Chapter 1

Introduction

Retailing has taken a long time to come to the present shape of diversity and development. Customer retention is the focus area of modern marketing which leads to value addition in growth and profitability of the supermarkets. In the competitive retail landscape the success of the supermarket relies on customer retention as it is the major link to accomplish profitability. Retaining a customer is less expensive than bringing a new customer to the supermarket. And this virtue of customer retention is mostly a result of customer satisfaction and loyalty.

The study undertakes the challenge of exploring the determinants of customer satisfaction, loyalty and retention and ultimately helps to gain more supermarket customers. The study extends in discovering the factors responsible for customer satisfaction, later customer loyalty and ultimately customer retention of supermarkets in India. Supermarkets have a significant presence in the retail landscape. The behavior of the consumer is complex when associated with organized retail and specifically supermarkets. Customers have a range of choices available and a change in purchase pattern is supported by high disposable income. These complexities give scope for the study of the determinants of customer satisfaction, loyalty and retention in the new age supermarkets.

Most of the supermarkets understood the importance of customer retention for the success of the business in the modern competitive world.
Customers were, and will be, without any doubt, the life-line of any business (Gupta & Lehmann, 2005). Ramakrishnan (2006) defines customer retention as a very significant marketing goal which blocks customers from going towards the competitor. Customer retention thus plays a major role in the success of the business.

1.1 THE RETAIL INDUSTRY

The evolution of retailing has been eventful. Starting from Plato who called a retailer, a ‘kapelo’, a ‘petty tradesman, huckster, tavern keeper, a cheat, a rogue, a knave’ to the contemporary times, it was not an easy task to dispel these allegations (McNair, 1958). The word ‘retail’ was coined from the French word ‘retaillier’. This word means ‘to cut a piece off’ or ‘get to the business of breaking the bulk of merchandise’ (Brown, 1987).

‘Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use. Selling to the final consumers whether it is by a manufacturer, a wholesaler or a retailer-is retailing irrespective of the fact that the goods or services are sold (by person, mail, telephone, vending machine or internet or where they are sold – in a store, on the street or in the consumer’s home)’ (Kotler & Keller, 2009).

The fast paced expansion in the retail Industry was facilitated with more of supermarkets, hypermarkets and even departmental stores through the length and breadth of the country (Ghosh, Tripathi, & Kumar, 2010). Recently retailing has become one of the most sought after business in the global scenario. It has been seen as an inseparable part of high growth in developed countries and was preparing for an accelerated growth in the developing economies. According to Nielsen (2015a) report “Channel
structures and trends vary greatly between countries, however the developed markets, 80% of sales come from large supermarkets, hypermarkets and convenience stores. In developing markets, the story is much different. Traditional trade stores continue to be the dominant channel, accounting for 38% of total retail channel sales, but sales in supermarkets, hypermarkets and drug stores are growing at a faster rate.”

1.2 EVOLUTION OF INDIAN RETAILING

The first known type of retailers were the ‘Pheriwallas’, whose operations were more in the villages who exchanged dress material, honey and spices for knives, beads and ornaments with the tribal people. Some of these traders instead got settled in villages and subsequently opened retail stores. The others were a part of a different set of retail establishments similar to ‘haats,’ ‘melas’ and ‘mandis’ which were a part of lives of a big population of the country. The four stages of retail revolution which occurred in India are as follows:

- **Initiation - Pre 1990s:** The manufacturers started own outlets solely operated by them.

- **Conceptualization - 1990 - 2005:** Pure-play retailers who started operations in the retail market, expanded on a pan-India scale. The earlier batch of global brands got in to India during this time period.

- **Retail expansion - 2005 through 2010:** This phase witnessed a drive from the huge Indian corporates. There was an entry of new players in to the retail scenario which led to the introduction of new formats. This period witnessed the introduction of big time retailers in the F&G retail and even in the general merchandise categories.
Consolidation and Growth -2011 onwards: - This period saw the consolidation of the groups already present in the market. The established retailers expanded their presence to the two tier cities and even to villages. A large number of global brands have come to the country due to the relaxation of FDI in single brand retail from 51 to 100 percent (IBEF, 2012).

The expansion in the retail scenario started in the southern part of the country and this revolution started in the late 90s. The advent of organized retailing in India happened through counters namely Nilgiris, Food world, Margin free, etc. Malhotra and Malhotra, (2015) were of the opinion that the retail industry was one of the sunrise businesses in India. One major limitation of the market was its highly fragmented nature and domination by the unorganized players. The disorganized and scattered nature of the nation’s retail industry has a majority of owner manned small retail shops.

“Since past few years retailing has been a promising industry and opened door for the retailers and foreign investors” (Kamal & Kumar, 2014). Reardon, Timmer, and Minten (2010) revealed that “75% of modern retail sales in India are from the retail chains formed only in the past 3 years.” The developments in retail business have shown a rapid growth in the whole world. The retail industry in India is ranked fifth largest market in the whole world. Mumbai and Bangalore along with Shanghai are the most prospective destinations in the globe according to EY. Taking future potential into consideration, India is ranked first surpassing Russia and is termed as “Priority I” market in connection to international retail. Retailing is the best contributor of jobs next to agriculture in India.

AT Kearney, the world renowned Management Consultancy, graded India as the “second most attractive retail destination” all over the world.
from among 30 prospective markets. The Indian retail Market is such that it is to become two folds from USD 600 billion to USD 1 trillion by 2020 as per the analysis results of Boston Consulting Group (BCG, 2015). The retail growth in total revolves around at 12% per annum, but the expectation of growth is around 20% per annum. A proud moment for the Indian retail industry is that the customers are ranked fourth in purchasing power parity (PPP) ranking after US, China and Japan (IBEF, 2015).

1.3 EVOLUTION OF SUPERMARKETS

As per the explanation of Webster dictionary (1993) a supermarket is “a self-service retail market selling especially foods and household merchandise.” Supermarkets are essentially big retail counters which have different departments and the specialization is with food items (Marshall & Nielson, 2001). Supermarkets are larger than the traditional grocery shops but smaller than a hypermarket.

The first few years of the twentieth century saw an emerging retail outlet which was called as the Great Atlantic and Pacific Tea Company of America (now known as the A&P chain of stores) which started experimenting with variety of food related merchandise. In 1936, A&P started a retail shop which was very similar to a supermarket in size but larger than a kirana store.

In 1950s there was phenomenal boom in organized retail in the US which induced 40% of the American population to depend on this counter for their grocery needs. Slowly supermarkets gained identity, image and started concentrating on a certain segment with the concept of self service and concentrated on food and grocery merchandise. In the year 2000, A&P became a leading player in the retail market. Sam Walton in 1962 opened a
supermarket named Wal-Mart which was an extension of a Kirana shop. Wal-Mart later became a favorite national brand in the US and later started moving international.

The evolution of supermarkets has gone through three waves. The first wave happened from the early to mid 1990s. The countries who experienced this “takeoff” were majority of South America and East Asia outside China, Japan, Northern-Central Europe, the Baltic and South Africa. The spread of supermarkets in the first wave countries took just ten years. Nations which were a part of second-wave were Mexico and majority of Southeast Asia, Central America and South-Central Europe. The third wave happened in the late 90s or early 2000s. The countries who were a part of this evolution were eastern and southern Africa, few countries in central and South America, “transition East Asia” (China and Vietnam), Russia and India.

1.4 SUPERMARKETS IN INDIA

The first supermarket formed in India was Nilgiris which was established in 1971 in Bangalore. The first ever supermarket chain established in India was Food world. In India, supermarkets were retailers who provide high volume of merchandise with economical pricing with self service option and having a designated area in the range of 400- 2500 sq.mt. India witnessed a revolutionary change in the early 1990s which was in line with the happenings in the US and Europe. The evolution started as a process from small shops, pavement vendors and local wet markets to the modern and trendy supermarkets (Reardon, Timmer, Barrett, & Berdegué, 2003).
The Indian supermarkets had a good relationship with agriculture, which belonged to 60% of the Indian population, as a result of which the standard of living of the farmers increased as per the Dept. of agriculture and cooperation. The evolution of supermarkets helped the farmers to sell their products economically. According to Maslow’s hierarchy of needs, food is considered as a basic need and the supermarket played a major role to meet the needs of food. Supermarkets could collect products from a variety of vendors including wholesalers, farmers and manufacturers (Joseph, Soundararajan, Gupta, & Sahu, 2008). The supermarkets make the shopping very convenient for the customer. The value added services helped the supermarkets to retain their customers with them.

1.5 SUPERMARKET CHAINS IN INDIA

Food world

In 1995, Food world was incorporated as a JV of RPG Enterprises and Hong-Kong based Dairy Farm International. They started 93 supermarkets in 2002, but in 2005 the JV got separated and the Food world brand came under the control of Dairy Farm International. The present status of food world is that the numbers of supermarkets in India are 67 and there are 42 in Bangalore.

Reliance fresh

Reliance Fresh is under the Mukesh Ambani group of Reliance and their presence in retail market is visible. A Reliance Fresh outlet usually has 3000-4000 sq. ft. carpet area and it targets a service area of 2-3 kms. Currently, the number of stores which are opened in India numbers to 886 and Bangalore has 47 supermarkets.
More

Aditya Birla Retail Limited (ABRL) is the retail division of Aditya Birla Group. In South India, Aditya Birla Retail has taken over 172 retail stores of Trinethra and Fabmall put together. It’s present all over India under the brand name "More" with two formats More Supermarket and More Hypermarket. In 2007 ABRL took over TSR, which at that time had only 35 stores in Bangalore. But after the take over in March 2008, the count is 655 stores in India in which there are 61 supermarkets in Bangalore.

Food Bazaar

Future Group’s food and grocery retail division is Food Bazaar. Future group has a variety of retail formats which includes Pantaloons, Big Bazaar, Food Bazaar, Home Town, e-zone and Central. It started its operations in the year 2002 in April. The spread of these stores are present in more than 70 cities in India with an active operational area of more than 9 million sq.ft. Currently the tally is 163 Big Bazaar and 186 Food Bazaar.

Nilgiris

Nilgiris was the first supermarket which got incorporated in the organized sector in 1905 in Bangalore and the next retail shop branch was added by them in 1936. In 1945, the retailer added to the product range in food and grocery. Nilgiris is now seen in more than 90 retail branches under the branding “Nilgiris 1905”. In November 2014 the Future group took over Nilgiris and the present count of supermarkets is 38 in Bangalore.
Spencer's

Since 1863 Spencer’s formed a part and parcel of Indian retail sector and the first Spencer’s retail store was opened in 1895. After few years it became a part of the RPG group and became the first supermarket net work back in 1980. Spencer’s now belong to the diversified RPG group which operates approximately 350 stores from a network of 50 countries and the employee strength exceeds 6000.

Safal

Safal is the fruit and vegetable division of Mother Dairy which is sponsored by the NDDB started in 1986. Currently Safal has 400 outlets in the Delhi region and 30 retail outlets in Bangalore. There is a plan of increasing 40 more stores in the NCR area and 10 more are getting added to the existing number in Bangalore.

1.6 THE BANGALORE SUPERMARKETS

Bangalore is at a height of 3000 ft. above the sea and has an area of 2190 sq.kms having lot of water bodies and lot of greenery. It’s currently the third biggest city in the country and is honored to have the second-highest literacy in the group of the top urban centers with a record of 83.91%. Bangalore is the centre of the country’s technology and is the home for a lot of software and telecom concerns and is termed as the ‘Silicon Valley of India’.

The boom in the Bangalore organized sector led to cornering of small retailers. Later unorganized retail shops expanded their shop into an organized shop in the form of supermarkets or department stores. “Very few kirana shops have closed down. They have in fact morphed into bigger
stores or mini supermarkets," say Bikash Kumar who is the founder and Managing Director of Integrated Retail.

The retail stores successfully converted in to supermarket chain stores are Nilgris, MTR, Food World, M. K Ahmed, Shoppers stop, Lifestyle, Archies, Globus, Music world, Sony World, VLCC and Apollo Pharmacy. In addition to this the presence of corporate similar to Reliance has come out with outlets namely Reliance jewels, Reliance fresh, Reliance digital etc. Aditya Birla group commenced its operations with retail shops in multiple formats with the brand name ‘More’ across the city.

Ramappa, Goudappa, Chandrashekhar, and Reddy (2012) in their article has explained a lot about the inception and expansion of Bangalore supermarkets. The average area handled by a supermarket in Bangalore was found to be 4333sq.ft. The intention of getting an exclusive area is to utilize it for interaction with the customers and to increase the range of products. A lot of supermarkets which belongs to the formal sector have lot of outlets functioning with the same management in the same brand name. According to D’silva, D’silva, and Bhuptani (2010) supermarkets contribute a new variety of shopping experience for the Indian customer. India was destination for Indians and a foreign retail chain in India was still a majorly untapped market.

1.7 CHALLENGES OF SUPERMARKETS

Taxation laws were in favor of small retailers and there was different tax structure in different states and even an octroi collection at multiple points. To have uniform value-added tax across states was one of the dream projects of the central government. The next complication was the dearth of trained personnel, both at the store level as well as in managerial capacity,
which still remains a major concern for the supermarkets. Another issue faced by the Indian supermarkets is the comparatively high cost of inventory, considering the poor logistics situation in India.

The absence of requisite number of cold chains with expected quality standards had led to the shortage of vendors on a pan-India basis. This limitation induced supermarket chains who relied on multiple vendors for their day to day needs to increase prices. There was an added trouble from the side of stringent labor laws dictating the number of hours of work and minimum wages making it less flexible for operations and deployment of part-time employees.

In addition to this, multiple clearances and consents were needed to start a supermarket counter or a franchise. Added to this was the absence of ownership titles and high charges in the form of stamp duties that made the scenario more disorganized and troublesome. The governmental relaxations on the FDI were still getting delayed which led to the prevention of foreign player’s entry. The global economic slowdown had its influence on the Indian supermarket sector and a classical example is that of Subhiksha supermarket operations which came to a halt. The alarming real estate prices and the ever increasing rentals had been an issue in big cities.

1.8 SUPERMARKET CUSTOMERS

“There is only one boss, and whether a person shines shoes for a living or heads up the biggest corporation in the world, the boss remains the same. It is the customer! The customer is the person who pays every one’s salary and who decides whether a business is going to succeed or fail. In fact, the customer can fire everybody in the company from the chairman

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(CEO) down, and he can do it simply by spending his money somewhere else” these are the words of Sam Walton, CEO of Wal-Mart.

In the Indian retail scenario there was an expected change in the purchase pattern, a change from the age old unorganized retailers to the trendy and new ones (Nielsen, 2015b). For the 5th time India topped the Nielsen Global Consumer confidence index. According to the NCAER data the total families with the annual income less than INR 90,000 has been reduced to 114,394 in 2013 from the previous figure. This shows that annual income of Indian households had increased and along with it the standard of living as well.

In India the young population is very high with 500 million, this segment is below 25 years of age and is the most promising and prospective segment (NCAER, 2014). According to Randall Guttery, CEO, Reliance Retail, "The younger generation in India is going to be a true game changer—they are going to expect more products, more efficiency, more excitement & more engagement. As FDI opens up, it will expand consumer choice and allow us more scope to innovate. The magic is not about taking an order—it is about fulfilling the delivery promise."

The MasterCard Worldwide Index of Consumer Confidence has differentiated Indian consumers as few of the most confident purchasers in the world. According to Nair (2009) if the retailer is giving a premium product with distinguishing quality, then the customer is ready to pay price for the product. NCAER (2014) data emphasized that 300 million consumers want only value-driven products.

The Bangalore customers have multiple options for their shopping. Customers prefer a supermarket which is in a convenient place with strong mechanisms. Customers choose to buy merchandise from supermarkets
mainly because of the consistency of the products, atmospherics and convenience of different factors (Knight, Jackson, Bain, & Eldemire-Shearer, 2003). "Consumers shopping at modern trade have grown from 54 per cent last year to the current 68 per cent, driven by increasing consumption, comfortable shopping experience, new categories, wide variety of brands under a single roof and attractive prices" says Devendra Chawla, CEO of Food Bazaar. He added that 55 per cent of the customers are very much interested in discounts and offers and 35% of the customers are fond of bulk purchases, in which 30% are male customers.

1.9 DRIVERS OF CUSTOMER RETENTION

Today’s supermarkets recognize that in the competitive world customers had varied format shops to choose from. So it was very significant for the supermarkets to have a good relationship and to provide superior shopping experience to the customers. Berry (2005) said “Today's shoppers want all of the customer experience: super programs that meet their demand, respect, emotional relation, fair prices and convenience.”

Satisfying a customer is the first step for the success of a supermarket. Satisfied customer will consider the supermarket for the next shopping and which may lead to retention of the customer. When there is a positive lead in the customer loyalty and retention, the profitability increases (Manrodt & Davis, 1993). The supermarket which succeeds in producing customer loyalty and retention is certain to be successful. In the competitive market, acquisition of new customers is an expensive exercise.

Customer retention is the vital factor for the success of any supermarket. Through retention activity enterprises are trying their level best to retain their existing customers (Mostert, Meyer, & Rensburg, 2009).
The supermarkets should bring together different retention activities to keep on doing business with the customer. Fluss (2009) explains that in the competitive world the competitors will always try to give more feasible deals to attract customers.

The supermarkets should be very conscious about their competitors because retaining a customer is less expensive when compared to acquisition. “A 2% increase in customer retention has the same effect as decreasing costs by 10%” Murphy and Murphy, (2002). Considering all these attributes, there are very few empirical studies connecting customer satisfaction, loyalty and retention (Rust & Zahorik, 1993; Storbacka, Strandvik, & Grönroos, 1994).

1.10 NEED FOR THE STUDY

Research studies in retail management has emerged in India just in 2008 and lot of related areas have not surpassed the infancy stage. The study takes into account the evolution of the Indian customer who got transformed from the weekly hats, melas and mandis to the trendy and modern supermarkets. For the food and grocery items purchase, the city population is depending on the supermarkets and hypermarkets. There are very less studies exhaustively dealing with customer experiences and behavior in connection with Bangalore supermarkets.

The ever increasing competition within the supermarkets has eventually made the achievement of customer loyalty and customer retention very tedious. The rationale behind the proposed study may provide evidence regarding the variables accountable for making a supermarket customer loyal which in the process retains the customer. Ang and Buttle, (2006) were of the opinion that “a 5% increase in customer
retention can generate an increase in customer net present value of between 25% and 95% across a wide range of business environment”.

The earlier studies gave more emphasis on customer loyalty, whereas the recent studies are retention oriented due to its importance in profitability as expressed by Wills (2009) the costs involved in finding out new customers will force organizations to spend five times in comparison to maintaining the existing lot. Satisfaction, loyalty, and retention are the determinants of sustainable growth and prosperity. Loyal customers generally depict the nature of high customer retention and as a result of this dedicate a larger share of the wallet to the retailer.

Loyal customers have the tendency to recommend others to the retailer to enroll as customers (Reichheld & Teal, 1996; Zeithaml, 2000). Satisfaction had a positive and considerable influence on the shopper’s loyalty (Ahmad, 2012). Customer satisfaction had every chance to influence purchasing behavior and as a result of this, customer retention is being instilled in the consumers (Anderson & Srinivasan, 2003).

There are research projects which have closely watched the existence as well as growth of supermarkets particularly in the developed world of which sufficient literature backup is within reach. But there is a dearth of related literature available in the Indian context. There have been separate studies concentrating on customer satisfaction, loyalty and retention. And hence the title” Determinants of customer Loyalty and Retention: A Study of Supermarket Customers in Bangalore.” The number of empirical studies in the Indian context is very less integrating the variables of supermarket customer satisfaction, loyalty and retention which is the research gap identified.
1.11 STRUCTURE OF THE THESIS

Chapter 1 Introduction: The chapter gives an overview of the retail industry and the integral role of supermarkets. The study narrows down on the exploration of customer loyalty and retention of Bangalore supermarkets. The need for the proposed research study is explained in this chapter.

Chapter 2 Review of literature: This chapter discusses the concepts of the proposed research. From the previous literature, multiple constructs responsible for influencing customer satisfaction, loyalty and retention were identified. The hypotheses which were formulated also led to the development of the conceptual model. The review of literature enables to identify the research gap.

Chapter 3 Research Methodology: The chapter gives an insight to the methodology used in the proposed study. It explains about the sample collection, sampling technique and about the tool employed for data collection. The techniques employed for checking the reliability and validity of the tool and pilot data analysis are explained in this section.

Chapter 4 Data analysis and interpretation: This section explains the tabulation, presentation and analysis of the collected data. The results of the analysis using statistical techniques are interpreted.

Chapter 5 Results and Discussion: The findings of the proposed study are discussed comparative to the earlier research studies. These findings will be of paramount importance in giving suggestions to retailers. This chapter also talks about the implications of the study.
Chapter 6 Summary and Conclusions: This chapter relies on the summary of results, which is the outcome of the study. This learning leads to reliable conclusions which are also the major contributions of the study. This chapter also talks about the limitations of the study and scope for further research.