CHAPTER 2
LITERATURE REVIEW

2.1 Retail Environment in India

The current retail scenario in India seems to be driven more by elation of modern formats evidenced by the fact that new expansions are adaptations of western formats and are fetching moderate to lukewarm success. But the trademark of Indian retailing — the small shops with a high level of service — are holding shoppers back to traditional ways of shopping. It is not only in small cities or rural areas, but also in the Tier 1 cities, that, many people believe that the new formats in organized retailing do not add value to the whole shopping process except for giving novelty (Sinha, Banerjee & Uniyal 2002). Shopping malls are still making surprise appearances in some Tier 2 cities. They are still very new for the rural India, where the surroundings are occupied with wheat and paddy farms (Marketing White book 2013-2014). Although Indian retail has seen a tremendous growth and penetration, especially in small cities, big brands are not scrawled on walls and billboards. But they are active players in the small towns of India today, powering the growth of several new product categories. Population growth combined with an increase in disposable incomes is providing the impetus to this boom. There has been a notable change in the spending patterns of Indian consumers due to the growing size of the middle class, rising GDP, and disposable incomes. At present, more than 40 per cent of the consumers’ spend is on food items. But this percentage is expected to decline while spending on non-discretionary items is expected to rise (McKinsey Global Institute 2011). For example the grooming industry in India is witnessing an unprecedented boom, to the extent that beauty parlors have entered every nook and corner of the country. This reflects that Indian customers are changing. Keeping a track of demand, there has been a growth in the economic stability and the also changes in the demographic profiles of the consumers of India (Sinha & Kar 2007). Educational qualifications have increased, women have started working and nuclear families have begun to replace the traditional joint family system. The increased awareness about the global shopping patterns and the new global brands has brought liberalization in the media also (Rao 2000). All these factors
have contributed to the growth and modernization of retail. What has come out of this flux of development is a heterogeneous, huge, and relatively affluent consumer base comprising people from small towns, upper class and ambitious middle and lower middle classes.

The Indian retail environment consists of organized and unorganized retail. Retailing in India has shown an exponential growth in past years and has attracted large investments from global retail players. The worth of Indian retail industry is expected to grow by $175–200 billion by 2016 (Sathish & Raju 2010). As Indian retail environment has shown tremendous shift, this has also affected the customers in India. The shoppers in India have shown a drastic shift in their shopping behaviors which is primarily affected by the place from where they are shopping and the level of involvement in terms of shopping any product (Barry & Evans 2005). According to Srivastava, 2008, the retail sector in India has more than 12 million retail outlets which results in the highest retail density in the world. In terms of ownership, Indian retail primarily consists of independent, owner managed shops. Indian retail environment consists of variety of traditional retail formats like kirana stores which serves basic grocery products, street carts; pavement shops, kirana stores (mom and pop stores), public distribution system, and kiosks and weekly markets have been in existence for a long time. A study by Srivastava 2008 has tried to present a picture of the changes in retail taking place in India. According to him, malls and shopping complexes have a shown a tremendous growth in Indian retail scenario but their sustainability is under risk. Eventually these organized retail formats need to provide certain value addition to the customers in order to make a hold in market. Only the one that satisfies the Indian consumers need for value-for-money proposition will survive.

As discussed earlier, India has the highest retail density in the world. But only 4 per cent of these outlets are more than 500 sq ft in size and almost all are family-owned shops and establishments (Mukherjee & Patel 2005). A small sample survey by Kalhan (2007) on the impact of malls on small shops and hawkers in Mumbai points to a decline in overall sales of nearly all product categories in retail outlets, ultimately threatening 50 per cent of them with closure or a major decline in business. Only 14 per cent of the sample of small shops and hawkers were seen to be able to respond to the competitive threat of the malls with the institution
of fresh sales promotion initiatives. This reflects that the upcoming challenges of modern retail are a threat on overall sales of the small retailers.

According to Business World Marketing White-book (2012-2013), rural India accounts for 70 per cent per cent of India’s population, 56 per cent per cent of the national income, 64 per cent per cent of the total expenditure and a third of the total savings. The vision of agricultural rural India is now changing. The changing consumer behavior of rural customers has led the marketers to increasingly look to ventures in rural areas of India. This is a big challenge for the small retailers, as they now have to compete with the organized retailers in terms of products and services they provide. The NSSO data of 2011 reveals that the per capita food expenditure in rural India as a whole was estimated at Rs. 600 as compared to Rs. 881 in urban India. This meant that the share of food in consumer expenditure was 57 per cent in rural India and 44.4 per cent in urban India. As seen in Figure 2.1, in 2009, the rural India contributed to about 70 per cent per cent of population, 54 per cent per cent of GDP and 55 per cent per cent of MPCE (Monthly Per Capita Expenditure), which is high when compared to urban India in all three cases.
According to Pitta, Guesalaga and Marshal 2008, conventionally, every business requires a set of four conditions to which are identifiable, measurable, substantial and accessible in order to run a sustainable business. While all four conditions are necessary, the substantial and accessible elements are the most important. The target segment of company must be large enough to generate profits. The company adopts different communication media methods and promotional schemes in order to reach those targeted customers. A very important factor which every company considers in the physically accessible distribution mean should be available to reach those targeted customers. From a profit perspective, companies concentrate on those areas where they can be effective, i.e. segments that meet all four requirements. So, it is a challenge for the
companies to reach to the small retailers which are serving the customers in rural India. When we talk about the customers living in the rural areas, the strategy changes slightly as these four requirements are rarely met the media methods and the distribution methods to reach such retailers need to be different from the organized retailers. In a country like India where more than 70 per cent per cent of the population lives in rural areas, the task for the companies becomes a little tough. C. K Prahalad presented a well-reasoned conceptual view about marketing for low income group customers. He has explained the concept of reaching the rural customers through a case scenario (Hart 2005; Prahalad 2004). Prahalad’s proposition is an invitation to company executives, politicians, managers of non-profit organizations, and ordinary citizens, to view poverty as something that might be alleviated rather than inevitable (Pitta, Guesalaga & Marshal 2008). With this opportunity, now several big brands have started to penetrate the rural areas of India. This has increased the level of brand awareness and penetration of new product categories in rural Indians, thus increasing the level of competition for the existing small retailers.

2.2 Shopping Behavior of Indian Customers

Shopping in India has witnessed a revolution with the phenomenal rise and exponential growth of the retail industry. The up birth of modern stores in India has changed the consumer behavior and led to a revolution in Indian retailing. The retail surge in India has percolated to Tier II and III cities. McKinsey Global Institute (2011) classifies Tier I cities as those that have populations greater than four billion and total income greater than 100 billion Indian rupees. In smaller towns, organized retail is growing at a rate of 50 – 60 per cent annually as compared to 35 – 40 per cent in metros and Tier I cities (Ghosh, Tripathi & Kumar 2009). Economic stability along with better spending options in these cities has lead number of retailers to think over to make these smaller cities as their prospect. The upcoming new retailers have forced the existing small retailers to think about reforms in retailing to attract more customers and thus maintain a profitable business.
Macro-environmental forces affect the retail sector in India. The paradigm shift in consumers’ socio-economic, demographic and geographical proportions are driving traditional retail towards an organized retail format aimed at catering to the evolving needs and tastes of discriminating consumers. Also the consumers’ changing psychographic variables like values, activities, interests, opinions, motives and lifestyles have contributed immensely to the growth of store format typologies such as convenience stores, discount stores, super markets and hypermarkets (Prasad & Reddy 2007). Studies on shoppers in India have evolved that the customers in India largely emphasize on time and money spending patterns. The “value for money” and “value for time” factors largely dominate the Indian customer shopping orientation (Sinha 2003). These features unconditionally altered the consumers’ shopping orientations and buying behavior towards choice of a store in urban or rural India. Some research studies have revealed a connection between demographic and psychographic characteristics and store format choice, and suggested that the individual characteristics of consumers influence their shopping behaviors (Baltas & Argouslidis 2007; Carpenter & Moore 2006; East 1997; Fotheringham & Trew 1993; Fox, Montgomery & Lodish 2004; Stone 1995).

Andrews and Currim (2002) in a study on households studied certain indicators like brand loyalty, price sensitivity, store features and aisle display for choice behavior of households in different product categories. This study found that the household choice behavior across different product categories depends on to what extent the product categories are similar to each other. The context of brand choice for different product categories is not studied in this study. Ramachander (1988) in a study of Indian customers found that the shopping behavior of Indian consumers is influenced by certain factors like brand loyalty, pricing, packaging and other intervening variables such as culture and socio-economic. The customer whether in Urban or rural markets in India show a similar behavior in terms of brands awareness and association with brands (Rao 2000). Kumar and Bishnoi (2007) in a study conducted with 32 villages found that the rural consumers prefer to buy those products or brands which offer low prices.
Research suggests that Indian consumers’ store patronage behavior is not dependent on multi-dimensional service attributes (Sinha & Banerjee 2004). The retail environment and store features were not considered relevant motivators for consumers. Small retail outlets were 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). A very epic example from Sinha, Mathew and Kansal 2005, regarding the customer behavior towards a small retailer depicts the strong urge of customers towards mall retailing. According to him, one who buys vegetables and fruits from a small vendor, who is located near the house and has been patronized by the customer for years, will not easily switch to a supermarket vegetable vendor. This might be due to the lower level of perceived risk when he/she buys from the vendor they patronize. Also, the guarantee of the vegetables being fresh is better with the nearby vendor. Several studies have been conducted that focus on the drivers of the consumer behavior towards a particular store. According to Varley (2005), the retailers with good store image are preferred by the consumers over other retailers. Research of store image contributes several major factors like merchandise, physical facilities, services and atmospherics to the decision making process of the customers (James, Rand & Dreevs 1976; Martineau 1958; Peter & Olson 1990).

2.3 Small Retailers in India

2.3.1 Defining Small Retailers

The retail industry in India is the second largest employer after the farming sector. About 40 million people are employed in this sector of which only about half a million are in the organized sector (Kumar, Patwari & Ayush 2008). The Indian retail is dominated by small store retailing. According to national portal of Government of India, retailers are of different types depending upon their scale of operation and location(National Portal of India 2005). Broadly retailers are divided into two categories, which are elaborated below:
1) Small-scale retailers: those retailers whose scale of operation is restricted to a small segment of the market and to a narrow range of products. They generally hold small stocks of the products of regular use. Such retailers are very large in number but account for a small portion of the total retail business. But, small-scale retailing is a very common, simple and flexible way of distributing the products to the final consumers. It incurs low operating costs and is usually owned and operated by a proprietor. The most important feature is that the small-scale retailers have a direct and personal contact with their customers. This form of retailing faces the problems of small capital, lack of professionalism and low purchasing power.

2) Large-scale Retailers: those retailers whose scale of operation extends to a large segment of the market and to a wide range of products. Such retailers have invested huge amount of capital in order to establish their business. Although such retailers are not much in number as compared to the small scale retailers. The reasons may be due to high operating costs. This form of retailing lacks personal contact with the customers. But it involves selling of the products through the use of various promotional techniques like advertising, publicity, and sales promotion.

As our study is focused upon the small retailers, we elaborate the forms of small retailing in India. The two common forms of small scale retailing in India are:

- Itinerants or Mobile Traders are those retailers which have no fixed premises for their shop and move place to place for selling of the products. They change their place of business according to their convenience and sales prospects. Such retailers either visit places which are busy hubs and have large foot fall or serve by visiting at the door steps of the consumers. They do not have a fixed time for the sale and carry fewer stocks with them. The hawkers, peddlers, cheap jacks, market traders and street sellers fall under this category.
• Fixed Shop Small Retailers are those retailers that have fixed business premises and operate through unit stores or small shops located in residential areas or markets. They may include small street stalls which are often seen on the roadsides, bus stops or street crossings, dealers of second hand goods, general stores and specialty stores. Such type of stores sells limited variety of products. They provide services like goods on credit and home delivery to their customers.

Unorganized retail comprises small retail stores called ‘kirana shops’. There are about 12 million small stores spread over 5,000 towns and 600,000 villages across India (Halepete, Iyer & Park 2008; Venkatesh 2008). These account for more than 70 per cent per cent of grocery sales (Jones, Lasserre & Gehlen 2005) and play a strategic role in Indian retail business (Ramkrishnan 2010). They maintain low prices, offer products and services according to the local clientele, and are conveniently located in residential areas (Halepete, Iyer & Park 2008; Sathish & Raju 2010; Srivastava 2008). The small retail stores are run by family members and offer customized assortment to their consumers. India has the highest retail density in the world with one retail store per hundred people (Kalhan & Franz 2009). Traditionally, small-store retailing in India has provided a viable avenue for self-employment due to limited investments required in land, capital and labor in this line of business (Venkatesh 2008). The small retailers constitute about 95 per cent per cent of retail sales (Goswami & Mishra 2009). Given the sales statistics of the small retail stores, their contribution to the retail sector cannot be underestimated. Earlier research has examined the survival prospects of these stores in the changing retail environment. It has been mentioned that culture governs consumers’ preferences to shop at specific outlets (Hoare & Butcher 2008). Srivastava (2008) found that credit and home services offered by small retailers were important functional attributes for Indian consumers. These attributes helped small retailers in fighting organized retail formats. The current research intends to fill the gap related to culture’s influence on Indian consumers’ attitude toward small retailers. It explores whether store attributes of service, assortment, and consumers’ relationship with retailers, socialization, and credit facilities affect Indian consumers’ purchase intentions and whether cultural variables play any role in store patronage behavior.
2.3.2 Small Retailers v/s Organized Retailers

Indian retailing can be divided into organized and unorganized. The organized retailing covers supermarkets, hypermarkets and malls. Organized stores offer a variety of assortments and services under one step and are professionally managed. Organized retail stores operate on self-service model (Ramkrishnan 2010). Indian retail sector has been dominated by small retailers, and majority of the Indian customers prefer to shop from these stores for their day to day basic requirements (Khare 2013). A major contrast to these formats is the emergence of modern large-scale formats such as supermarkets, specialty stores, chain stores, department stores, hypermarkets, factory outlets and discounters. In addition to these formats, the emergence of malls has transformed the retailing environment in India and is expected to push organized retailing onto the fast track. The entry of multinational and private retailers is changing the consumers’ perception towards retail service quality. The modern ambience, layout and assortments of organized retailers can pose a threat to the survival of local retailers.

Traditional retailing formats have always been an avenue for self employment as very less investment in the form of land, resources, capital and labor is required in this business (Venkatesh 2008). According to Gopalakrishnan and Sreenivasa (2009) organized retail in India would only lead to the exacerbation of the severe economic problems in the country. Many agricultural crisis, employment downfall in urban and rural areas, price fluctuations are certain problems which may arise with organized retailing. There are concerted social and political movements aimed at arresting this trend of organized retail, since this phenomenon is regarded as adversely affecting the livelihoods of those employed in the unorganized retail sector, more specifically, the small, independent retailers (Venkatesh 2008). Structural changes in the industry are expected to cause irreversible damage to local commodity supply chains and competition (Kalhan & Franz 2009).

The major market share of Indian retailing is dominated by unorganized retail which includes the small size family-owned stores (Halepete, Iyer & Purk. 2008; Ramkrishnan 2010). According to Kalhan (2007), Traditional retailing in India consists of small privately owned stores which are
run and managed by family members. These retailers offer products at convenient and economical prices to the local consumers (Halepete, Iyer & Purk 2008; Ramkrishnan 2010; Sathish & Raju 2010; Srivastava 2008). The increasing organized market in the Indian retail scenario is posing threat to the survival of small retailers. So, the traditional retail store owners need to improve their retail services by understanding customer’s needs and expectations. The continuous improvement in the brand awareness among the customers is also posing a threat for small retailers for improvement in their assortments. There has been not only an increase in income but also a change in the demographic profile of consumers (Sinha & Kar 2007). Educational qualifications have increased, women have started entering the workforce and nuclear families have begun to replace the traditional joint family system. There is also increased awareness about global shopping patterns and products. Brand visibility has increased through multiple advertising channels such as direct-to-home (DTH) television and lifestyle magazines. Brand-owners and retailers have implemented schemes such as customer loyalty cards to attract consumers and retain them (Aneja 1996). Hence, Indian consumers have started experimenting with brands (Mukherjee & Patel 2005). However, non-branded products continue to be sold through traditional retail outlets, although products such as food products are sold through both traditional and modern outlets (Chattopadhyay, Dholakia & Dholakia 2011).

2.3.3 Importance of Small Retailers in Indian Retail

India retail industry is one of the rapidly growing industries in India. India is the 5th largest retail market in the world and the country ranks fourth among the 30 surveyed countries in terms of global retail development (Retailing Sector Analysis Report, 2014). But the retail industry is purely dominated by unorganised segment, which is as large as 92% (Deloitte, 2013). It is expected to grow by 5% and reach US$650 billion by 2020 (Federation of Indian Chambers of Commerce). This segment is generally characterized by small retailers such as owner-operated general stores, convenience stores, kirana shops, street vendors, etc. The sole proprietorship is a common form of business in the unorganized segment. Small retailers follow a different retail strategy by maintain low prices and offer variety of household products at convenient and economical prices to local consumers (Srivastava 2008; Sathish & Raju, 2010;
The small retail stores are located amidst residential areas, stock products having local demand, offer services like credit facilities, home delivery and free-trials of products. The consumers prefer them due to a multitude of factors like locational convenience, credit facilities, easy return and refund facilities, personalized attention, friendly attitude of retailer and sales and service assistance. The future of small retailers seems to be secured as customer acceptability for small retailers in India is very high.

If we look at the Indian retail sector, McKinsey Report (2008) suggests that organized retailing in India is currently focused in Tier I and II cities. Eight Tier I cities account for 39 per cent of consumers’ buying power and most of economic growth. The unorganized retail formats are more popular in Tier II, III and IV cities. These cities account for about 61 per cent of consumers’ buying power and constitute of 5,127 towns/cities. Thus, small or unorganized retail formats are of strategic importance to companies targeting Indian consumers. As the focus of the current research work is Jammu Province, which includes only one Tier II city, which is Jammu, the entry of organised retail is far place for other areas of Jammu province. Hence the scope of small retailers in Jammu Province cannot denied. Unorganized retailers represent an important thread in the rural socio-economic fabric of India, contributing to ten per cent of India’s GDP (Competition Commission of India, 2014, p. 12) and providing employment to 11.5 million people across the country (The Economic Census, 2010, p. 16). This depicts the importance of unorganised retail and small retailers in Indian retail environment. Studies in the area of analyzing the buying behaviour of small retailers have been few in number, but this cannot deny the fact of importance of this segment in Indian economy.

A recent study by Sarkar, Kundu & Chaudhuri (2015), would extend available knowledge on retailers’ buying behaviour to a rural context for a developing country (i.e., India). Although some studies have attempted to theorize the behavioural aspects of rural unorganized retailers, they are constrained in terms of their focus and geographical coverage. An attempt is made in the present study to identify the manifested determinants of purchase behaviour through a study of rural unorganized retailers in Eastern India. This study is significant in the sense that it provides a purchase behavior model for rural unorganized retailers in developing markets that would be useful in identifying the key determinants of rural unorganized retailers’ response to marketing
efforts; in analyzing available information about the market; in specifying targets for marketing effort; and in specifying the criteria that purchasers (buyers) will use to make purchase decisions. Existing work on exploration of the retailers way of buying reflects the importance of the area.

2.3.4 Customer Preferences for Small Retailers

As traditional retail currently still dominates the Indian retail, if the small traditional retail stores will not improve their services, they will start losing their market share (Vijayraghavan & Ramsurya 2007). To maintain a profitable situation, the small retailers have to consider the customer choices and preferences. There have been few studies on the consumption patterns and consumer choices towards small retailers. A study by Khare (2013) emphasizes that Indian consumers pay more attention towards service, employee behavior, credit policies and social relationships while evaluating retail service quality, which is a very good indication for small retailers. Several researches in recent times have focused on the various attributes that influence consumers’ preferences for small retailers. These attributes are classified under product variety (Brennan & Lundsten 2000; Erdem, Oumlil & Tuncalp 1999; Solgaard & Hansen 2003), low price (Arnold, Oum & Tigert 1983; Kim & Kang 1995), service and facilities (Home 2002; Lee, Johnson & Gahring 2008; Moschis, Curasi & Bellenger 2004). Some research on small retailers suggests that unavailability of products at local retail stores affects consumers’ shopping behavior (Lee, Johnson & Gahring 2008; Miller & Kean 1997). Consumer satisfaction with local small retailers is influenced by service and assortment. This increased consumers’ tendency to shop from local retailers.

In India, where there is a large segment of consumers who are daily wagers, credit facilities offered by small retailers are important in predicting consumers’ store loyalty behavior. D’Andrea, Lopez-Aleman and Stengel (2006) in their research on small retailers in Latin America found that poor consumers place convenience, friendship, and availability of credit as important attributes for store patronage. This helps them in acquiring products without having to make payment immediately. Ward (1987) posits that small retailers contribute to the local community by providing financial assistance to the disadvantaged consumers. They play a vital social role by extending support to poor and elderly consumers (D’Andrea, Lopez-Aleman
& Stengel 2006; Miller & Besser 2000; Sim 1999; Smith & Sparks 2000). In other research, Kirkup et al. (2004) found that elderly and low income single mothers gave importance to easy accessibility and convenience attributes of small retail stores. Local small retailers serve as community hubs and provide forums for community interaction (Kirby 1982; Paddison & Cadlerwood 2007). Landry, Arnold and Stark (2005) examined the small retailers showed a common behavior of healthy involvement with the customers. Their relationship with the local community provides them insights into consumers’ needs and product requirements. They can bolster this relationship by associating with local events and strengthen their belonging to the community. Social interaction and personalized service is highly valued in retailing. Hu and Jasper (2006) examined the relationship of social cues and consumers’ susceptibility to interpersonal influence on local store image. Social and physical environment affect consumers’ store loyalty behavior (Lin & Liang 2011). Consumers have favorable attitudes about service quality and merchandise when social cues were present. Store-related factors have been studied with respect to small retail patronage behavior. Presence of personalized service creates favorable perception about the store.

Home (2002) in his study on small retailers found that consumers give importance to friendly personnel, location convenience, likelihood of meeting acquaintances at local store, and quick easy purchase. Location convenience and accessibility make local stores attractive. Research suggests that small retailers’ relationship with local consumers plays a pivotal role in enhancing consumer loyalty, service perception, and consequently minimizing consumer defection (Auh et al. 2008; Lee, Johnson & Gahring 2008). Retailers’ knowledge about their regular consumers enables them to serve them efficiently and improves their ability to handle consumer complaints (Adeji, Griffith & Noble 2009; Lee, Johnson & Gahring 2008). Their interaction and relationship with consumers could help in generating consumer satisfaction. Lu and Seock (2008) identified personal interaction as the most important factor in generating positive word-of-mouth and small retail store patronage. In small communities, word-of-mouth was effective in generating increased footfalls in the store. Klemz and Boshoff (2001) found that small retailers were empathetic to their consumers and it generated store loyalty. Building strong relationships with local community can help small retailer’s combat competition posed by big organized retailers.
Availability of products at small retail stores can improve consumer satisfaction. Assortment, price bargains, transactional convenience, and shopping experience influence consumers’ choice of small retail stores (Carpenter & Moore 2006; Lee, Johnson & Gahring 2008; Messinger & Narasimhan 1997; Miranda, Konya & Havrila 2005). Lee, Johnson and Gahring (2008) found that there was a discrepancy in product assortment and availability offered by small retailers and consumers’ expectation. The local retailers could not offer a variety of products similar to that offered by big retailers (Miller & Kean 1997; Miller, Schofield-Tomschin & Kim 1998). Miller and Kean (1997) posit that intangible benefits of shopping at small retail stores outweigh the unavailability of products or poor service.

However, Lee, Johnson & Gahring (2008) report that product unavailability at small retail stores was a major reason of dissatisfaction and out shopping. Another attribute influencing consumers’ relationship with local retailers was their ability to adjust supply according to local demands (Landry, Arnold & Stark 2005; Smith & Sparks 2000). Small retailers interact with their consumers more as compared to big stores/super-markets, and therefore it is easy for them to stock products according to the local demand. Kirkup et. al. (2004) state that consumers’ preference for small retail stores was governed by consumers’ circumstances (such as owning a care, small kids, and disabled mother), situational factors, mobility, perceived choice of stores, and individual characteristics. Some consumers felt that big stores did not offer fresh groceries or good parking facilities. Single mothers or elderly consumers, who wanted to purchase small packs, felt that big stores did not cater to their needs. Clow and Cole (2005) suggest small retailers need to follow differentiation strategies in order to compete with big retailers. The big retailers have an advantage of offering large discounts to consumers and it was not feasible for small retailers to offer similar price discounts. Similarly, Megicks (2007) found that business level strategy had a significant impact on small retailers’ performance. The ability to respond to consumer requirements is the strength of small retailers (Griffith, Noble & Chen 2006). This literature review on small retailers suggests that attributes such as service, product availability, credit facilities, convenience, and personal relationship with small retailers would be important in influencing consumers’ decision to shop from small retail outlets.
2.4 Product Assortment Planning

Assortment is traditionally defined as the number of products offered within a single product category (Levy & Weitz 2001). A retailer’s assortment is defined by the set of products carried in each store at each point in time. Assortment planning is done by the retailers to maximize their sales or gross margin irrespective of various constraints like limited budget, limited shelf space and limited resources (Kok, Fisher & Vaidhyanathan, 2009). Assortment can be defined from the perspective of customers. It can be defined as how consumers make decision from the existing choice sets at a retail store. According to Webster (2000), a choice set is defined as: 1) a sufficient number and variety to choose from, and 2) the act of choosing.

2.4.1 Retailers Assortment Planning

The product assortment decision is probably one of the most important decisions faced by the retailers. This decision has several aspects. Irrespective of fixed store space and few financial resources, assortment planning requires a tradeoff between three elements: how many different categories does the retailer carry (called a retailer’s breadth), how many SKUs do they carry in each category (called retailer’s depth), and how much inventory do they stock of each SKU, which obviously affects their in-stock rate. There should be tradeoff between the breadth and the depth offered by the retailer. Some, like department stores, will elect to carry a large number of different categories. Assortment planning at a retailer entails both selecting the set of products to be carried and setting inventory levels for each product (Kok & Fisher 2007). Retailers have to decide the categories to carry and the amount of space to allocate for each category. Within each category, the retailer needs to decide the products to carry along with the inventory levels for each product. With limited shelf space, increasing variety means less store space for each product, which translates to higher operational costs due to either lower availability or higher replenishment costs. For a small retailer, bearing huge costs is not affordable since the primary aim of the business is to earn profits. Organized retailers can adopt several cost bearing strategies to enhance the business or to streamline it. For instance, due to excessive levels of variety, many retailers are switching to a strategy called “efficient assortments”, which primarily seeks to keep
the profit enhancing products and eliminate low selling products (Kurt Salmon Associates 1993). Product assortment planning mainly emphasizes on finding a trading for which retailer must consider consumer preferences, supplier constraints and external environmental factors such as economic conditions and competitors’ strategies. The decisions across different categories affect the attractiveness of the stores to the customers, and as a result of the decreased number of customers visiting the store, the demand to the retailer’s products decreases. The phenomenon remains the same for organized as well as unorganized stores. Earlier researches in the field of assortment planning focus on three aspects:

a) Retailers product Selection
b) Shelf Space Management
c) Inventory Management

2.4.1.1 Retailer Product Selection

The first retail adoption studies appeared in the 1970s (Grashof 1970; Heeler, Kearney & Mehaffey 1973; Montgomery 1975). But in the subsequent 30 years, few follow-up articles on this topic have been published (Kaufman, Jayachandran & Rose 2006; Rao & McLaughlin 1989; White, Troy & Gerlich 2000). The research on product adoption by a retailer has been dominated by large retail formats. However, the topic of product adoption should be observed from the point of view of small retailers also as, for selection of products, they are not dependent but rather make decisions completely on the basis of what they believe will sell in the market. They have a high degree of freedom in determining the elements of the marketing mix. They can adopt appropriate mechanisms to tailor fit their offered products that are in line with the need and demand of the target market customers (Ramakrishnan 2010). However, it is most likely that a retailer’s new product adoption decision will be influenced not only by the current performance of the category in which the new product is launched, but also by the expected consequences of the new product introduction for that category. Dhar, Hoch and Kumar (2001) discussed in their study the different possible roles for different product categories, and the related performance
consequences of each. This research evaluated the impact of individual product categories on the overall sales of the retailers, thus leading to continuation of that product category in total merchandise a retailer carries. Rao and McLaughlin (1989) have shown that the expected category growth is positively related to new product adoption decisions in this category. Although some product categories are quite stable in volume development over time, many retailers use a category management approach, which attempts to maximize profits within a category (Kok, Fisher & Vaidyanathan 2009). Besides profit maximization, other goals of the retailer might be to round out a product category or to bring a positive customer experience (Mantrala et al. 2009; Verhoef et al. 2009). This reveals that the customer experience acts as a factor in the retailers’ selection criteria. The introduction of new products generally leads to a change in a retailer’s assortment, not only due to the addition of the new product, but given limited shelf space, a weak performing product will most likely be dropped. Substitution generally takes place within but not across categories (Kok, Fisher & Vaidyanathan 2009).

Several researchers have found that retailers’ relationship with the manufacturer is also a driver of the retailers’ selection criteria of a product category. The more important it is for the retailer to maintain the relationship with the manufacturer, the more likely it is that the retailer will include that manufacturer’s new products in its assortment (Kumar, Scheer & Steenkamp 1995). Sometimes the introduction of a new product may itself lead to category growth. Such products are generally perceived as less risky by the retailers, and are more likely to help retailers achieve their sales objectives (White, Troy & Gerlich 2000). Such product categories are preferably added by the retailers in the merchandise they carry. Adopting products that extend the assortment can drive category sales as the extended assortment can better fulfill the wants and needs of consumers than the existing assortment. The retail practice of combining “standard” and “special” products in the total assortment has emerged and has been adopted by an increasing number of retailers. The assortment of standard products is relatively stable over time, which means that customers expect to find them every time they shop. These types of products may also be called “fixed products” (Billington & Nie 2009). The main objective of the standard assortment is to support the positioning and profitability of a retailer (Walters and Hanrahan, 2000). Standard assortment items also serve as a strategic tool to attract and retain loyal
customers, i.e. customers who regularly visit the store for their customary shopping and grow accustomed to a certain product range (Grewal et al. 1999). Accordingly, in general, the price of a standard product is stable and balances its attractiveness with the long-term profit it should generate.

2.4.1.2 Retail Shelf Space

Retail Shelf space is a limited and valuable resource that should be optimally distributed among different product categories and their various brands (Amrouche & Zaccour 2007). As shelf space is the scarcest resource of a retailer and the number of potentially available products in the market increases in the market, the retailers must make appropriate decisions on the product selection and how much space to be provided to which product category. With a well-designed shelf space management system, retailers can attract customers, prevent stock outs and, more importantly, increase the financial performance of the store while reducing operating costs (Yang & Chen 1999). Limited shelf space creates a tradeoff between breadth of assortment and in-stock rates of products in the assortment. In a research conducted by Chiang and Wilcox (1997), they derived that shelf space allocation and variety offered by retailer are both negatively correlated retail margin. According to Cachon (2001), the small retailers need to constantly strive for improvement in their operations due to extremely low profit margins. The major factors that lead to retailers overall costs are rental costs (Bultez & Naert 1988) and the opportunity cost for the shelf space given to a product (Brown & Lee 1996). According to Ramaseshan et al 2006, retail profitability can be increased by efficient use of available shelf space by the retailers and the efficient selection of product assortment. In a research conducted by Campo and Gijsbrechts (2004), they discussed the issues that interplay between retail assortment, shelf spacing and inventory management. They described the factors to be of prime importance and their integration will lead to the retailer’s business profitability. An independent retailer has to face certain challenges which are unique for his business. An independent retailer owns only one retail outlet, allowing him to make independent decisions and not tying up money in other outlets. There is flexibility in choosing the products to keep, the shelf space to give to each category, the suppliers to select, and the strategies to apply to attain profits. Customer segments
are selected instead of mass segments. There has been large research on shelf space management, and several optimization techniques and meta-heuristic models have been deduced (Lim, Rodrigues & Jhang 2004, Yang 2001). A well-managed shelf space not only improves customer service by reducing out-of-stock occurrences but also improves the return on inventory investment by increasing sales and profit margins (Yang 2001; Yang & Chen 1999). The space allocation influences the buyers’ perceptibility, and therefore demand along with various costs that include ordering, holding, handling, and transportation. The mathematical programming model of Hansen and Heinsbroek (1979) proposed a model for maximizing profits by expressing the contributions to profits of all products less than the costs associated with replenishing the shelf stock. Corstjens and Doyle (1981) developed a more comprehensive model for optimizing retail space. Their general model proposed to maximize profits by incorporating the “real dimensions of the retailer’s optimization problem”—it is a model that incorporates the main demand effects with the cost effects of alternative space allocations. Zufryden (1986) proposed a dynamic programming model approach as a dynamic extension of Corstjens and Doyle (1981). The primary focus was to choose a product selection from the entire set of products in the category assortment, and optimally allocate them to scarce supermarket retail shelf space, while considering realistic constraints. The optimization model presented by Bultez and Naert (1988) introduced “demand interdependencies prevailing across and within product groups” detailing a theoretical shelf space allocation model called Shelf Allocation for Retailers’ Profits (SH.A.R.P.) as an extension to Corstjens and Doyle (1981). All these models are of a great use to the organized stores, where the management of resources has to be maintained on a large scale. The cost expenses to implement these models are very high as they require high technology based equipments and database management techniques. So, implementation of such models is a very costly affair for a small retailer whose total profit margin is very less. The current research focuses on the small retailer’s space allocation techniques. As the space is scarce, the management and display of right product on right shelf is a necessary task for the retailers.

Consistent with the grocery industry interest in this area, researchers did conduct studies in category management and efficient assortment in an attempt to understand retail shelf dynamics. Broniarczyk, Hoyer and Mcalister 1998 investigated how the number of product facings affects perceptions of variety for customers. They investigated that that small retailers consider store
characteristics and the environment in which the store is located as the major indicators for sales and space elasticity with a product category.

### 2.4.1.3 Inventory Management

A tradeoff between the different categories the retailers carry (breadth), the SKUs (Items) they carry in each category (depth), and the amount of inventory of each SKU they stock are the major issues in which assortment planning deals with, keeping the fixed store space and the limited financial resources in consideration. The breadth vs. depth trade off is a fundamental strategic choice faced by all retailers. The major decisions for a retailer in any business environment is to selection their merchandise assortment, specifically which products to carry with a product category and how much quantity of each product to be stocked. While planning the merchandise assortment retailers should be aware of the demand uncertainty for the supplier’s products. There are multiple products available across multiple product categories which compel the retailer to choose which products to be kept at the store (Kaufman, Jayachadran & Rose 2006). Adding new products in the store creates excitement for customers and benefits the retailers by creating customer traffic, points of differentiation and signals that the retailer is supplying the latest and best available products. But retailers need to know which products to be kept and which not to be kept at the store. To minimize the risk and overall costs, a retailer preferably keeps a narrower assortment and low stocks. A retailer chooses initial inventory levels for each variant before demand is realized. Then further based on the demand he decides what level of stocks to be maintained.

Researchers have studied the behavior of retailers on how they evaluate new products through examinations of category and shelf management (Dreze, Hoch & Purk 1994). During the sales period, a sequence of heterogeneous consumers then chooses from among the in-stock variants based on the utility criteria. Depending upon the type of customer and the needs of the customer, a retailer decides the amount of stock he has to maintain for his store. When customers face conditions of stock out with their preferable product or the brand, they must decide whether to buy the same brand at another store, switch to different brand, delay the purchase and buy the
same brand later at the same store or forgo the purchase altogether (Corsten & Gruen 2004). One of the critical reasons for customer satisfaction towards a retail store is the ability of a store to provide a wide range of assortment and variety. However, the risk of stock out is associated when the assortment range is high because larger the range of assortment higher will the stock out risk associated with that brand (Bucklin & Gupta 1992). So an optimal assortment range must be selected by the retailer with optimal stocks. According Ehrenberg, Hammond and Goodhardt 1994 the purchase involvement of the customer’s increases when they are provided with a portfolio of brands within a product category to make choice instead of certain brands because customers are less loyal to specific brands, particularly in grocery markets. Although there are large number of algorithms and models deduced by the retailers for deciding the in-stock quantities of a product in a category, for retailers catering to rural consumers, the implementation of such models is not feasible. We need to find out the factors that retailers consider while stocking the product within a particular category.

2.5 Customer Perception for Assortment at Small Retail Stores

In current times, most retail markets have reached maturity and have difficulties differentiating themselves based on merchandise selection only (Berry & Gresham 1986). Along with location of the store, prices offered by the retailer and the Customer assortment perception are considered to be the top three criteria in determining retail patronage.

Assortment from the consumers’ point of view is a function of the options available (e.g., brands, sizes, flavors as well as items) based on some subjective assessment. According to Chernev (2012), customer perspectives on product assortment influences decision making and choice. In particular, he has defined the consumer aspect of assortment research to answer three main aspects.

a) How do consumers perceive the variety of items of an assortment?

b) How do consumers choose an item from a given assortment?

c) How do consumers choose among assortments?
In a study by Broniarczyk, Hoyer and McAllister (1998) on assortments being offered in a grocery store, he observed that the customer perceptions of variety in a given assortment are influenced by three key factors: the number of distinct SKUs comprising the assortment, the assortment’s attractiveness (availability of buyers’ favorite brands), and total shelf allocated to the assortment. They analyzed how consumers form assortment perceptions in the face of SKU reductions with a particular emphasis on the availability of a favorite product and the amount of the shelf space devoted to the category. Past studies indicate that assortment size does influence retail patronage behavior (Arnold, Oum & Tigert 1983, Louviere & Gaeth 1987). Assortment size and quality were found to be by far the most important factors influencing the choice of a retail outlet for clothing and footwear (Clexton & Ritchie 1979). Laaksonen (1993) reported that assortment was one of the key determinants of consumer preference for retail stores. Retailers recognize that wider assortments in a product category will make it more likely that each consumer finds the exact product that he or she desires, thereby allowing the retailer to better serve multiple consumer segments (Stern, El-Ansary & Coughlan 1996). Large assortments may also be positively perceived by consumers and used as a cue for store quality. Bell (1999) underlined significant relations between quality and range of products, and consumers’ intent to patronize a retail store. Koelemijer and Oppewal (1999) showed that higher the assortment kept at the store more will be the purchase by consumers. Dhar, Hoch and Kumar (2001) found that the performance of the retailer is directly related to the

According to Chernev (2011), in addition to assortment size, perceived variety is a function of assortment structure. Three key aspects of assortment structure can be identified as the degree of distinctiveness of options provided, the entropy of the options comprising the assortment, and the organization of the assortment (Hoch, Bradlow & Wansink 1999; Kahn & Wansink 2004). The Food Marketing Institute conducted a field study in which it reduced SKUs in six product categories at 24 test stores. The results showed negatively insignificant impact of SKU reduction on sales. In other words, it suggested that efficient assortment might result in cost savings without loss of sales. Broniarczyk, Hoyer and McAlister (1998) confirmed this multi-dimensional view of assortment perceptions in a convenience store field study. He evaluated that
substantial SKU reduction shows positive affective consequences without negatively affecting consumers’ cognitive perceptions of assortment. The multi-dimensional nature of assortment perceptions implies that retailers may be able to reduce the number of items offered without decreasing consumers’ perceptions of assortment.

Organization of product assortment at the retail store also affects the customer perceptions towards the assortments. Dreze, Hoch and Purk (1994) in their study found that the location of the product in the shelf display is more important than the number of facings. It was evaluated that the products kept in the middle of the display had more impact on the perceptions of variety compared to other locations. When the assortments appear to be more or less different than each other it is easier for consumers to appreciate the variety in them than it is in a symmetrical assortment (Kahn & Wansink 2004). How well the assortment is organized on the shelf also affects the choice of the product. Assortments in a store can either be organized or disorganized but when there are larger assortments it is easier for the customer to recognize the variety among the products. With small assortments, however, organized assortments can actually make the lack of choice more salient.

There have been several research studies which analyze the impact of excessive assortment as well as reduction of assortment in stores. For instance, larger assortments offered by a retail stores increases the chance that consumers will find their preferable product and also offers flexibility for the variety seeking customers. Researchers have studied various aspects of assortment planning with respect to the increase and decrease of Stock Keeping Unit (SKU) at the retail store. The key implications of the results show that the initial sizes of the assortment and the amount of SKU reduction have an inverse relation in terms of assortment perceptions of the customers (Van Herpen & Pieters 2002). This means that large SKU reductions are more likely to decrease assortment perceptions when the initial assortment size is small rather than large.

Research in this field have also evaluated that if the sales are uniformly distributed across products in the category a significant reduction in SKUs is likely to make the favorite product unavailable for a large proportion of customers (Broniarczyk, Hoyer & McAlister 1998). The
business potential that exists in rural segments is starting to interest businesses offering branded products because urban markets have become highly competitive for their brands (Burgess & Steenkamp 2006). Now companies are targeting small retailers to keep their brands and enhance their brand penetration and visibility. There have been very researches on the assortment planning practices of India’s small retailers. In the face of tough competition, where the survival of small retailers is under question, there is a need for retailers to analyze and amend their current strategies to attract customers. Although the small retailers posses certain advantages over organized retailers, there is a need to improve and enhance the functional, business and competitive strategies of these retailers.

Among several advantages possessed by small, independent retailers is the flexibility in devising strategy (Barry & Evans 2007; Conant & White, 1999). They have a high degree of freedom in determining the elements of the marketing mix. They can adopt appropriate mechanisms to tailor their offer in line with the needs of their target segments. But to select the appropriate product category and variety for the store requires certain factors to be considered. This research has been designed in order to evolve the factors that are important for a retailer to consider before selection of merchandise. The current study attempts to fill this gap in knowledge as the findings may be representative of the situation in other emerging economies that are witnessing a similar evolving retailing context. The results of this research might provide corporate retail practitioners valuable insights into the various strategic postures adopted by the ubiquitous small retailers. This, in turn, may assist them in formulating and implementing their strategies in a more informed manner since any such knowledge might go a long way in helping them manipulate certain decision making factors that are under their control, unlike some of the unpredictable adverse external environmental factors mentioned earlier.

The current study adopts a grounded theory approach in the initial phase so as per the basic principle of grounded theory, once an area of research has been identified, the researcher must enter the field without exhausting the prior literature (Strauss & Corbin 1990), as in many studies; rather it is consulted as a part of the interactive, inductive and interactional process of data collection. So in the current study existing literature was just consulted to prepare three broad areas on retailers approach towards assortment planning. Moreover as there has been no
study which predominantly focuses on the assortment planning of small retailer in Indian context. So, the broad key decision antecedents which were derived from the current literature were Retailers product selection behavior, Retail shelf space within the store and Inventory management.