CHAPTER 4
THEORETICAL FRAMEWORK

4.1 Purpose of Research

The overall purpose of this research has been to study and understand the effect of modern retail formats on traditional retail formats in India. It is a known fact that organized retailing is making a strong impact in many parts of India's growing economy. With rapid change and expansion in the retail environment, it has become all the more necessary to identify the different parameters that drive overall satisfaction of consumers for modern retail formats and traditional retail formats. Fast changing consumer attitudes about products have encouraged retailers to develop new positioning strategies to enhance customer loyalty (Gwin and Gwin, 2003). New retail formats and stores are being continuously introduced and traditional retail format need to find ways to retain customers (Uusitalo, 2001). Food and grocery retailers today must differentiate themselves by meeting the needs of their retail shoppers better than the competition. There is general agreement that a basic retailing strategy for creating competitive advantage is the delivery of high service quality.
Retailers are faced with several issues like:

1. Does the consumer order his monthly grocery and household items from the neighbourhood kirana store since it is easy and convenient or does he prefer to go to a modern format like Big Bazaar which offers him a superior shopping experience and great discounts on bulk purchases?

2. Does he prefer the modern format over the traditional mom and pop stores in certain circumstances?

3. Can the two formats co-exist given that the consumer may have different expectations on different occasions?

4. What are the challenges for the traditional formats given that the housewife today is aware of the discounts being offered on items of daily consumption like rice, sugar, edible oil etc? Are the modern formats lacking in certain areas like ease of delivery of products and trust?

The present study focused on answering the above questions. Further the present study focused on consumer rather than customer of food and grocery stores. Customers are ones who visit the store but may not purchase anything. A consumer on the other hand is one who utilizes the good or services. Hence consumers have been considered for the present research since it was required to understand store attributes, satisfaction with both the formats.
Econometrics may be defined as the quantitative analysis of actual economic phenomena based on the concurrent development of theory and observation, related by appropriate methods of inference (Samuelson et al, 1954). Empirical research at present has still the dominance of the classical methodology of econometrics, which proceeds along the following lines (Gujarati, 2006)

1. Statement of theory or hypothesis
2. Specification of the mathematical model of the theory
3. Specification of the statistical or econometric model
4. Obtaining the data
5. Estimation of the parameters of the econometric model
6. Hypothesis testing
7. Forecasting or prediction
8. Using the model for control or policy purposes

Given the above understanding of the term Econometrics, the research questions and hypothesis were developed as follows.
4.2 Research Questions

While the purpose statement gives details of the general direction of the study, a research question states the specific line of enquiry the research will investigate and attempt to answer. Black (1993) recommends a specific research question, followed by a number of hypotheses. Kerlinger (1986) suggests that good research questions should

- express a relationship between variables
- be stated in unambiguous terms in question form
- imply the possibility of empirical testing

Accordingly, the following research questions have been listed below and taken up for investigation.

Research Questions:

1. How has the modern retail format impacted the traditional retail formats on parameters like frequency of visits, monthly spends?

2. Which of the two formats do consumers prefer to buy various food, grocery and household items?

3. Which are the important parameters that influence consumer’s overall satisfaction with the two formats?

4. Are the drivers of satisfaction the same or different for traditional and modern retail formats?

5. What is the overall disposition towards the two formats?
4.3 Research Objectives

The following are the objectives of the research:

1. To study the satisfaction levels of shoppers among traditional formats and modern formats and identify the key drivers of satisfaction among the two formats.

   To study the consumer’s satisfaction levels with various attributes like location, convenient store timings, promotions and discounts, ambience, freshness of products stocked etc. for both traditional and modern formats. Further to derive a hierarchy of attributes so that retailers can focus on the right mix which would result in higher chances of being patronized.

2. To understand the shopper needs better and delve deeper into inner needs – to go beyond functional needs and arrive at a hierarchy of needs.

   A question in mind was when a consumer shops does he look at individual parameters or do a bundle of parameters govern his overall satisfaction with the two formats? Hence the present study attempted to group will group the different attributes into a few manageable dimensions so that retailers could focus on delivering on a bundle of attributes.

3. To understand the primary triggers of visiting a modern retail format. What are the other triggers that may have led to a shift from traditional formats to modern format?

   An attempt was made here to study the sources of awareness of modern formats. To find out whether advertising, or brand name or recommendation by friends and family was the main reason of visiting modern formats.
4. To understand if modern retail store today is an alternative that is attractive enough to get shoppers to shift?

The focus of the study here was to study the overall disposition of consumers towards the two formats and segment the market based on their attitude towards the two markets.

5. To identify the reorientation needed by the traditional retail outlets to retain their place and consolidate their survival and growth which can take place despite the establishing of the modern retail formats.

4.4 Hypotheses

Store attributes are evaluative criteria that influences consumers’ attitude towards a store (Jin and Kim, 2003), who state that the influence of store attributes on customer loyalty depends on consumers’ purposes of shopping and perceptions of store attributes. Previous research had identified store attributes as a multi-dimensional construct including location of store, nature and quality of stocks, in-store promotions, sales personnel, physical attributes, convenience of store, atmospherics and loyalty cards that influences consumer behaviour (Miranda, Konya and Havrila 2005). In this study, store attributes is measured using variables such as ambience, offers and promotions, locations, convenient store timings, availability of credit, free home delivery, and long association with the store as these variables are more relevant to Indian context.

A hypothesis is a proposition about the relationship between two variables that can be tested for association or causality against the empirical evidence.
The following were the hypotheses proposed by the researcher in this study:

**Hypothesis 1: Consumers make frequent lower expenditure trips to traditional formats and less frequent higher expenditure trips to modern formats.**

The objective of the hypothesis was to find out how frequently consumers visited traditional formats and modern formats in a month. Further having visited the two formats how much did they spend on an average per visit on food and grocery?

**Hypothesis 2: Consumer’s information of traditional formats and modern formats is from different media.**

The objective of the hypothesis was to find the role of different sources of information that helps consumers gain knowledge of the two formats.

**Hypothesis 3: There exists a relationship between types of food items purchased and choice of formats.**

3a. H1: Consumers prefer to purchase processed foods from modern formats.

3 b. H1: Consumers prefer to purchase fresh produce from traditional formats.

The above hypothesis sought to establish a relationship between type of food and preferred format of store from where it is purchased. It was hypothesized that consumers prefer to purchase fresh produce like fruits and vegetables from traditional formats and processed foods like biscuits, juices, etc. from modern formats.
**Hypothesis 4:** Store satisfaction is stronger for modern formats than traditional formats.

The objective of this hypothesis was to investigate whether consumers were more satisfied with modern formats or with traditional formats.

**Hypothesis 5:** Satisfaction levels vary for the different attributes in traditional formats and modern formats.

Here the objective was to find out which of the various attributes like convenient store timings, location, free home-delivery, ambience, availability of wide range of products, attractive discounts, schemes and promotions, courteous and well-trained staff etc., are consumers more satisfied with and whether the satisfaction levels for all the parameters vary among the two formats. Here it is wished to discern the difference, if any, between customer perceptions of grocery store attributes for traditional formats and modern formats.

For the above main hypothesis, sub hypothesis 5a to 5j have been developed and tested for association between overall satisfaction and individual attributes which include freshness of product stocked, promptness of handling customer complaints, long association with store, etc.
5a. H1: Freshness of product stocked is positively related to store satisfaction for both modern formats and traditional formats.

5b. H1: The relationship between freshness of product stocked and satisfaction is stronger for traditional formats than for modern formats.

The objective here was to establish that store satisfaction and freshness of product stocked have a direct correlation and the relationship between the two variables was stronger for traditional formats than for modern formats.

5c. H1: Promptness of handling customer complaints is positively related to store satisfaction for both modern formats and traditional formats.

5d. H1: The relationship between promptness of handling customer complaints and satisfaction is stronger for traditional formats than for modern formats.

The objective here was to establish that store satisfaction and promptness of handling customer complaints have a direct correlation and the relationship between the two variables was stronger for traditional formats than for modern formats.
5e. H1: Long association/relationship is positively related to store satisfaction for both modern formats and traditional formats.

5f. H1: The relationship between long association/relationship and satisfaction is stronger for traditional formats than for modern formats.

The objective here was to establish that store satisfaction and long association have a direct correlation and the relationship between the two variables was stronger for traditional formats than for modern formats.

5g. H1: Attractive discounts, schemes and promotions is positively related to store satisfaction for both modern formats and traditional formats.

5h. H1: The relationship between Attractive discounts, schemes and promotions and satisfaction is stronger for modern formats than for traditional formats.

The objective here was to establish that store satisfaction and long association have a direct correlation and the relationship between the two variables was stronger for modern formats than for traditional formats.
5i. H1: Hassle-free exchange policy is positively related to store satisfaction for both modern formats and traditional formats.

5j. H1: The relationship between hassle-free exchange policy and satisfaction is stronger for traditional formats than for modern formats.

The objective here was to establish that store satisfaction and hassle-free exchange policy have a direct correlation and the relationship between the two variables was stronger for traditional formats than for modern formats.

**Hypothesis 6 – Performance of the two formats on the drivers of satisfaction are different**

Here the objective was to find out which of the 22 attributes drive store satisfaction and whether the drivers of satisfaction were the same or different for traditional formats and modern formats.

**Hypotheses 7 - Consumers are divided in their disposition towards traditional formats and modern formats.**

Here the objective was to find out the overall attitude that consumers have towards the two formats. Disposition was gauged by eliciting consumers response on a 7-point scale indicating the degree of loyalty for traditional formats and modern formats.
7a - H1: Modern formats are highly recommended by consumers

Here the objective was to find out how likely were consumers to recommend modern formats to their friends and relatives. Recommendation is a good indicator of customer commitment.

7b - H1: As Income increases consumers shift in favor of modern formats.

Here the objective was to investigate whether there exists a relation between income and overall attitude towards modern formats.

Hypothesis 8- Patrons of modern formats differ from patrons of traditional formats on various demographic variables.

Here the objective was to establish the profile of the consumers of traditional formats and modern formats on various demographic variables and ownership of durables.