CHAPTER 2

INDIAN RETAIL INDUSTRY: DRIVERS OF GROWTH

In 2000, organized trade in India was highly under-developed as compared with other emerging markets in Asia, Latin America and Eastern Europe and developed markets like the U.S. In 2006, the organized retail in India stood at approximately USD 11.8 bn, implying a share of approximately 4.1%. In comparison, the penetration in developed economies stood at 75-85% and at 20-40% in other emerging markets (FICCI Ernst and Young 2007). In Thailand, there has been an explosion in the growth of organized retail, with over 40% of the trade moving to modern formats within 10 years. The easy entry of foreign retailers and geographic concentration of the retail industry has facilitated this growth. In Poland, where modern retail has captured 20% of the market in the past nine years, easy access to real estate, a level playing field between modern and traditional retailers, and early entry for foreign retailers contributed to the growth.

Over the last decade, the share of modern retail in India has been gradually improving from below 1% in 1999 to 4.1% in 2006. The growth has been more rapid since 2004 onwards. Growth in consumption, coupled with the growing prosperity of the new age consumers, is driving this acceptance of modern retail. In the backdrop of low penetration, favourable demographics, steady economic growth, easy availability of credit, and large scale real estate developments, the organised retail sector is at an inflexion point. It is poised to grow robustly at a 42% CAGR over FY07-11E, to reach a size of USD 70 bn; its share in total retail is likely to improve from 4.1% currently to
15% by FY11E (Priya Ayyar et al, Edelweiss Report, 2008). This growth is mainly on the back of changing customer aspirations and improving retail real estate infrastructure in the country. The growth could be even higher, if the Indian consumers have to leapfrog evolution cycles, as they did for the mobile phones in the past. A comparison of the organized vs traditional retail as per FICCI Ernst and Young (2007) is shown below.

**Figure 2.1 – Organized vs Traditional Retail**

Note: Figures are in percentage
2.1 Factors leading to growth of the overall retail industry

Retailing is seen as an important sector of an economy, both in terms of contribution to GDP and share in the total employment. Retail sector accounts for around 10% of GDP of India. The sector is labour intensive and contributes significantly to employment (FICCI presentation, Ajay Khanna, 2006). The following factors have been identified as being responsible for the growth of the overall retail industry in India

- Growth in Private Final Consumption Expenditure
- Steady saving rates
- Rising share of organized retail
- India seen as an attractive retail destination

2.1.1 Private Final Consumption Expenditure

Studies have shown that Private Final Consumption Expenditure (PFCE) which accounts for close to 60% of GDP has seen an average growth of over 8.5% compared with an 8% average GDP growth in the same period. Further, PFCE is expected to grow at a CAGR of 9.2% over the next 5-6 years on the back of strong economic growth and a stable savings rates. (Priya Ayyar et. al, 2008). The share of PFCE to GDP in India (62%) is similar to countries like Japan (57%) and the US (70%), as against China that derives only 40% from PFCE. This high share of PFCE bodes well for India, as the growing income levels are likely to drive consumption, which in turn, will fuel business opportunities, leading to GDP expansion eventually.
As Indians continue to climb the economic ladder, the composition of their spending will change considerably. In a pattern witnessed in many other developing countries, discretionary expenditures, such as mobile phones and personal-care products, will take up more room in the nation’s shopping basket. This shift from necessities, defined as food and clothing, is already under way—and taking place at lower income levels than seen in other countries (Mc Kinsey 2007). It is expected that discretionary spending in India will rise from 52 percent of total private spending today to 70 percent in 2025. South Korea went through a similar transformation in the 1980s, when its per capita income levels were about twice those of India now.

As seen in the exhibit below (Mc Kinsey Global Institute), the share of necessities in the consumption basket is gradually falling whereas spend on other discretionary products like apparel, recreation and entertainment, and personal care is slowly growing share. This is an indicator of the improvement in the lifestyle of the population, and is likely to drive the growth of retail spend in discretionary avenues like beauty, health care, catering services, and entertainment.
Figure 2.2 – Share of Average Annual Household Consumption

Note: Source: McKinsey 2007

Figures for 2015 and 2025 are forecast. Food, beverages and tobacco and apparel constitute Spending on necessities while the remaining constitutes Discretionary spending.

2.1.2 Steady Savings Rate

In India, the household savings rate has traditionally been very high at about 69% as against 44% in China and 16% in the US, leading to slower consumption growth in the economy, as seen in the past. A primary cause of high saving rate in the country is the absence of any form of social security scheme. At a country level, the savings rate in India stands at 32.4% and household savings account for approximately 70% of this amount (McKinsey 2007). With increased accessibility of organized credit forms and their penetration into the remote areas of the country, the household savings rate is
however expected to stabilize at the current levels. This implies that the incremental income will comprise lower savings, and hence, drive consumption and further aid the retail growth.

2.1.3 Rising Share of Organized Retail

Over the last decade, the share of modern retail has been gradually improving from below 1% in 1999 to 4.1% in 2007 (BusinessWorld, Marketing Whitebook, 2009). The growth has been more rapid 2004 onwards. Growth in consumption, coupled with the growing prosperity of the new age consumers, is driving this acceptance of modern retail.

2.1.4 India is the most attractive retail destination

The Indian retail market, which is the fifth largest retail destination globally, has been ranked as the most attractive emerging market for investment in the retail sector by AT Kearney's eighth annual Global Retail Development Index (GRDI), in 2009 (last three years in a row). The company’s annual GRDI ranks 30 emerging countries, selected from a universe of 185 countries, on a 100 point scale (based on country risk, population size, and wealth) to find out the relative attractiveness of these markets.
Retailing in India is currently at an inflexion point. The main factor announcing the significance for the retailers is the current optimal stage of readiness for retail and the entry of retailers into India. AT Kearney classifies retail markets worldwide and their study shows that retail markets progress through four stages as they evolve from an emerging to a mature market, usually over 5-10 years. These stages are opening, peaking, declining, and closing. India is currently very attractively placed in the peaking stage.

Key Asian economies like Vietnam and India are peaking (developing quickly and ready for modern retail), while China has just tipped into the declining phase (big and growing, but with tighter space for the new entrants). India, in 2007, is what China was in 2003. This means that the next 3-4 years are best for foreign retailers and other Indian corporate to enter the Indian retail fray; it is also the perfect time for the existing players to expand
operations in a big way.

Figure 2.4 GRDI Rankings 1995-2007 Window of Opportunity

2.2 Growth Drivers of Organized Retail

Indian retail is witnessing a confluence of several favorable factors such as steady economic growth, favorable demographics, easy availability of credit, investments in infrastructure creation, and supply of real estate and malls. This, coupled with low penetration, creates a base for the next big leap of growth for the organized retailing
industry. The organized retail in India is at the helm of action with robust growth in the economy trickling down to every segment in the country. The direct beneficiary is the consumer. In the last few years, the country has seen the evolution of a large and growing consumer group, with tastes and preferences vastly different from the older set of consumers. The new consumer group is across the country and is well-equipped to lap up modern retailing trends. Aiding the robust demand scenario, created by the attractive consumer set, is the investment in supply chain and real estate that will take organized retail across the country.

The driving forces for the retail sector have been increasing over a period of time. An increase in the level of urbanization, increase in participation rate of women in the labour force, access to cars, taste and personal consumption expenditure have contributed to the growth of retail industry in India.

One of the main reasons that have contributed in driving the growth in organized retail industry is maturing metros. National Capital Region’s (comprising of Delhi, Faridabad and Gurgaon of Haryana, and Noida, Ghaziabad of Uttar Pradesh) have contributed to US$ 16,342 million of retail revenues in 2005-06 which are further projected to increase. (Ernst & Young, 2009)

Also, the growth in organized retail is inextricably linked to the growth in the real estate sector. Allowance of FDI in domestic real estate has resulted in joint ventures between Indian and international developers. According to an estimate, more than 50% investment
in real estate is likely to come through FDI route. Besides this, some other aspects of Government’s policy would act as growth drivers. For example, in Mumbai, the Government is releasing unused textile mill land for retail development. Also, in Delhi including Delhi NCR, the Government has released large tracts of land for retail development. (Kawal Gill, 2008)

Another driving factor according to the Ernst and Young Study 2009 is the Mall phenomenon. Total number of malls is expected to increase to 600 by 2010-11. With the increase in number of malls more retail space would be made available, with mall players further offering incentives like lower rentals. The activity in the retail sector is further being supported by the allowance of FDI in real estate by the Government. (A. Shanthi et al, 2008)

With the entry of FDI the agriculture sector will get the maximum boost as the private sector will start participating through the contract farming route. Post-harvest management standards will improve along with cool chain infrastructure which in turn will result in increasing efficiency and cutting costs which will benefit the consumers. (Ernst & Young Research-2009) The economy is opening new avenues for employment in IT/ITES and other sectors and employees are providing attractive compensation packages and perks which have resulted in increase in disposable income. Favourable demographics and increasing incomes have changed the face of Indian consumerism. Indian middle-class is redefining lifestyle patterns by adopting western culture and is becoming brand conscious. With the increase in disposable income there has been shift
from “save” attitude to “spend” attitude and since large varieties of products of different brands (domestic as well as international) are available in malls, Indian consumer is moving from local “kirana shopping” to “Mall shopping”. (Ernst & Young Research-2009)

Thus it was inferred that a combination of the demand and supply side factors is the key driver of a 42% CAGR in organized retail over FY07-11E. We can predict that the organized retail can achieve sustainable growth due to two major factors: consumer/demand side and retailer/supply side. (Source: ICRIER Retail Report 2008, Angel Research)

**Figure 2.5- CONFLUENCE OF FAVOURABLE FACTORS**
2.3 Drivers of Organized Retail in India – Supply Side factors

2.3.1 Easy Availability of Credit

The Indian consumers are gradually accepting plastic money. Indians spend just 1% of their total purchases through credit cards, while the Koreans make one-fifth of their total purchases through credit cards. The world average hovers around 9%. From a mere 3.2 mn in 2000, the number of credit cards has grown to 22.6 mn in 2007. This increase boosts retail spend, as it enables impulse buying and big ticket purchases (Priya Ayyar et al, Edelweiss Report, 2008).

Various industry data sources reveal that travel and hotel bills, along with dining, account for approx 25-35% of the total value of purchases through credit cards. Purchase of jewellery accounts for 10-11%, apparel 8-10%, and consumer durables nearly 6-7% of the purchases through plastic money. A majority of these cardholders fall in the age group of 25-45 years. There is yet a lot of scope to exploit this market as shown by a recent study by NCAER, which says that there are currently 81 mn people who have the potential to become credit cardholders.

To capture the growing consumption, banks and lending institutions have designed and customized loans to suit the requirements of consumers. Personal loans have become the order of the day and the competition in the space has only made it better for the consumer. Attractive rates and convenient repayment options have put a lot of money in the hands of people, which is driving consumption.
According to Business India Intelligence, 2007, there were 22m credit cards in India by 2007 as opposed to 10m credit cards in 2003-2004. Along with growth in the number of cards issued, the value of credit card transactions has risen rapidly. The total value of such transactions almost doubled between 2003/04 and 2005/06, to around Rs339bn.

Table 2.1: Credit cards in India: usage trends

<table>
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<th>Year</th>
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<th>Transactions (m)</th>
<th>Value of transactions (Rs bn)</th>
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<td>100.2</td>
<td>176.6</td>
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<tr>
<td>Jan 2009</td>
<td>25.87</td>
<td>Unavailable</td>
<td>517.06</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, Venture Infotek Research, Business India Intelligence

2.3.2 Real Estate Development

Real estate availability is a key factor influencing the choice of the right location. Real estate costs for the Indian organised retailers are 8-20% of sales compared with 3-4% for retailers in other countries. Choice of the right real estate is crucial for the success of modern retail, as there are significant strategic and financial implications involved. Location in most cases is the value proposition for many modern retailers. This is the key reason for the mad rush among retailers to get the best location in the same catchment or city. It is expected that 315 mn sq ft of retail space will come up by FY11E, taking
modern retail to USD 70 bn. In the next 4-5 years, the country will have over 1,000 hypermarkets and 3,000 supermarkets (Priya Ayyar et al, Edelweiss Report, 2008). Real estate players have already announced big plans for development of close to 300-600 malls and shopping complexes all over the country. An estimated investment of US $ 25-30 bn (industry estimates) is expected to be made in development of retail space by the large real estate players to bridge this shortfall of space. In addition to the real estate players, some retailers have also entered the land development space.

2.3.3 Development of Supply Chain involving efficiencies

The existing traditional supply chain in India has a minimum of five intermediaries between the producer and the end consumer. At every level of intermediation, wastage occurs, adding to the cost of the product. Obviously, each intermediary tries to make profits on the goods sold, which ultimately increases the price of the product. Under the modern supply chain channel, retailers reduce the number of intermediaries to a maximum of three as against minimum of five in the traditional formats mentioned above by extending their presence and control to the wholesale operations and establishing direct linkages with the producers. Many retailers also source from Agriculture Produce Marketing Committee (APMC) markets, which also help reducing 1-2 intermediaries. These initiatives not only result in reduced wastage and lower prices, but also allow the retailer a greater control over the quality of the final product, which is a key value proposition for the ultimate consumer. Increasingly, retailers are also exploring contract farming. This is undertaken in rare and high-value products to ensure captive and continued supply.
Large players like Reliance Retail, Pantaloon Retail, and Bharti-Walmart are planning large-scale investments in the back-end processes. These investments are likely to boost efficiency for their wholesale cash-n-carry businesses and also allow better margins in the front-end retail businesses. Reliance Retail is investing nearly INR 80 bn in backward integration, market development, and location sourcing. It has entered into an exclusive arrangement with Blue Star, a major in central air conditioning and commercial refrigeration, for supply of refrigeration and cold room systems for its ‘Reliance Fresh’ outlets. Pantaloon Retail has set up a dedicated subsidiary for this purpose.

A good sourcing strategy plays a key role in managing cost. Retailers not only need to procure products at the right price, but also need to sustain cost advantage over time. (Ernst & Young, 2009). Today with consumers showing a greater orientation towards experimentation in their purchasing habits, most retailers are going ahead with promotions, new product introduction and localized assortment. As a result retailers have lower inventory, this also reduces their storage costs. This helps to ensure elimination of non-value added inventory and remnants and therefore improve shelf availability.
2.3.4 Government Regulations

The Indian government has not focused on retail as an industry. Until now, there are no specific rules and regulations that are to be followed by retail companies. However, there are certain laws that the retailers need to follow, which are general in nature and which pertain to the establishment of stores and the conduct of activities. These laws are as follows:

- Shop and Establishment Act, 1948
- Standards of Weights and Measures Act, 1976
- Provisions of the Contract Labour (Regulations and Abolition) Act, 1970
- The Income Tax Act, 1961
- Customs Act, 1962
- The Companies Act, 1956

Source (Index of customs act, Income tax department, and other websites)

Apart from the above Acts, the companies also follow certain regional rules and regulations on the basis of the stores’ location. In some regions regulations are imposed on the organized retailers to restrict their expansion and to promote regional retailers; for instance, the Tamil Nadu government imposed a 10% surcharge on organized retailers; the West Bengal government has been asking mall developers to reserve 10% space for unorganized retailers.
Retailers are also required to take necessary approvals from local bodies to carry on with their business. There is no single window for clearances, and companies have to go to different agencies to get approvals, which is one of the biggest hurdles that the segment faces. ([www.dnb.co.in](http://www.dnb.co.in), Dun and Bradstreet)

In 1991, the Indian government introduced the economic policy to attract foreign investments and since then, it has amended the policy from time to time in various sectors to allow higher levels of foreign participation. The government policy in retail sector allows 100% foreign investment in wholesale cash-and-carry and single-brand retailing but prohibits investments in retail trading. In 1997, the government imposed restrictions on FDI in retail sector but in 2006, these were lifted and opened in single-brand retailing and in cash-and-carry formats. In January 2006, the Government allowed foreign retailers to participate directly in the Indian market for the first time by allowing equity ownership in `single brand' retailing. Thus, foreign entities were allowed to operate their stores, but only if they are single-brand stores and only up to 51 per cent ownership.

Conditions under single brand retailing were as follows

1. Products to be sold should be of a `single brand'.
2. Products should be sold under the same brand internationally.
3. Single brand' product retailing would cover only products, which are branded during manufacturing.
The cash-and-carry business is the easiest mode of entry for foreign retailers into India. Many global players like Metro and Shoprite have already entered the market. Wal-Mart has forged an alliance with Bharti for a cash-and-carry business, and Bharti is concentrating on front-end retail. Similarly, Tesco entered India through an alliance with Trent (Tata Group). Apart from investing in the cash-and-carry business, Trent will also support the back-end activities of Trent Ltd.

Many foreign brands have also entered India either through JVs with leading Indian retailers or through exclusive franchisees to set up shop in India. Louis Vuitton, Marks & Spencer Plc, GAS, Armani are some such operators who have entered India through JVs. McDonald’s, KFC, Domino’s are the retailers who have taken the franchise route.

Slowly the government is opening up to the idea of permitting FDI in the Indian retail sector; consequently there is greater momentum in the sector. In 2009, owing to the global meltdown, investments dropped in all sectors. The government has therefore changed the guidelines for foreign investments to boost investments in the current year. This move is certainly likely to improve the investment climate in the Indian retail space.
2.4 Drivers of Organized Retail in India – Demand Factors

2.4.1 Growing Young Population

The median age of the Indian population is around 25 years, making it one of the youngest countries in the world compared with the US, China, and Japan with median ages of 35, 30, and 44 years, respectively (United Nations Secretariat, World Population Prospects, 2008). In addition, over 65% of the Indian population is below 35 years and 54% below 25 years. By 2010, about 65% of the population will be under 35 years of age. (www.dnb.co.in, Dun and Bradstreet Research)

Figure 2.6 Comparative Median Age

![Comparative Median Age Chart](image)

Source: US Census Bureau, D&B Research

The economy is opening new avenues for employment in IT/ITES and other sectors and employees are providing attractive compensation packages and perks which have resulted in increase in disposable income. Favourable demographics and increasing incomes have changed the face of Indian consumerism. Indian middle-class is redefining lifestyle patterns by adopting western culture and is becoming brand conscious. With the increase
in disposable income there has been shift from “save” attitude to “spend” attitude and since large varieties of products of different brands (domestic as well as international) are available in malls, Indian consumer is moving from local “kirana shopping” to “Mall shopping”. (Ernst & Young Research-2009).

2.4.2 Rising Disposable Income
Private consumption has already played a much larger role in India’s growth than it has in that of other developing countries. In 2005 private spending reached about 17 trillion Indian rupees ($372 billion), accounting for more than 60 percent of India’s GDP, so in this respect India is closer to developed economies such as Japan and the United States than are China and other fast-growing emerging markets in Asia. (McKinsey, 2007)

Figure 2.7 Private Consumption as Percentage of GDP

Note: Percentage of GDP, 2005

Source: McKinsey 2006
Today in India millions of people that have been pulled out of poverty are also building a huge middle class that will be concentrated in India’s urban areas. While urbanization hasn’t proceeded as quickly as it has in other Asian economies, rapid population growth means that in absolute terms the country’s urban population will expand significantly, from 318 million in 2008 to 523 million in 2025. In India—unlike China, where urban growth is spread across a large number of cities—the economy will continue to be dominated by the megacities (Delhi and Mumbai) plus the six next-largest urban agglomerations (Kolkata, Chennai, Hyderabad, Bangalore, Ahmedabad, and Pune).

Nevertheless, a handful of smaller places, such as Chandigarh and Ludhiana, will have per capita incomes rivaling those of the major cities and emerge as attractive markets. The shift in spending power from the countryside to the cities will place the bulk of India’s private consumption within easier reach of major companies. Today 57 percent of private spending is spread across rural areas, but by 2025 cities will command 62 percent of the country’s spending power.

Along with the shift from rural to urban consumption, India will witness the rapid growth of its middle class—households with disposable incomes from 200,000 to 1,000,000 rupees a year. (Rajesh Shukla et al, 2004). A recent study by the McKinsey Global Institute (MGI) suggests that if India continues its recent growth, average household incomes will triple over the next two decades and it will become the world’s 5th-largest consumer economy by 2025, up from 12th now. Further the consuming class, defined as population with annual income higher than INR 90,000, has risen from 20% of total households in 1995-96 to 35% in 2005-06. This is expected to increase to 48% of total households by 2010. The deprived section, which does not contribute to the consumption,
will fall steadily and decline at a CAGR of 2% over 2006-10E. This upward movement of the population to the higher income level is one of the key drivers of organized retail (Rajesh Shukla et al, 2004).

2.4.3 Increasing proportion of working women resulting in higher discretionary spend

The number of working women, as a percentage of the total female population, has risen from approximately 12% in 1961 to close to 25% in 2005 (Priya Ayyar et al, Edelweiss Report, 2008). This has resulted in growing disposable income, which in turn, leads to increasing retail spend. It is estimated that the propensity to spend in case of working women is higher 1.3 times compared with the housewives. Also, the buying behaviour of a working woman differs from that of a housewife. The rising income level of the female population has opened a whole new genre of retailing formats and products, catering exclusively to women. In 2008 India’s working population (in the 15-49 years age group) constituted around 53% of the population as compared with 48.6% in the UK, 49% in the US, and 53% in Russia. Further, the increase in the number of working women has fuelled the growth in sales of discretionary items. There has been a 20% increase in the number of working women in the last decade (Dun and Bradstreet Research, 2008).
2.4.4 Changing consumer preferences

Over the years, consumer awareness about quality and price of products/services has increased due to increasing level of literacy in the country and growing exposure to the developed nations via satellite television or overseas work experience. Consumers are increasingly becoming more vocal about the quality of products/services that they expect from the market. This awareness has made the Indian consumers seek more reliable sources for purchases, and hence, the logical shift to buying from organized retail chains with established corporate backgrounds and pronounced accountability.

The consumers also prefer to buy from a place where their feedback is more valued. The organized retail format promises consumers better quality and better shelf-life for products due to their excellent storage facilities and anti-tampering checks. An important factor attracting consumers towards formal retailing mechanisms such as hypermarts and departmental stores is the shopping experience. These shopping outlets allow consumers
to explore their choices and touch and feel products in the comfort of a glitzy and energetic environment, something a kirana or mom and pop stores have never been able to offer.

Nowadays, Indians are more confident and optimistic of their future, and therefore, do not mind saving less and spending more on retail goods and services. This explains why savings and investments constituted only 4% of the Indian consumer’s wallet in 2003, down from 14% in 1999. The Indian consumers are seen spending more and more on discretionary heads than the necessities.

In the last 4-5 years, the Indian markets have witnessed a strong shift towards branded products. Indian consumers have now begun to believe that branded goods signify better quality and offer greater value for money, and are not just for the elite class. This trend is also driven by an increased exposure of the country to the ways of the developed nations. This shift in perception of branded goods has been the highest in the case of apparel. Most of the leading world brands like Levis, Pepe, Lee, Arrow, Espirit, Nike, Reebok, Hugo Boss, Ray Ban, and Parker are now available in India; brands like Louis Vittion and others are flocking to India to set shops. Currently, global brands in many segments like fast food, cosmetics, office stationary, and accessories are flocking into the country to pamper Indian consumers.
The Indian consumers’ mindset is a paradox of value and lifestyle. For modern retail to succeed, it has to effectively cater to both these mindsets effectively. Though, with rising disposable incomes, the consumer will adapt modern retail willingly, his stickiness to it will depend on how well his needs of service, quality, and value perception are met. Hence, modern retailers are undertaking investments in logistics, and supplier networks, to ensure they can get products at the best possible prices (by eliminating wastage and middlemen) and in the best packaged forms, to attract the ‘value buyer’. They are offering the best possible brands, best quality, and best service, either individually or through joint ventures, to attract the lifestyle buyers.

Change in consumer lifestyle with a steep rise in the value of time, change in the Indian family structure from large joint families to nuclear ones, and an increasing level of quality awareness have made the case for organised retailing stronger. The traditional retailing format has been largely limited to meeting the changing requirements of the consumers. Nowadays, the consumers, however, want value, convenience and a wide variety of offerings, coupled with a pleasant shopping experience. This has created an opportunity for modern retailing formats to emerge and plug the existing gaps.
Some of the key features that help to understand the consumer behaviour are mentioned below:

1. High degree of value orientation: A suitable pricing strategy is essential in order to grab a larger share of the Indian consumer market as they places emphasis on the value of a product.

2. Higher degree of family orientation: Stores, products and brands which support family values, communicate feelings and emotions in their messages have better chances of success in India.

3. No store loyalty: 60% of the consumers buy from multiple retailers in comparison to 10% in Brazil and 24% in China.

4. Priority given to fresh food items: Indian consumers prefer fresh food over packaged food.

5. Opting for convenience: Buyers are willing to pay additional money in order for convenience. Emphasis is placed on the location of the store.

6. Role of traditions: There is simultaneous existence of traditional products alongside modern products.

7. Apparel purchase for special occasions: Contrary to the Chinese and Russians, Indians are driven by occasions for their apparel purchase.

8. Brand Flexibility for different category of FMCGs: In case of food items, Indian consumers are flexible about the brand. However in case of electronic goods people prioritize the brand of the product.
9. Growing Individualism: Traditionally most decisions were taken collectively by family members. However currently ‘Individualism’ is growing, especially among the Indian Youth.

Thus it may be inferred that the prime reason for a paradigm shift in the shopping attitude of the Indian consumer is the change in their preferences and tastes. Due to the increasing use of IT and telecom, Indian consumers have become aware of brands and shops for lifestyle and value brands according to the need and occasion. Consumers will continue to drive the growth in the organized retail by expanding the market and compelling retailers to widen their offerings in terms of brands and in terms of variety. (Dun and Bradstreet, 2008, www.dnb.co.in)

**Figure 2.9 Consumption of various categories**

![Consumption of essential commodities is falling](source)

Source: CSO

Source: Dun and Bradstreet
2.5 Organized retail – Various categories

The retail sector is very fragmented in India, with over 13.5 m outlets operating in the country and only 4% of them were larger than 500 square feet in size in 2007 (Dun and Bradstreet, Euromonitor). This is in comparison to 0.9 m outlets in the US, catering to more than 13 times India’s total retail market size and thus further highlights the high degree of fragmentation of the retail sector within India. However, post-liberalisation, favourable economic reforms and the recent changes in the country's economic fundamentals have driven the growth of the retail sector. In India, organised retail is now picking up momentum.

The per capita consumption of India at around US$ 400 compares poorly to US (US$ 27,643) and Asian countries such as Japan (US$ 20,337), China (US $609), Malaysia (US$ 2,042) and Thailand (US$ 1,572) (www.dnb.co.in, Dun and Bradstreet 2008). This indicates tremendous scope for growth of the retail sector in India.

Earlier, retailers largely catered to lifestyle, clothing and apparel needs of the consumers. However currently, grocery stores, specialty stores to cater to the needs of music and book lovers etc have also started mushrooming at various locations. The sector can be broadly divided into two segments: Value retailing, which is typically a low margin-high volume business (primarily food and groceries) and Lifestyle retailing, a high margin-low volume business (primarily apparel, footwear, etc). The sector is further divided into various categories, depending on the types of products serviced. Textile and apparels dominate the market followed by food and beverages. The low contribution of other categories indicates opportunity for organised retail growth in these segments. The
proliferation of hypermarkets and supermarkets has led to growth in food and grocery retail; thus, value retailing is seen to be gaining ground in India. The other high growth verticals are apparel and durables. Impulse goods like books and music are also gaining a larger share in the organised retail market, with players making stores more accessible to consumers.

In 2007, the total retail industry in India was valued at Rs 13,300 billion (estimate), and the organized segment constituted 5.9% of the value at Rs 783 billion. In the segment, the clothing and accessories sales had a majority share of 38.1% followed by the food and grocery segment at 11.5% and electronics segment at 9.1%. The organized retail industry grew at a CAGR of 33% during 2004-2007. Even though the organized retail segment has a minuscule share in the total industry, it has enormous potential considering the rising urbanization, the efficient supply-chain, the readily-available retail space, and modern technology, which help in reducing consumer prices to a great extent. (Dun and Bradstreet, 2008)
### Table 2.2 Indian Retail market, Various Categories

<table>
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<th>Segments</th>
<th>Total Retail Market (Rs Billion)</th>
<th>Organized Retail Market (Rs Billion)</th>
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<tr>
<td>Food and grocery</td>
<td>7439</td>
<td>7,920</td>
<td>58</td>
<td>90</td>
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<td>Footwear</td>
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<td>52</td>
<td>77.5</td>
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<td>Electronics</td>
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<td>575</td>
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<tr>
<td>Catering Services (F&amp;B)</td>
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<td>713</td>
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<tr>
<td>Home &amp; Office Improvement</td>
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<td>Telecom</td>
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<td>Entertainment</td>
<td>380</td>
<td>456</td>
<td>15.6</td>
<td>24</td>
</tr>
<tr>
<td>Jewellery</td>
<td>602</td>
<td>694</td>
<td>16.8</td>
<td>23</td>
</tr>
<tr>
<td>Books, music, gifts</td>
<td>133</td>
<td>164</td>
<td>16.8</td>
<td>22</td>
</tr>
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<td>Pharmaceuticals</td>
<td>422</td>
<td>488</td>
<td>11</td>
<td>15.4</td>
</tr>
<tr>
<td>Beauty &amp; Wellness</td>
<td>38</td>
<td>46</td>
<td>4</td>
<td>6.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,000</strong></td>
<td><strong>13,300</strong></td>
<td><strong>550</strong></td>
<td><strong>783</strong></td>
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Source: Images India Retail Report, Dun and Bradstreet

Historically, Indians have not been the ones to splurge on luxury items. Transition from the traditional retail to organized retailing was expected to take place on the back of changing consumer mindset, lower penetration levels, changing demographic mix, media proliferation, etc. The organized retail was expected to receive investments to the tune of US$ 25 bn over the next 4 to 5 years. But the financial crisis that impacted economic growth put breaks on the retail sector growth. However, the time constraint and the convenience of shopping with multiplicity of choice under one roof are the factors appreciated by the new generation. These factors are expected to be the growth drivers of organized retailing in the country over the long run.
2.6 Organized retail – Food and groceries

Food and grocery is the second-largest segment of the retail industry and the potential for new entrants in this segment is enormous, particularly in untapped markets like rural and semi-rural areas. Growing at a rate of 30%, the Indian food retail is going to be the major driving force for the retail industry. It is currently estimated at US$152 billion; it accounts for over half the total retail market in India and is growing at 3.5% to 4% annually (FICCI-Ernst&Young, 2007). The organized segment of the market, however, represents just around 1% of the total market; i.e the lowest penetration level amongst all major categories in the retail sector. This low penetration presents significant opportunity for companies seeking to enter this retail sector.

Traditionally, Indians were used to buying items like sugar, wheat, pulses, rice etc. from their neighborhood store. The majority of food and food products were and still are retailed through neighborhood kirana stores. A typical kirana store has a retail area of 200 sq ft and sells 500 to 800 stock keeping units (SKUs). The kirana stores focus on dry food products because the infrastructure for cold storage is lacking. The majority of fresh produce is sold from the carts of traveling vendors. Such produce is deemed to be of low product quality, variety and hygiene. This concept is still popular in B-class and II Tier cities of India and gives employment to thousands of its inhabitants.

Initially the food retail format was seen in A-class cities like Mumbai, Delhi, Chennai which had co-operative stores like "Apna Bazaar" in Mumbai and "Kendriya Bhandar" in Delhi. Both were very successful and are operating many outlets in all strategic localities in the city. Escorts group in the late eighties diversified into non-auto sectors by getting
into agri business or food business. It came out with the first "Nanz" store at South Extension in Delhi in 1990.

The first visible sign of the change in food retailing was seen in mid-eighties. Around that time a few new food stores were set up in all metro cities in India. Calcutta was the only exception where it started a little later. At that time couple of leading food stores started operating such as "Morning Stores" and "Modern Stores" in Delhi, "Nilgiri" in Bangalore, and “Food Land" in Mumbai "Spencers Food Stores” in Chennai. Spencers were the first to tie up with a Singapore based large retail chain -- "Dairyland" and had set up the food stores in Chennai. Until the late 1990s, food retailing was concentrated in the southern part of the country. The reason was that most entrepreneurs who started organised retail came from southern India and the cost of real estate in the southern region was less than other regions (particularly north and west). Since then, however, organised food retailing has emerged across the country, inspired by the presence of high potential markets in the north, west and east as well as the success of some non-food retailers and food services companies in these regions.

In light of low share of modern retail in large consumption baskets and the growing consumer acceptance of organized retail, retailers are working quickly to establish their presence and grab market share. The most promising space is believed to be the food and grocery, as this is the least penetrated. This segment also allows retailers to reap benefits of investments in supply chain.
2.7 Need for Research

In retailing, the customer is the reason for existence. The people who enter a retailer’s store (or visit its website) and make the purchases are the ones who drive the business. In a service economy, the relationship the retailer builds with the customer determines its success (Zeithaml, et al, 1993). Customers have a wide choice of businesses to patronize. The retailer that understands its customers’ needs and wants is able to provide the products and services that will best satisfy those customers. As already established the Indian retail environment is undergoing a vast change in the external environment and also with the changing behavior pattern of the customers. Over the years, consumer awareness about quality and price of products/services has increased due to increasing level of literacy in the country and growing exposure to the developed nations via satellite television or overseas work experience. Consumers are more vocal about the quality of products/services that they expect from the market. This awareness has made the consumer seek more reliable sources for purchases, and hence, the logical shift to buying from organised retail chains with established corporate backgrounds and pronounced accountability. The consumer also prefers to buy from a place where his/her feedback is more valued (Priya Ayyar et al, Edelweiss Report, 2008).

Given this change in the mindset and behavior of consumers, retailers need to understand the consumer behavior thoroughly. Consumer behavior is a classification of marketing that is applied to consumers. Consumer behavior reflects the totality of consumers’ decisions with respect to the acquisition, consumption, and disposition of goods, services, time and ideas (Jacob Jacoby, 1976).
Given the changing retail scenario in India, it becomes imperative to understand the consumer behavior in the plethora of choices available. The scope of the research is to gain an understanding in the changing and evolving mindset of the consumer when it comes to his shopping behavior. The research is focused on the food and grocery segment given that this segment is the second largest segment. Fuelled by large disposable incomes – the food sector is witnessing a remarkable change in consumption patterns, especially in terms of food. Food retailing has come of age: from a period when food items were sold in small roadside grocer shops & mandis, haats and bazaars by vendors to a stage when food products (processed and groceries) are retailed through supermarket stores where consumers can inspect, select and pick up the products they like in a comfortable ambience and still pay a fair price for the product and the merchandise and sometimes even pay less than the price they would have paid at the nearest food stores. Shopping for groceries is no longer a strenuous and uncomfortable affair. "Contrary to the belief that fashion is the largest segment of organised retail in India, food & beverages is the major segment, worth Rs 8,97,000 crore," said Arvind Singhal, Chairman, Technopak, at the Indian Retail Forum held in Mumbai. There is an old industry saying that “customer is king” Food retailers today will update that saying to “customers is the dictator” because of fierce competition, new technology and business practices the market power of customer is strong and growing stronger.

Today the consumer can walk through air conditioned aisles and take his time to select the best brands at the cheapest prices. But these are many consumers who prefer the old
traditional stores due to the trust factor. Many people also believe that food should be as fresh as possible and hence they prefer the hand carts for fruits and vegetables. It is the aim of the present research to study the consumer behavior in Food and grocery in the context of traditional stores vs new modern formats. As rightly pointed out by Sanghvi (2007), so far retailers who focused on developing only supply-side efficiencies need to think about demand-side effectiveness as well to optimize business performance. Whether a business adequately meets customers’ needs and desires may be measured by its outputs like customer patronage and it is important to identify efficient levels of the various dimensions of satisfaction of customers’ needs that directly link to measures of specific firm outputs that firms intend to maximize (Blose et al., 2005). In this research an attempt was made to examine the demand-side effectiveness of grocery retail formats existing in India in terms of dimensions of satisfaction of customers’ needs and consequently relate it to customer patronage in order to predict customer choice with respect to store format and the store attributes that drive that choice.

2.8 Benefit of the Study

This study is expected to contribute to the existing body of knowledge on retail patronage in food and grocery segment. Findings from the study will also be helpful to retailers of traditional formats and modern formats to identify the hierarchy of attributes that drive consumers towards either of the formats. There is an economic basis for the existence of different retail formats in the market and an understanding of this phenomenon can help retail managers and proprietors of traditional formats in identifying the important attributes for their format and consequently differentiate themselves to a large enough customer segment thereby remaining viable.
2.9 Operational Definitions

2.9.1 Retail
The term retail refers to “the sale of goods or commodities in small quantities directly to the consumers.” (The American Heritage College Dictionary, 4th ed). Thus a retailer is a company or an organization that purchases products from individuals or companies with the intent to resell those goods and services to the ultimate or final, consumer. Retailing includes activities of marketing and selling products or services to end consumers for their own household or personal use. The U.S federal government considers a retailer a business that sells more than 50 percent of its products to the ultimate consumer directly.

2.9.2 Types of Retail
The retail industry is divided into organized and unorganized sectors. In India over 12 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m²) in size. 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. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.(Indian Council of Research in International Economic Relations (ICRIER),2007).