and even loyal shoppers. Finally, build an evolving
organisation with an empowered front-end selling team that owns local catchments. Thus, the
greatest challenge will be to maintain the organisation's focus on profitability while
cultivating flexibility. Of late, the EDLP format, “Everyday Low Price”, has experienced a
rapid growth and media popularity (Stephen (1994)).

1.4 Importance of Indian Retail Consumers

Every purchase is an event of some importance for the customer, whereas the same
transaction usually is routine for the service provider. Analyzing consumer behaviour helps
to know how individuals, select, buy, use, and dispose of goods, services, ideas, or
experiences to satisfy their needs and desires. Social changes such as increase in the number
of nuclear families and the growing number of working couples resulting in increased
spending power also contributed to the increase in the Indian consumers’ personal
consumption. Based on the shopping attitude, Gregory (1954), classified the customers into
four groups: 1) economising customers- who wants to maximise the money value; 2) ethical
customers- who feel obligatory for the social responsible firms; 3) personalising customer-
who wants interpersonal gratification and 4) convenience customer- who has no interest in
shopping. Customer service cannot be generalised as such. An in-depth study of consumers
helps firms and organizations to improve their marketing strategies by understanding issues
such as how the psychology of, how consumers think, feel, reason, and select between
different alternatives. The retailers will have to become better at knowing their customers and predicting their needs and wants. In stressing the importance of retaining the customers, Philip Kotler states that “acquiring new customers can cost five times more than the costs involved in satisfying and retaining current customers and a 5% reduction in customer defection rate can increase profits by 25% to 85% depending on the industry” \(^\text{10}\).

### 1.5 Retail Models in India

The Indian food retail market is characterized by several co-existing types and formats. These are

1. The roadside hawkers and the mobile (pushcart) retailers.
2. The Street corner shops (like *kirana* stores, the Indian equivalent of the mom-and-pop stores of the western countries)
3. The discounter (Saravana stores, Margin Free)
4. The value-for-money store (Nilgiris, More)
5. The experience shop (Foodworld, Spencers)
6. The home delivery (Fabmart).

Retailing, one of the largest sectors in the global economy, is going through a transition phase in India. For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains known as departmental stores, convenience stores and fast-food chains. The traditional grocers, by introducing self-service formats as well as value-added services such as credit and home delivery, have tried to redefine themselves. However, the boom in retailing has been confined primarily to the urban markets in the country. Even there, large chunks are yet to feel the impact of organized retailing.
To be successful in food retailing in India essentially means to draw away shoppers from the roadside hawkers and kirana stores and attract to supermarkets/departmental stores. This transition can be achieved to some extent through pricing, so the success of a food retailer depends on how best he understands consumer needs and satisfy the consumer.

1.6 Challenges in Indian Retailing

Indian retailers have to deal with the sheer diversity as well as changeability of the Indian population. So, customer traffic (volumes per square foot) and hourly patterns differ substantially from one store to the next. Even more importantly, the ‘value’ equation across various product categories itself changes rapidly across stores, and this can shift consumer preferences for spending very quickly (time spent in a retail shop).

Retailers in India are region specific. Retailers need different formats for different towns and even different geographies culturally. Another angle to this is the fight to ensure viability of any one format so there is a format expansion taking place. From a plain supermarket a retailer starts adding on general merchandise (think of the pots and pans as well as birthday party accessories you can buy at FoodWorld or the crystal, linen and home furnishing that a Landmark is now retailing), so where does one stop? Is a format in its classical definition even applicable to India? Or should one just figure out the shopping needs, Sangita Joshi (2004).

1.7 Changing Retail formats in India

Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.
Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local street corner shops (kirana/Annachi shops), owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc., Hardeep Singh (2011).

Indian shoppers are very different in many ways from their counterparts elsewhere in the world. First, loyalty is not a virtue with the Indian shopper. They are highly sensitive even for a small change in any of the factors affecting purchase behaviour.\(^\text{11}\)

India is not only an exciting high growth market with millions of new consumers whose behaviour is being shaped every day. But retailers cannot only grow volume; they must also make money. Models imported as is from other countries will not work in India. The western pattern of retail format in India does not suit the people and culture. India is known for her diversities of socio-economic and cultural factors. (Srivastava (2012)). Blindly opting and replicating of western retail format without considering the differences in all types of micro and macro environmental factors would not give fruitful results.

Grocery purchases in India are primarily done either in bulk or in small fill-up purchases. While the fill-up purchases are more frequent, they are largely unplanned and done on a need basis primarily from the nearest traditional market (bazaar) and is considered as a compulsive shopping. Bulk grocery purchase is periodic and can be considered as a planned behaviour which has utilitarian shopping value. There has been a limited understanding on how the consumers’ perceived importance on functional attributes changes over retail format and what shopping value the consumer receive from the retail formats Rajesh Rajaguru et al (2011). As organized retailing develops in India, retail stores in India will have to improve the quality of their services significantly in order to compete successfully in the global marketplace. It is, therefore very important to know how customers
evaluate service quality and what can be done to measure and improve it (Darshan Parikh (2006)).

1.8 Departmental Stores

Retail evolved in many ways over the twentieth century. Self-service as a concept started in 1916, when Clearance Saunders started the first self-service store ‘Piggly Wiggly’, in Memphis, USA. The concept of self-service helped the retailer reduce costs (Swapna, (2011) which is the basis for the department stores. The 1930’s saw the emergence of supermarkets. The new formats gave the customer the choice of picking up a product, comparing it with others and then taking a decision on buying. This required that the products were displayed neatly and packaged attractively. A supermarket is a large, departmentalised retail store that primarily sells food items, Marshall et al. (2001).

The development of retail formats supermarkets and department stores can be viewed from the literatures of Messinger and Narasimhan (1997). They argue that large assortments become more important as time costs increase, which would lead one to predict that supermarkets, which offer large assortments, would become more popular over time relative to convenience/ kirana stores. Also, Messinger and Narasimhan show that supermarkets/departmental stores owe their success to one-stop shopping indicating that more people want to restrict their mobility and want every think in one place. An appropriate solution for the customers’ expectation would be the hybrid of supermarket. If the thought is that, convenient store will cater the customer needs, Bhatnagar et al (2004) mentions that, Convenience stores have the lowest breadth of assortment, but the highest price, which cannot be acceptable for the highly volatile Indian customers. In turn, supermarkets have higher breadth as compared to convenience stores but lower prices. A Departmental store has lower prices as compared to a competitive supermarket and more breadth of assortment.
Amit Bhatnagar et al, (2004) showed that supermarkets would be preferred by consumers when they have to buy more than a threshold number of categories and therefore the supermarkets should carry extremely broad assortments. Convenience stores are expected to carry perishables, goods that are stored in the refrigerator, and emergency goods.

1.9 Evolution of Departmental stores

Over the years the definition of department stores has changed many folds. In the Indian context the definition of department stores is somewhat different from that of the traditional or conventional definition. Indian department store is a hybrid of supermarket, convenient store and speciality stores.

“Any merchandising store with a minimum of 2000 square feet of floor area and merchandising with different assortments like FMCG, basic household items, cosmetics, electrical items (bulbs, batteries, hand torch etc), pharmaceutical items like (head ache balm and other anti septic creams), stationeries (note books, pens, pencils and school items) and festival season items (firecrackers, raincoat, etc ) is called as a Departmental store in India and in particular, in Chennai.”

The study is about this Indian hybrid store usually called as departmental stores in Chennai. Some of the bigger market players in this sector are the Reliance, Spencer’s, Nilgiris, etc. Some of the departmental stores are specific to the localities and it differs in length and breadth of the product assortments and the product mix.

A departmental store normally sells grocery, fresh, cut vegetables, fruits, frozen foods, toiletries, cosmetics, small utensils, cutlery, stationery and Gift items with give and take some items. In India Food World, Food Bazaar, Nilgiris (30 plus stores), Reliance fresh and Spencer’s are the leading super market operators. One of the biggest super market operators in the western India is Adani Retail Limited which operates Adani super market...
plans to continue its journey to reach total 19 cities with the store strength of 60 plus in the
state of Gujarat. ARL also plans to expand its operation in the neighbouring states of
Rajasthan, Madhya Pradesh, Maharashtra and Chhattisgarh.

1.10 Store format change

As mentioned earlier, shoppers economize on the amount of time spent in shopping,
by making multi-purpose shopping trips, combining purchases for different product
categories and reducing the number of trips at a particular time period, or by purchasing a
large amount of goods groceries, while making a single-purpose shopping trip (reducing
travel costs by combining trips over time). Retailers have responded to this need for shoppers
to economize on the time spent on shopping by providing a wide assortment of products
allowing consumers to combine purchases in multiple product categories, Peter (2004). Thus
the emergences of new retail format, ‘Hybrid Department stores’, have increased the ability
for shoppers to make single-stop multi-purpose shopping trips.

A Departmental store offers a locational advantage to the shoppers and provides ease
of shopping and customized service to the shoppers. It charges average to above average
prices, depending on the product category and carries a moderate number of stock keeping
units (SKUs). Normally it remains open for long hours and shoppers use it for buying fill-in
merchandise and emergency purchases, as well. Consumers perceives a large enough price
difference between a supermarket and a convenience store to offset the added travel and time

1.11 Threats to Departmental stores

In an attempt to understand the changing behaviour of the Indian consumers and their
impact on the product purchase, Pankaj (2011), finds that "There is a change that is evident in
the consumer behaviour that is seen across all categories of products and there are numerous factors that are affecting the same. The changes that are seen are in the form of increase in consumption, change in consumer preferences, buying behaviour, social influences, the way consumer shop, the reasons behind that, the type of products consumers buy etc. All these trends are important and show us the path as to how the consumer’s behaviour is impacting their product purchase.” Further study concludes that “it’s the neighbourhood kirana (street corner) store which rules with 68% voting in its favour as a shopping preference. The supermarket is still very low in the pecking order with only about 8% voting in favour.” The study which is conducted in Mumbai, which is the financial capital of India, suggests that the ‘Organised Retail’ sector in India is still not to the expectations of the present consumers. There is a huge gap between the consumer expectation and the services provided by the retail sectors in India.

1.12 Customer Relationship Management (CRM)

1.12.1 CRM – The evolution

Customer Relationship Management (CRM) is one of those magnificent concepts in the business world in the 1990’s. The 1980’s saw the emergence of database marketing, which was simply a catch phrase to define the practice of setting up customer service groups to speak individually to all of a company’s customers.

In the 1990’s, companies began to improve on Customer Relationship Management by making it more interactive with the customers. Instead of simply gathering data for their own use, they began giving back to their customers not only in terms of the obvious goal of improved customer service, but in incentives, gifts and other perks for loyal customers. Real Customer Relationship Management as its thought of today really began in earnest in the early years of 21st century. CRM was being used as a way to increase sales passively as well
as through active improvement of customer service. They also track changes in investment habits and spending patterns as the economy shifts. All the available literatures on CRM defines that the concept of understanding the consumer to enhance the profitability of the firm/organisation. At a wider sense, though the concept of CRM is same for all the industries, there is a micro level difference for each industry. For departmental stores it is the grass root level approach of CRM is more apt than the general one. If one does not understand the consumer to the core and at the ground level, it is very difficult to survive in the highly competitive and volatile grocery market.

CRM starts with the understanding consumer at various demographical variables. Consumer segmentation and identifying the potential customers and prospect customers is the initial phase of the CRM. Once the identification is done, the level of customer satisfaction and their expectations are to be studied and understood and it differs for various items (Churchill (1982)). This may not only help the customer to serve better and increase their level of satisfaction from highly satisfied to delighted stage, but also to increase the firm’s business volume and the profitability.

To make the satisfied customers as a delighted customer, loyalty programs are formed and executed by the firms (Jagdip (2000)). To find the effectiveness of the loyalty programs and to analyse the influence of the loyalty programs on share of wallet is also part of CRM as this leads not only to the increase in current profit level but also to the future, as CRM helps in identifying the Life Time Value of the customers

1.12.2 Types of CRM

1. Analytical CRM , and

2. Behavioural CRM.
We differentiate between analytical CRM and behavioural CRM, latter is the focus of this paper. Analytical CRM involves using firms’ data on its customers to design longitudinal models of choice over the breadth of the firm’s products and using them prescriptively to increase the revenues from customers over their lifecycle. In contrast, behavioural CRM uses experiments and surveys to focus upon the psychological underpinnings of the service interaction, or the managerial structures that make CRM more effective tool.

1.12.3 Importance for CRM

There are a number of reasons why CRM has become so important in the last 10 years. The competition in the global market has become highly competitive, and it has become easier for customers to switch companies if they are not happy with the service they receive. One of the primary goals of CRM is to maintain clients. When it is used effectively, a company will be able to build a relationship with their customers that can last a lifetime. In the last ten years, special features for tracking have vastly improved CRM capabilities and the real promise of CRM has become a reality at last.

1.12.4 Dimensions of CRM

CRM consists of four dimensions such as customer identification, customer attraction, customer retention, and customer development. (Swift, (2001) and Parvatiyar et al (2001))

✓ Customer identification is meant to identify segments of potential customers, each of which includes customers who are relatively similar (Ngai et al, (2009)).

This includes the level of intention of the consumers to switch from the unorganised to organised sectors and identifying the lost customers and the losing customers. Customer segmentation also is part of identification by demographics.
Customer attraction is the second phase. After identifying the segments of potential customers, organisations can direct effort and resources into attracting the target customers (Ngai et al., 2009). Attracting customer by understanding the needs and wants. It is the path to narrow the cost-value gap of the customer expectation and the perceived value.

Customer retention refers to the activity of preventing the existing customers from switching to competitors by enhancing the level of customer satisfaction through one-to-one marketing, loyalty program, complaints management, etc. Ngai et al., (2009). Kotler and Armstrong (2006) pointed out that attracting customers is an important task, but retaining customers is more important since losing a customer means losing the entire stream of purchase that the customer would make over his lifetime.

Customer development, the ultimate goal of CRM, aims to maximize the revenue by expanding transaction intensity, transaction value and individual customer profitability through customer lifetime value analysis, up/cross selling and market basket analysis (Thiruvenkadam, 2011) and Rosset et al. (2003).

1.12.5 Hierarchies in Customer satisfaction

The world is not run by thought or by imagination but only by opinion. There are three hierarchies in measuring customer satisfaction which are to be taken to understand the customer satisfaction. They are the current perceived level of satisfaction, expected level of satisfaction and customer opinion. ‘Sensitive to consumer attitudes’ is what the ‘customer expectation’ and ‘anticipate these attitudes’ is what the ‘customer opinion’ for the firm to be profitable.
Opinion is not about any particular departmental stores. It is a conclusion of collection of impressions about how should a departmental store should be in physical and service level. After expectations the next level of service measure, is the opinion. As the economy grows from the developing towards developed economy, consumers’ opinion about the service quality increases exponentially. There always exist a gap between the opinion and current level of service quality which needs to be addressed by the service managers.

### 1.12.6 CRM in Departmental Store

![Figure 1.1 Flow Chart of CRM for Departmental Stores](image)
Many literatures above, reveals that the complete CRM is a process of identifying, understanding, retaining, and increasing the spending of the customers. Identifying in the sense that, potential customers should be segmented based on geographic and other demographic parameters, understanding in the sense that narrowing the gap between the perceived and expected service to make the customer more satisfied and make him more delighted and a long term relationship with customer who will spend more (Share of Wallet) during his life term.

1.13 Chennai City segmentation

Chennai city is one of the four major metros of India and it is the gateway to traditional and cultural rich south India. Unlike the rest of the metros, Chennaites are more complex in their buying behaviour. Chennai has a general demographic pattern of North Chennai mostly of Industrial labours, Central Chennai predominantly covers the lower middle class to medium middle class and bureaucrats and the South Chennai predominantly the high income floating IT population. Chennai is a highly conservative city with unevenly poised socio-economic conditions throughout the city. Low and lower middle class are dominant in North Chennai in contrary to upper middle class and elite group in the Southern part of Chennai. The intention of the study is to consider the demographic aspects of the customers’ in Chennai with their location, age, education, occupation, family size and income.

For the study purpose, Chennai city is segmented into three strataums. North Chennai mainly dominated by the industrial working class people. Central Chennai consists of middle class and upper middle class people. The last segment, South Chennai consists of floating population of IT sector and elite group of Chennaites.
1.14 Departmental stores in Chennai

Unlike the other three metros; Mumbai, Delhi, Kolkata, Chennai’s organised sector growth started relative late. Growth of IT and automobile sector has helped in the growth of organised sector in Chennai. For the purpose of the study major departmental stores based on the number of outlets were selected. The selected top departmental stores are Reliance fresh, Nilgiris, FoodWorld, Spencer’s, More and other locally well established departmental stores.

1.15 The study Model

In the current study the holistic conceptual framework of CRM is brought under three major models.

![Figure 1.2 Conceptual framework of the study model]
1.15.1 Model 1- Store format choice and patronisation of Retail sector

This model is to identify the patronisation level of organised retail sector and in particular the departmental (grocery) sector in Chennai. Understand the share of organised grocery sector in terms of money value. This model will indicate the customer’s willingness to switch over to the organised sector from the unorganised sector and help in calculating the switching cost and strategies to be followed by the retailers.

Consumers need to acquire goods to produce household commodities like food, shelter, clothing, etc., and they are willing to invest time and money in acquiring these goods. Consumer in choosing the store format uses many factors like distance, immediate emergency, price, time and volume of the basket. So a household’s preference is represented by ordinal, increasing, strictly quasi-concave, twice differential utility function. Utility at any time interval is derived from the flow of consumption at that instant of time of the items in the market basket.

Using the utility concept, developed by Bhatnagar, a model of format choice slightly different from Bhatnagar’s model on the assumptions which are based on the Indian context is developed. Assuming that a consumer maximizes his utility over the period horizon subject to a budget constraint, shopping costs, price, emergency purchase, distance and purchase volume. In the above constraints, distance, purchase volume, emergency purchase will provides disutility to the consumer and all other things being equal the consumer will patronize the nearest street corner shop (kirana). Suppose a consumer is planning a shopping trip and has to decide between the local kirana store and departmental store. One major criterion in store choice would be the general prices at the different formats.

The input diagram of the decision making process in selecting format of the store is shown in the figure 1.3. Availability of multi-brand, store distance, Physical aspect of the
store, Store image, Offers & discounts, Price, shopping duration and Quality are the stores’ input for the decision making and occupation, income and education are the customers’ input in the decision making process to select store.

All consumers do not automatically prefer the cheaper store, because they incur higher time costs at the cheaper store due to several factors. One factor could be that the cheaper store offers lower level of services, such as fewer outlets leading to higher travel...
costs, poor presentation, poor atmospherics, etc. This would increase the time costs at the cheaper store. Another factor could be lower depth of assortment (Brand availability).

All consumers have an ideal brand-quantity that they would like to buy in each product category. If the consumers cannot find their ideal brand-quantity at a store, then from the available brand-quantity they buy the brand-quantity that is nearest to their ideal. The cost of buying less than ideal would be increasing in the distance between the consumer’s ideal brand-quantity and the nearest available brand-quantity at a store. This cost, i.e., depth cost, would be more in stores with lower depth of assortment, i.e., convenience stores, as opposed to departmental store. Now, the format where the consumer incurs higher time cost will have to offer some incentive to the consumer. And the incentive that they offer is lower prices.

Representing the store format choice in equation form

\[
SFC = \phi_0 + k_1 \phi_{\text{dist}} + k_2 \phi_{\text{BA}} + i_1 \phi_{\text{inc}} + k_3 \phi_{\text{PA}} + k_4 \phi_{\text{SI}} + i_2 \phi_{\text{Hm}} + i_3 \phi_{\text{Shd}} + i_4 \phi_{\text{Pv}} + i_5 \phi_{\text{Oc}} + k_5 \phi_{\text{Q}} + k_6 \phi_{\text{Pr}} + k_7 \phi_{\text{OD}} + i_6 \phi_{\text{ed}} + \epsilon_i
\]

\(SFC\) – Store format choice

\(k_1 \phi_{\text{dist}}\) - Distance of the \(k^{th}\) departmental store

\(k_2 \phi_{\text{BA}}\) – Brand Availability in the \(k^{th}\) departmental store

\(i_1 \phi_{\text{inc}}\) – Annual family income of the \(i^{th}\) customer

\(k_3 \phi_{\text{PA}}\) – Physical aspect of the \(k^{th}\) departmental store

\(k_4 \phi_{\text{SI}}\) – Store Image of the \(k^{th}\) departmental store

\(i_2 \phi_{\text{Hm}}\) – Household members of the \(i^{th}\) customer

\(i_3 \phi_{\text{Shd}}\) – Shopping duration of the \(i^{th}\) customer

\(i_4 \phi_{\text{Pv}}\) – Purchase volume of the \(i^{th}\) customer

\(i_5 \phi_{\text{Oc}}\) – Occupation of the \(i^{th}\) customer

\(k_5 \phi_{\text{Q}}\) – Quality in the \(k^{th}\) departmental store
1.15.2 Model 2 – Store Satisfaction and Store Loyalty

The core concept of CRM is to understand the consumers buying pattern and their purchasing behaviour. There are quite some literatures on the methods and models to measure the customer satisfaction. Of all the measures, three methods to measure customer satisfaction are predominantly and widely used by many researchers. They are SERQUAL, SERVPERF and RSQS. Among the three methods, SERQUAL is most widely used (Xiande Zhao, et al (2002)) and Parasuraman et al (1993, 1995, 2001, 2002). In this model Parasuraman, Zeithaml and Berry (1985 and 1988) have compared the performance of the firm with that of the expectations of the consumers. They grouped the various constructs of the customer satisfaction into five dimensions as tangibles, reliability, responsiveness, assurance, and empathy. All together 22 constructs were used by them to measure the 5 dimensions. These dimensions had already been used by Vetrivel (2011), Krishnamurthy (2011) and Thiruvenkadam et al (2011) as well proved a success in the Indian context.

Further reviewing the literatures, it was found that although the SERVQUAL scale is the most popular instrument for measuring service quality and has been used widely to measure service quality, its reliability and applicability in different cultural and industrial environments still require investigation. The applicability of SERVQUAL across different cultures is also an issue as SERVQUAL was developed in a Western environment and, due to
cultural differences, it is likely that cultural factors will influence its applicability. (Mattila (1999), Buttle (1995))

Several researchers find the performance perceptions to be sufficient in assessing service quality as compared to the gap. This resulted in the adoption of the SERVPERF instrument instead of the gap based measure of SERVQUAL (Subhashini, et al (2007)). The SERVPERF scale consists of 22 perception items excluding any consideration of expectations.

After Parasurman’s gap theory of service quality it was Cronin and Taylor (1992) developed a "performance-based" service quality measurement scale called SERVPERF. The major difference between these two scales is that SERVQUAL operationalizes service quality by comparing the perceptions of the service received with expectations, while SERVPERF maintains only the perceptions of service quality.

To contextually fit the retail industry, Dabholkar et al. (1996) developed Retail Service Quality Model (RSQS). Based on SERVPERF, RSQS includes 28-item scale, of which 17 items are from SERVPERF and 11 items are developed by qualitative research. It composes of 5 dimensions, namely

(1) Physical aspects – Retail store appearance and store layout;

(2) Reliability – Retailers keep their promises and do the right things;

(3) Personal interaction – Retail store personnel are courteous, helpful, and inspire confidence in customers;

(4) Problem solving – Retail store personnel are capable to handle returns and exchanges, customers’ problems and complaints; and

(5) Policy – Retail store’s policy on merchandise quality, parking, operation hours, and credit cards.
RSQS has been used by some researchers in measuring service quality in certain types of retailers such as department stores, supermarkets and discount stores in Western and Eastern countries, Kim et al. (2001) and Norbert (2011). The findings showed that, the dimensionality of service quality is not universal across industries or across countries. Mehta et al (2000) conducted a research on service quality in the contexts of supermarkets and electronic goods retailers. The results showed that “RSQS was superior within the context of more good and less service environment, i.e. a supermarket, while SERPERF was better for a retailing context where the service element becomes more important, i.e. an electronic goods retailer.”

Nguyen et al, (2007) tested a model on the relationships between service quality, customer satisfaction and loyalty in supermarkets and found that retail service quality composes of 5 dimensions: goods assortment, personnel, appearance, physical aspects and safety. The study recommended that SERQUAL and RSQS could be applied in Vietnam provided that they are adjusted to the specific context of study.

SERVQUAL has undoubtedly had a major impact on the business and academic communities. But study shows that the data collected do not support the five-factor structure as proposed by Parasuraman et al. (1988), the five dimensions are still useful as a foundation for discussion and determination of areas for improvement in an organization’s service quality. SERQUAL may be successful in the western environment but is not apt to use in Asian Context, Noel Y.M.Siu et al (2001). Once the factors are appropriately modified, the instrument can very well be utilized under the Indian conditions as well, Parikh , (2006).

The validity and reliability of RSQS in the Indian retail setting indicate that it can be used to assess the overall service levels provided by the store and for tracking changes in the overall service levels over a period of time. Retailers and researchers applying multi-dimensional service quality scales developed internationally such as RSQS in the Indian
context are advised to pay special attention to scale adaptation to ensure that the scale has reliable diagnostic ability (Subhashini Kaul, (2007)).

Dabholkar et al. (1996) had used 5 dimensions to measure the customer satisfaction. In current study, apart from the 5 dimensions used by Dabholkar, ‘Safety & security’ is used. Dimension ‘Safety & security’ is an important construct as far as Asia pacific is concerned unlike the western countries and it is used by Nguyen et al, (2007) in his study to know the level of customer satisfaction in Vietnam. Totally, 6 dimensions are selected in this study to understand the customer satisfaction and store loyalty.

Representing Model 2 (customer satisfaction) in equation form we have:

\[
CS = \beta_0 + \xi_{SAAi} + \beta_1 + \xi_{SABI} + \beta_2 + \xi_{SACi} + \beta_3 + \xi_{SADI} + \beta_4 + \xi_{SAEI} + \beta_5 + \xi_{SAFI} + \beta_6 + \xi_{SAHI} + \beta_7 + \xi_{SAGi} + \beta_8 + \xi_{SAIi} + \beta_9 + \xi_{SAJi} + \beta_{10} + \xi_{SAK} + \beta_{11} + \epsilon_i \quad (1)
\]

where,

- \(CS\) - Satisfaction level of the Shopper \(i\) with current primary store
- \(\xi_{SAAi}\) - Store Physical Aspects
- \(\xi_{SABI}\) - Store Reliability
- \(\xi_{SACi}\) - Store Personal care
- \(\xi_{SADI}\) - Store complaint handling
- \(\xi_{SAEI}\) - Store policy
- \(\xi_{SAFI}\) - Store security & safety
- \(\xi_{SAGi}\) - Shopping duration of the \(k^{th}\) customer
- \(\xi_{SAHi}\) - Age of the \(k^{th}\) customer
- \(\xi_{SAIi}\) - Annual family income of the \(k^{th}\) customer
- \(\xi_{SAJi}\) - Household members of the \(k^{th}\) customer
\( \xi_{SALK} \) - Purchase volume of the \( k^{th} \) customer

\( \varepsilon_i \) - Error term for the \( i^{th} \) consumer

\( \beta_k \) - Coefficient for the \( k^{th} \) construct, where \( k = 0, 1, 2, \ldots, 11 \) (Parameter to be estimated)

---

**Store Loyalty**

Input for the store loyalty is the customer satisfaction.

\[
\sum_{i=1}^{n} SL_i = \Lambda_0 + \Lambda_1 CS_i + \varepsilon'_i
\]

\( \Lambda_0 \) - Intercept

\( \Lambda_1 \) - Construct coefficient

\( CS_i \) - is the satisfaction level of the \( i^{th} \) customer.

\( \varepsilon'_i \) - Error term
1.15.3 Model 3 – Share of Wallet

It is not sure that all the delighted customers will increase his share of wallet. A profitable customer is a person, household, or company that overtime yields a revenue stream that exceeds by an acceptable amount the company’s cost stream for attracting, selling, and servicing that customer. Customer care and loyalty programs are basically required to increase the share of wallet.

Figure 1.5 Inputs for Share of Wallet

- Physical aspect
- Annual family income
- Distance
- Education
- Pre-planned purchase
- Patronage duration
- Shopping duration
- Age
- Household members
- Brand Availability
- Quality
- Discounts & offers

Store Profitability
To analyse the influence of loyalty programs on the share of wallet and workout the customer profitability segment wise will make the marketers to decide upon what type of programs are more effective and help in foreseeing the customers spending spree in the near feature.

Share of wallet is a key factor in Customer relationship management system (CRM). Research has found that share of wallet is an important indicator to measure customer loyalty and customer potential value, Cheng (2011). Customer SOW corresponds to the share of category expenditures spent on purchases at a certain store, which integrates both choice behaviour and transaction values during a specific time period into a single measure of customer share. For retailers, SOW is of great significance, because they need to know how shoppers divide their purchases across competing stores and how they can increase their share of total grocery expenditures.

The SOW by store is calculated as the average proportion of the household’s purchases in the outlet compared with its total category purchases, Meyer-Waarden , (2007). A customer’s SOW is directly proportional to the willingness to repurchase in the same store. Not all the customers who are having the willingness will involve in a repurchase. The willingness cannot be of ‘yes’ or ‘no’ which is not in a quantified structure, it should be like ‘what percentage of willingness/intention a customer has in the repurchasing in the same store’. The level of intention of the customers in repurchase should in a quantifiable way.

More the share of wallet more is the profitability to the departmental store. Therefore, the physical repurchase alone is not sufficient for the profitability of the firm; it is the amount of repurchase or the customer share of purchase in the departmental store which increase the profitability.
Representing Model 3 (Share of Wallet) in equation form we have:

\[ SOW = \mu_0 + \omega_{\text{dis}} \mu_1 + \omega_{\text{Afi}} \mu_2 + \omega_{\text{Pa}} \mu_3 + \omega_{\text{Ed}} \mu_4 + \omega_{\text{pp}} \mu_5 + \omega_{\text{Pd}} \mu_6 + \omega_{\text{Sd}} \mu_7 + \omega_{\text{Ag}} \mu_8 + \omega_{\text{Hm}} \mu_9 + \\
\omega_{\text{Ba}} \mu_{10} + \omega_{\text{Q}} \mu_{11} + \omega_{\text{D&O}} \mu_{12} + \varepsilon_i \]

where \( SOW_i \) - Share of Wallet of the \( i^{th} \) customer

\( \omega_{\text{dis}} \) – Distance of the store
\( \omega_{\text{Afi}} \) – Annual family income
\( \omega_{\text{Pa}} \) – Physical aspect
\( \omega_{\text{Ed}} \) – Education
\( \omega_{\text{pp}} \) – Pre-planned purchase
\( \omega_{\text{Pd}} \) – Patronage duration
\( \omega_{\text{Sd}} \) – Shopping duration
\( \omega_{\text{Ag}} \) – Age
\( \omega_{\text{Hm}} \) – Household members
\( \omega_{\text{Ba}} \) – Brand available
\( \omega_{\text{Q}} \) – Quality
\( \omega_{\text{D&O}} \) – Discounts & offers
\( \varepsilon_i \) - Error term for the \( i^{th} \) consumer

\( \mu_i \) - Coefficient for the \( k^{th} \) construct, where \( k = 0, 1, 2, \ldots, 12 \) (Parameter to be estimated)

### 1.16 Statement of Problem

In the present day of retailing, service quality has become the basic tool for retailers to create competitive advantage and to enhance shopping experience. The quality of services significantly affects customer satisfaction, company revenues, cross selling and also repeat purchase behaviour. The fast pace of the Indian retail industry presents many companies with a host of daily challenges. An oral interview taken among the Chennai consumers’ revealed
that more than 50% of them are expecting a better service quality than the current level. In today’s competitive environment and with the growing importance of services, delivering high quality services has become the basic retailing strategy. In India, competition in retailing is very fierce. Customer satisfaction has become a crucial point of differentiation in a retail store, where consumers make their trip to purchase. Unfortunately, in Chennai unsatisfied consumers do not complain, they just go shopping in another store. Store managers’ should keep in mind that customer expectations always change and it is only the satisfied customers will be loyal. Chennai being a conservative city, there is a growing gap between the customer expectation and customer services. To get new customer is of high importance to survive in the retail business. Getting new customer is 5 times costlier than retaining the old customer\textsuperscript{10}. To retain the customers, customer satisfaction through customer relationship management (CRM) or the relationship management is the sole mantra.

Some of the departmental stores, for example Subhisha with 1600 outlets in pan India, failed to established because of lack patronage and store managers’ misconception of the consumers’ expectations, needs and wants. It has become a basic necessity for the marketers to understand the existing patronising level and growth of the organised retail sector and the buying pattern of the consumers. Understanding these will enhance the chances of survival and to increase profitability and sustainability of the organised departmental stores. Not much in depth studies are available in CRM of the organised retail sector and grocery industries in particular. In this aspect the researcher has attempt to analyse the components of CRM like patronisation, customer satisfaction and stores loyalty, and Share of Wallet in departmental stores sector in detail.
1.17 **Objectives of the Study**

1. To analyse the effectiveness of CRM in departmental stores.
2. To identify customers’ buying behaviour.
3. To analyse customers’ opinion towards quality service of departmental stores.
4. To identify customer expectation and satisfaction on service quality of departmental stores.
5. To analyse the factors influencing in determining the loyal customers.

1.18 **Scope of the study**

Customer relationship management is the new term in the retail world. It has become inevitable for the marketers to understand the retail sector through CRM. The current study gives an insight about the existing patronising level of departmental store, current service level satisfaction and ways and means to understand and attract customers to spend more and thereby increase the Share of wallets. The study explores the Chennai customers by segmenting as North, Central and South Chennai, which differs on various socio–economic factors, which help the store manager to customise their store units according to the segments. This help the new entrants and expansion of the existing players to understand the Chennai customers in a better way.

1.19 **Chapterisation**

The **first chapter** provides an overview of the study and summaries the theoretical framework of the study. This chapter also provides an insight about the problems and explains a conceptual framework of the study as three models and the three models were explored in detail with respect to the problems of the current study.
The second chapter is followed by a study specific review of literatures which helps in identifying the research gaps and the current research is intended to bridge the identified gaps in the literatures.

The third chapter is about the research methodology adopted in the current study. It provides information on methodology in terms of operationalisation of parameters, data collection methods, and data analysis techniques, etc. All the variables used in the current study are explained with by linking suitable hypothesis. To conclude the chapter, limitations of the current studies were explained.

The fourth chapter focuses on the analysis of data and interpretation of results and are presented in the form of tables and figures. Various statistical tools were used to analyse the collected data.

The fifth chapter explains the findings of the study and the conclusion which explains the theoretical contribution of the study. The suggestions are provided in the perspective of a departmental store.