CHAPTER 1
INTRODUCTION

1.1 Background and Motivation of Study

The liberalization policies and the exponential growth of the retail sector have made India a lucrative destination for global retailers. The organized sector in India is growing at an exponential pace. It has been mentioned by many researchers that the entry of global retailers with higher financial and managerial resources will affect the future of traditional retailing in India (Srivastava 2008). Though organized retailing makes 70-80 per cent of the total trade in developed countries, its share in the Indian market is still low (Goswami & Mishra 2009). Indian retail environment is fragmented into organized and unorganized retailing with most of retail stores operating in unorganized retail environment. The unorganized retail formats comprises of weekly haats, kirana stores, stalls and convenience stores. Majority of retail stores in India have an area less than 500 square feet (Goswami & Mishra 2009; Ramkrishnan 2010). These small retail stores have a highly flexible environment and thus the retailers have high flexibility to decide the assortments based on the local customer needs (Ramkrishnan 2010). Indian consumers prefer to shop from the local nearby retail stores, so the local retailers need to understand the consumer tastes and preferences along with the service quality expectations for targeting them. Moreover there is a need for the small retailers to improve their retailing skills in terms of the merchandise they offer, the product quality, and also the store organization.

The Traditional retail outlets (mom and pop stores) in India have a high level of personalized assortments and services which are the key drivers for customer’s attraction towards them (Sinha & Banerjee 2004). The Indian consumer’s don’t want to leave these traditional ways of shopping. Even after the penetration of the organised retail formats, a large section of customers in India, the large formats of retail stores are perceived to add insufficient additional values except uniqueness. The dynamic market environment and the changing technologies are a big challenge for small retailers in selecting products for their stores (Calantone & Benedetto 2007). Also the competition from the organized retail stores is a big threat for these small retailers. To
compensate the level of competition, the small retailers keep a large amount of products from various product categories. The retailers need to select from the large varieties of products being offered in the market and then stock them accordingly (Kaufman, Jayachandran & Rose. 2006). Now, the most difficult task of the small retailers, which is to decide which products to keep and which not to, depends upon type of customers they are catering for. Studies have been conducted to find out the factors that retailers consider while adopting products for their retail stores. However the research is limited to organized retailing. Certain researchers emphasize that small retail outlets are perceived attractive by consumers; however, in order to compete with organized retailers, they would have to improve their service and product attributes (Goswami 2008; Ramkrishnan 2010). Srivastava (2008) found that certain facilities like credit and home delivery offered by small retailers are important functional attributes for Indian consumers. According to Khare (2012), Familiarity with local retailers and stores affects consumers’ choices and attitudes towards store factors. Convenient location and easy accessibility of local stores matches consumers’ needs. These attributes help small retailers in fighting organized retail formats.

Small retailers were chosen as a unit of study because although small retailers have been a context of study for researchers but it has happened at a very individual level. The research of small retailers has been confined to very few constructs. A Meta-analysis on small retailers specifies that there has been no study on retail patronage on the context of small retailers (Pan & Zinkhan 2006). Also, although the area of retailers’ assortment planning is well studied, it is still unexplored when we talk about the small retailers. So, considering the importance of small retailers to Indian retailing, the study explores the ways small retailers manage their assortments. In a meta-analysis for small retailers conducted by Runyan & Droge 2008, it was found that the most of the studies on small retailers have been strategy oriented and have focused on sub topics likes location, pricing, technology, adoption, promotion, pricing and competitive strategies. Studies on assortment planning have been very less, especially in the context of Indian retailing. Thus the current research evaluates the assortment planning of the small retailers in India. A unique feature of the study is to determine the customer perceptions towards the small retailers. Hence an attempt is made to develop a model of product assortment planning for small retailers in India.
The discussion above opens up a new avenue for the small retailers to incorporate strategies to compete with the upcoming organized retail environment. The concept integrates the retailers' point as well as the customer’s perception towards the assortment the small retailers carry. As discussed, the only superior strategy the small retailers carry is the basic facilities like home delivery and credit they give to the customers, and also the basic location convenience. But the customer awareness is increasing, which is rapidly changing the retail environment and leading to changed shoppers expectations and realignment of the choice sets of a retail store. For the same, the retailers have to adopt certain strategies, which not only attract new customers, but also retain the existing ones. The study has adopted an integrated approach of assortment planning, which encompasses all the elemental concepts like social and environmental factors, supplier, retailer as well as the customers. An attempt to gauge the existing retail strategies being adopted by the retailers is made and then based upon the same a new model is developed, which caters for all the existing dimensions that, directly or indirectly, may affect the assortment planning of retailers.

Assortment Planning for small retailers is an important area to study because of the following reasons. First, the existing researches on assortment planning analyze the various results only from the perspective of large corporate retailers but neglect the small neighborhood retailers in this process (Arkader & Ferreira 2004). This research would help bring about the difference in assortment planning decision making style of large retailers and small retailers, where the former is scientific and the latter is heuristic. Second reason for his interest in this area is that the independent stores will be playing an important role in retailing in emerging markets (Chattejee et.al. 2011; Diaz, Lacayo & Salcedo 2007; Kertesz et.al. 2011). Also, the small retailers have a considerable share of retail sales in emerging markets like India. Thus, marketing literature should not overlook the effects of assortment planning under different environments, such as those with small neighborhood stores in an emerging market. For practitioners, this assessment can contribute to making better decisions regarding strategies designed for smaller markets. An additional motivation for this research area is to extend the generalizability of assortment planning of small retailers, which has not been previously studied.
A mixed method research approach is applied in the study that consists of qualitative as well as quantitative methods of finding the answer to the research problems. A qualitative approach is applied in order to understand the current scenario of assortment planning by the retailers. A grounded theory approach is applied in order to find the answer to the research questions followed by the Structural Equation Modeling as the quantitative method. Very few studies can be noted in the field of assortment planning and category management that have applied grounded theory. One such study is of Gruen and Shah (2000), which developed a theoretical model using Glaser and Strauss (1965) grounded theory method to examine factors affecting category management.

1.2 Retailing in India

The High Court of Delhi in 2004 defined the term “retail” as a sale for final consumption in contrast to a sale for further sale or processing (Legal India, 2011). According to Dune, Lusch and Griffith 2002, retailing involves actions and steps needed to make the merchandise made elsewhere available to the customers or to provide services to the customers. Retailing can be defined as the activity that ensures that customers obtain maximum value from the entire buying process (Dune, Lusch & Griffith 2002). In retail the producer sells the products to the individual consumer/buyer for the personal consumption. This buying and selling process excludes a direct contact between the manufacturer of the products and the institutional buyers such as the government. Retailing acts as a link that connects the individual consumer with the manufacturing and distribution chain. Sinha, Mathew and Kansal 2005 define a retailer as a middleman who procures goods from the wholesalers and sells it to the final consumers. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

Barter is considered as the oldest form of trading in retail but since independence the retailing in India has evolved to serve the needs of the vast country, irrespective of its size and complexity. India has always been operating with its unique concepts of retailing which range from Mela to shopping malls. Retailing in India has been started from weekly Haats to local kirana shops. In fact, these are the common local Mom & Pop or general departmental store located in nearby residential areas. Such shops stocked goods and multipurpose utility, and had
the vision of providing convenience at the doorstep of the consumer. The organized retail accounts for just 7 per cent per cent of the total Indian market share whereas the traditional retail is dominant with 93 per cent per cent market shares (AT Kearney report 2011). This shows that the small traditional retail is still dominant in India and has a huge potential market share in the near future. The dominance of these traditional mom and pop stores has been nevertheless denied. Although India has witnessed big organized formats like malls, hyper malls and even luxury malls, the need for the traditional retailing has never lessened. According to Sinha and Bannerjee (2004), Unorganized or the traditional retail in Indian consists of large number of small retail shops consisting of the local kirana shops, paan and beedi (local betel leaf and tobacco) shops, owner-manned general stores, chemists, footwear shops, apparel shops, hand-cart hawkers and pavement vendors. Indian retail is dominated by unorganized small shops, but the scenario is changing as the organized retail stores have started penetrating in the environment. As discussed by Sinha and Baneerjee (2004), Indian retailers and customers both are still confused and do not really know what drives the choice of store for Indian customers. Although the newly made luxury stores are attracting the customers due to their ambience and product variety, they are again finding conversions into purchases lower than they had expected, and hence have low profitability.

1.3 Organization of Chapters in the Thesis

The next chapter (Chapter 2) describes the literature review for the study. The literature review for examining the unorganized and organized retailing scenario in India is discussed. The literature review of the existing studies on small retailers is also included in it. This part also integrates the studies on consumer buying behavior in rural and urban areas of India. An important dimension of the study is to find out whether or not the nature of small retailers assortment planning varies in rural or urban areas. So, it was important to explore the existing literature on the difference in rural and urban India. The chapter also includes a very important section on product assortment planning by the retailers which helps in creating a scenario for building the research gap and thus leading to the formation of research objectives for the study. The customer’s perception for the retail assortment was also included in the same section.
Chapter 3 includes the research gap studied using the existing literature. The section also includes the significance of the study which leads to the research objectives and questions of the study. Chapter 4 provides details of hypothesis development and the research framework for the study. The details of the direct effects and the moderating effects have been discussed in this chapter. The results and the analysis of the qualitative interviews have been elaborated. The chapter concludes with the discussion and depiction of the research framework used in the study. Chapter 5 provides the hypothesis of the study and the final research framework. Chapter 6 elaborates the research methodology and analysis being adopted in the study. The contents of the section include the research design and its suitability in context of the study. The quantitative methods being adopted in the study have been discussed in this section. The chapter ends with the scales and the measurement along with the sampling methods being adopted in the study. The pretesting of all the developed constructs has also been included in the chapter.

Chapter 7 describes the qualitative analysis and the quantitative results. It starts with the description of the qualitative interviews and outlines the detailed findings of the data analysis. Later the results of the quantitative method in terms of descriptive, measurement model and the structural model showing the results of the hypothesis testing has been discussed in the chapter.

Chapter 8 is the last chapter of the thesis. The chapter includes the discussion on the qualitative and quantitative research findings, explanation of the results including the non-significant results, and contribution to the academics as well as the corporate world. The section also includes a discussion on the impact of the final model as derived from the research study. The chapter concludes with the limitations of the study and directions for future research.