CHAPTER - I
INDIA AND RETAIL INDUSTRY

1.0 INTRODUCTION

India is the seventh largest in the world and covers an area of 3,287,782 square kilometers, and in terms of population, it is the second largest. India’s 25 states and 7 Union Territories have a population that has been officially assessed at over 1 billion and the country comprises over 5500 cities and towns and over 600,000 villages. The average density of population per square kilometer in 1991 was assessed to be over 267. Hindus account for approximately 82.6% of the population, Muslims for about 11.4%, Christians for around 2.4%, and Sikhs for around 2% and Buddhists for about 0.7%.

India is thus a country of immense diversity and offers a proud example of unity in diversity to the world. Over 280 different dialects are also known to be spoken in this vast country. India is also a country of contradictions. It possesses some of the most advanced nuclear technology as well as finest software capabilities in the entire world, and also highest poverty levels. India’s population of 1 billion is estimated to be the one-sixth of the entire world’s population or, in other words, 16% of the world’s population actually lives in the Indian sub-continent alone. This makes India the second most populated country in the world, next to China which is more than three times the size of India. The real challenge that exists in the country is correcting the disproportionate population mix in the country, which stands at 30% Urban and 70% Rural.

Many Multi National Companies (MNC), especially in the consumer goods manufacturing sector, got carried away with the population figures of India and set up shop here. They experienced a rude shock, when they realized that the real buying population was only a small fraction of the total figure and a large part of the country’s population actually lived below the poverty line.

However, one positive factor is that the percentage of the rural poor has gone down by half since the 1980s and even the major consumer companies are taking this development very seriously for the first time. India’s Gross Domestic Product also grew at an average rate of 5.2% per annum during the period 1985-92. On the account of economic liberalization, the Indian market is now undergoing a metamorphosis and consumers are now spending far more money on consumer goods and services than they ever did in the history of the country. It is, however, obvious that due to the
relatively low purchasing power, pricing will always play a crucial role in ‘marketing mix’ in India.

1.1 Indian Retail Evolution
Retail marketing in India has come a long way in recent years but, has a much longer way to go. India’s retailing boom has acquired dynamism and vibrancy with international players experimenting in the Indian market and the country’s existing giants taking bold innovative steps to woo the consumers. The next few years are likely to witness rapid growth in the organized retailing sector with several leading international players establishing their presence in India by adjusting their formats to suit local tastes and buying behavior. At the same time, the domestic players have stepped up their defenses and are striving to gain an edge over the global players by using their knowledge of local markets.

1.2 Meaning of Retail
David Gilbert has defined retail as, “any business that directs it marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution”.

The world “retail” is derived from the french word “retailer” which implies “to cut again” or “to break bulk”. This can be applied to the functions carried out by retailers which include assembling, sorting, standardizing, storing, selling, providing credit facilities, packing etc., thus, retailing is the set of business activities which adds value to the products and services sold to consumers for their personal or family use.

Early retailing in India can be traced back to the weekly haats or gathering at the market place, where vendors used to put their offering on sale. The market also saw the emergence of local mom and pop stores, i.e., the common kirana stores selling multiple goods with convenient availability. Kirana stores have traditionally dominated the Indian retail market for a long time. Bulk of the retail stores in India are small family-run business utilizing predominantly household labor. The inherent advantages of the unorganized retail sector include low-cost structure, negligible real estate cost, economical labor costs, low tax liabilities and familiarity with shop-loyal customers.

Organized retail began to make it mark in India in throw 1970’s when shops like Raymonds, Nallis and Bata were in the market through their exclusive stores or franchises. The early 1980’s witnessed the emergence of organized retail stores such as “Akbarallys” in mumbai and “Spencer’s” in Chennai. These stores later evolved
into multi-chain outlets and were the first to establish the concept of organized retail in India. But they lacked the requisite infrastructure framework and support. During the 1990's the wave of Liberalization, Privatization and globalization ushered in new retailing formats, modern techniques and exclusive retail outlets like Shopper's Stop(1991), Pantaloon(1997) and others. Further transformation was witnessed during the early years of the 21st century, with the opening of numerous supermarkets, department stores. The affluent and the upper middle class enjoyed shopping ambience, friendly layout and a single point-of-purchase for a wide variety of goods.

The organized retail sector is still largely underdeveloped in India, not only by the standards of the industrialized nations, but also in comparison with emerging markets in Asia. The organized retail industry is faced with stiff competition from the unorganized sector have high capital costs and huge expenses to meet, without increasing the prices of goods.

1.3 Structure of the Indian Market

The above mentioned figures give a fair idea of the scenario of the Indian market but it is important to analyze its structure in much greater depth before drawing any conclusions. India's population of 1 billion may at first glance seem like a tremendous opportunity for retailers, but in reality, it has become their biggest nightmare. Not only its uncontrollable population poses innumerable problems, its disproportionate density also aggravates the situation. Apart from its uncontrollable population, it is the highest density of population and the unplanned expansion of its important towns and cities that pose numerous problems in India today.

The social infrastructure in the country too is deficient and has not been developed in an organized manner either. Since retailing is an integral part of the social infrastructure of any country, the haphazard growth of the social infrastructure in India has caused the Indian retail market to grow in a highly fragmented manner over the five decades. There are presently over four million retail outlets in India's approximately 5500 urban markets and over 5,00,000 villages. While there has been virtually no development of organized retailing, the retailing scenario in the villages has been even more depressing due to various factors. The lack of proper roads, poor basic infrastructure and transport system have all contributed to this situation and very little effort is being made to improve matters in this area.
The business of retailing is all about people and their spending power, and at the outset the population figure of India is extremely encouraging for retailers a first sight, this figure of 1 billion is fairly deceptive, as a majority of the population even today lives below the poverty line and cannot afford even one square meal a day, leave alone spending on essential or luxury items. This aspect of our economy has received a lot of attention recently, especially after the Noble Prize was awarded to India’s Dr Amartya Sen for studying this most crucial aspect of our society. In his prize winning thesis Dr. Sen has clearly indicated that no economy in the world can truly prosper unless it simultaneously works to improve the plight of those below the poverty line. It was only after this Noble Prize for a similar study that the Government of India has finally woken up to this grim truth and is taking steps to assuage this problem.

According to the International Management Consultancy, AT Kearny reports, India has been identified as the second most attractive destination, globally among thirty emerging markets. Though Organized Retail Outlets emerging in cities, till today maximum retail Business done through traditional retail formats.

Over the last seven years organized retail outlets are spreading their wings to all most all second tier and third tier cities. The huge jump of Service Sector, the middle class customers improved purchasing power, double income families’ explosion in cities, demanding customers, increase in working women population, change in life styles. Change in spending attitudes, improved Brand consciousness garedup Organized Retail Industry.

1.4 Evolution of Organized Retail Outlets in India
The concept of Organized Retail Outlets started around 20 years back with the launch of stores like “Nallis” and “V.G. Pandeeras” in the south India. But these were very much region specific. The foundation store of modern retailing was laid by setting up of “Shoppers Stop” by Raheja Group at Mumbai in 1991. It is a one stop destination that provides the shopping experience for the entire family by offering the complete range of consumables from apparel to lifestyle accessories.

The sector started peaking up by the advent of new millennium, a decade after the first signs of its evolution in the early 1990s. The growth driver of the business has changed dramatically from the large retailers to real estate developers and corporate houses.
1.5 KSA Techno Park Report
According to a study by KSA Techno Park, 88% of the organized retail distribution was concentrated in the top six cities Delhi, Mumbai, Kolkata, Chennai, Hyderabad and Bangalore. The remaining 12% is from next four cities i.e., Ahmadabad, Pune, Jaipur, Lucknow in the year 1999. These cities have mature markets, supported by immense competition, good infrastructure and high consumer awareness. Indian retail industry in 2003-04 was about Rs. 10,916.2 billion, contributing 10% of the GDP and employing about 10% of the total labor force. But only 3% of that comes in the organized segment.

Indian retail sector has enormous influence on Indian Economy. The unorganized segment is growing at a rate of 8 to 10 percent per annum, while the organized retail segment is growing at 18 percent per annum.

1.6 Retail Report-2009
The Indian Retail Report-2009, released by Union Minister for Commerce and Industry, Shri Kamal Nath, reveals that the Indian Retail Market stood at Rs. 1,33,000 crore in 2007 with annual growth of 10.8%. Of this, the share of Organized retail in 2007 was estimated to be only 5.9%, which was Rs.78,300 crore. But this modern retail segment grew at the rate of 42.4% in 2007, and is expected to maintain a faster growth rate over the next three years, especially in view of the fact that major global players and Indian corporate houses are seen entering the fray in a big way. Even at the growing rate, organized retail is expected to touch Rs. 2, 30,000 crore (at constant prices) by 2010, constituting roughly 13% of the total retail market.

The above said report reveals that in the overall Retail Pie, Food and Grocery was the dominant category with 59.5% share, valued at Rs.792,000 crore, followed by clothing and Accessories with a 9.9% share at Rs.131,300 crore. Out-of-home food (catering) services (Rs.71,300 crore) has overtaken jewellery (Rs.69,400) to become the third largest retail category, with a 5.4% market share—this largely reflects the massive employment opportunities to youngsters in the service sector and accompanying changes in consumer lifestyles.

1.7 Retail Industry in India
India is highly fragmented and consists predominantly of small, independent, and owner managed shops. There are some 12 million retail outlets in India. Besides, the country is also dotted In India; the retail sector is the second largest employer after
agriculture. The retailing sector in India was worth Rs. 11228.7 billion. The significance of the retail business has increased with the fast growth in the service sector. There has been a dramatic change in the economy's structure post-liberalization. While agriculture continues to be the main springboard for the economy, the manufacturing sector has slumped due to demand recession and liberalized imports. Much of the rapid growth in organized retail business in the developing countries like India is due to the entry of Corporate Businesses.

There has been a boom in the retail trade in India owing to a gradual increase in the disposable income of the middle-class households. More and more players are venturing into the retail business in India to introduce new attractive retail formats like malls, supermarkets, discount stores, department stores and even changing the traditional look of the bookstores, chemist shops and furnishing stores. Food sales constitute a high proportion of the total retail sales. The share was 62.7% in 2001, worth approximately Rs.7039.2 billion, while nonfood sales were worth Rs.4189.5 billion. However, the non food retailing sector registered faster year-on-year growth than food sales.

1.8 Retail Forecasts in India

The retail business in India is reached to Rs.19069.3 billion in 2006, with further growth of organized retailing in both food and non-food segments. The proportion of sales through organized retailing is estimated to increase to around 6% by 2010. A strong trend in favor of organized retail format is being witnessed in both food and non-food sectors as people are showing preference for on-stop shops. Customers are looking for ambience and convenience in shopping. This would continue more strongly in the next couple of years. In future, with more dual income families, the consumer's ability to spend will increase, but at the same time, it is predicted that the time available for shopping will go down. In such a scenario, the retailers will have to take steps to develop shopping as an experience; through the more successful retailers will be those that will provide faster services.

1.9 Characteristics of Retailing

Retailing can be distinguished in various ways from other business such as manufacturing. Retailing differs from manufacturing in the following ways:

- There is direct end-user interaction in retailing.
- It is only point in the value chain to provide a platform for promotions.
- Sales at the retail level are generally in smaller unit sizes.
- Location is a critical factor in retail business.
- In most retail businesses services are as important as core products.
- There are a larger number of retail units compared to other members of the value chain. This occurs primarily to meet the requirements of geographical coverage and population density.

1.91 Direct Interaction with Customers
Retail business has a direct interaction with end users of goods or services in the value chain. They act as intermediaries between end users and suppliers such as wholesalers or manufacturers. Therefore, they are in a position to effectively communicate the response and changing preferences of the consumers to the suppliers or sales persons of the company. This helps the manufacturers and marketers to redefine their product and change the components of its marketing strategy accordingly. Manufacturers require a strong retail network both for reach of the product and to obtain a powerful platform for promotions and point-of-purchase advertising. Realizing the importance of retailing in the entire value chain, many manufacturers have entered into retail business by setting up exclusive stores for their brands. This has not only provided direct contact with customers, but has also acted as advertisement for the companies and has provided the manufacturers with bargaining power with respect to other retailers who stocked their product. Retailing provides extensive sales people support for products which are information-intensive, such as in the case of consumer durables.

1.92 Lower Average Amount of Sales Transaction
The average amount of sales transaction at retail point is much less in comparison to other partners in the value chain. Many consumers buy products in small quantities for household consumption. Due to lower disposable incomes, some consumer segments in India even buy groceries items on a daily basis rather than a weekly or a monthly basis. Inventory management becomes a challenge for retailers as a result of the many minor transactions with a large number of customers. Hence, retailers must take care of the average levels of stock, order levels, and the popularity of different brands. The small amount also means that the retailer has to keep a tight control on costs associated with each transaction in the selling process. Credit verification,
employment of personnel, value-added activities like bagging, gift-wrapping and promotional incentives all add up to the costs. One way to resolve this is for the retail outlets to be able to attract the maximum possible number of shoppers.

1.93 Point-of-purchase Display and Promotions

A significant relevant chunk of retail sales comes from unplanned or impulse purchases. Studies have shown that shoppers often do not carry a fixed shopping list and pick up merchandise based on impulsive or situational appeal. Many do not look at ads before shopping. Since a lot of retail products are low involvement in nature, impulse purchases of the shopper is a vital area that every retailer must tap into. Therefore, display. Point-of-purchase merchandise, store layout, and catalogues become important. Impulse goods like chocolates, snack foods, and magazines can sell much more quickly if they are placed in a high visibility and high traffic location.

1.94 Larger Number of Retail Business Units

Location of retail stores plays an important role compared to other business units. Manufacturers decide the location on the basis of availability of factors of productions and market. Similarly, retailers consider factors like potential demand, supply of merchandise, and store image-related factors in locating the retail outlet. The number of operating units in retail is the highest compared to other constituents of the value chain, primarily to meet the needs for geographical reach and customer accessibility.

1.10 Functions of Retailing

Retailers play a significant role as a conduit between manufacturers, wholesalers, suppliers and consumers. In this context, they perform various functions like sorting, breaking bulk, holding stock, as a channel of communication, storage, advertising, and certain additional services.

1.10.1 Sorting

• Manufacturers usually make one or a variety of products and would like to sell their entire inventory to a few buyers to reduce costs. Final consumers, in contrast, prefer a large variety of goods and services to choose from and usually buy them in small quantities. Retailers are able to balance the demands of both sides, by collecting an assortment of goods from different sources, buying them in sufficiently large quantities, and selling them to consumers in small units. The above process is referred to as the sorting process. Through this process, retailers undertake activities and perform functions that add to the value of the products and services sold to the
consumer. Supermarkets in the US offer, on an average, 15,000 different items from 500 companies. Customers are able to choose from a wide range of designs, sizes, and brands from just one location. If each manufacture had a separate store for its own products, customers would have to visit several stores to complete their shopping. While all retailers offer an assortment, they specialize in types of assortment offered and the market to which the offering is made. Westside provides clothing and accessories, while a chain like Niligiris specializes in food and bakery items. Shopper’s Stop targets the elite urban class, while Pantaloons is targeted at the middle class.

1.10.2. Breaking Bulk

Breaking bulk is another function performed by retailing. The word retailing is derived from the French word retailer, meaning ‘to cut a piece off’. To reduce transportation costs, manufactures and wholesalers typically ship large cartons of the product, which are then tailored by retailers into smaller quantities to meet individual consumption needs.

1.10.3 Holding Stock

Retailers also offer the service of holding stock for the manufacturers. Retailers maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacturers to regulate production. Consumers can keep a small stock of products at home as they know that this can be replenished by the retailer and can save on inventory carrying costs.

1.10.4 Additional Services

Retailers ease the change in ownership of merchandise by providing services that make it convenient to buy and use products. Providing product guarantees, after-sales service, and dealing with consumer complaints are some of the services that add value to the actual product at the retailer’s end. Retailers also offer credit and hire-purchase facilities to the customers to enable them to buy a product now and pay for it later. Retailers fill orders, promptly process, deliver and install products. Salespeople are also employed by retailers to answer queries and provide additional information about the displayed products. The display itself allows the consumer to see and test products before actual purchase. Retail essentially completes transactions with customers.
1.10.5 Channel of Communication
Retailers also act as the channel of communication and information between the wholesalers or suppliers and the consumers. From advertisements, salespeople and display, shoppers learn about the characteristics and features of a product or services offered. Manufacturers, in their turn, learn of sales forecasts, delivery delays, and customer complaints. The manufacturer can then modify defective or unsatisfactory merchandise and services.

1.10.6 Transport and Advertising Functions
Small manufacturers can use retailers to provide assistance with transport, storage, advertising and pre-payment of merchandise. This also works the other way round in case the number of retailers is small. The number of functions performed by a particular retailer has a direct relation to the percentage and volume of sales needed to cover both their costs and profits.

1.11 Activities Performed by Retailers
Retailers undertake various business activities and perform functions that add value to the offerings they make to their target segments. Retailers provide convenient location, stock and appropriate mix of merchandise in suitable packages in accordance with the needs of customers. The four major activities are:-

1. Arranging an assortment of offerings
2. Breaking quantity
3. Holding stock
4. Extending services

1.11.1 Arranging Assortment
An assortment is a retailer’s selection of merchandise. It includes both the depth and breadth of products carried. Retailers have to select the combination of assortments from various categories. The assortments must include substantial items of multiple brands and price points. They should be distinguished on account of physical dimensions and attributes, e.g., color or flavor. The small retailer takes assortment decision on the basis of his experience; on the other hand retailers from organized retailing depend on a detailed study of past trends and future projections. Retailers need to consider certain factors while devising assortment plans for their stores; profitability associated with particular merchandise mix, store image, layout and the level of compatibility between the existing merchandise. For example, Food World, a leading food supermarket positioned as one-stop shopping centre, deals in multiple
product categories along with all possible variants of brands, stock keeping units and physical attributes in order to meet the expectations of their consumers and survive in the business. Whereas Subhiksha, a grocery chain in south India has impressive assortment of only the fast moving brands rather than all available variants in the market. Their assortment plan is governed by location, size and store image of their stores.

1.11.2 Breaking Bulk

Breaking bulk means physical repackaging of the products by retailers in small unit sizes according to customer's convenience and stocking requirements. Normally, retailers receive large quantities of sacks and cases of merchandise from suppliers to reduce their transportation costs. In order to meet their customers' requirements retailers have to break or arrange the bulk into convenient units. This entire function of the retailers adds value to the offerings not only for the end customers but also for the suppliers in the value chain. Even in the earlier days of generic and commodity-based trading most of the retailers used to perform this important function in the value chain. This function receives negligible attention from the retailers now due to the introduction of new product categories, such as FMCG and ready-to-wear apparel.

1.11.3 Holding Stock

To ensure the regular availability of their offerings, retailers maintain appropriate levels of inventory. Consumers normally depend on the retailers directly to replenish their stocks at home. Therefore, retailers, on periodic basis, maintain the required levels of stock to meet the regular or seasonal fluctuations in the demand. Retailers need to maintain equilibrium between the range of variety carried and the sales which it gives rise to. Retailers have to face the negative consequences of holding unwanted levels of stock—for instance, too little stock will hamper the sales volume, whereas, too much stock will increase the retailer's cost of operation. Generally, in small towns of India most retailers have arrangements with nearby warehouses to stock the goods. Some are so small that they have to stock only on the shop floor. Retailers in the organized sector, to a certain extent, are using effective software packages for maintaining adequate levels of inventory. At the same time, retailers avail of just-in-time deliveries with the help of efficient consumer response systems, which reduces the burden of maintaining high levels of stocks.
1.11.4 Extending Services
Retailing provides multiple services to immediate customers and other members of the value chain. The set of services extended by particular retailers may be part of their core product offerings or it may be ‘add on’ to their product or service. Retailers offer credit, home delivery, after-sales services and information regarding new products to their customers, thereby making the shopping experience convenient and enjoyable. At the same time, they provide stocking place, reach to the ultimate customers and information about the concerned target segment to the suppliers. For example, Time Zone, the first organized retail chain of wrist watches in India, started by leading watch manufacturers Titan, set up in all its stores, service centers with proper equipment and trained manpower. This has not only diluted the relevance of service providers in the organized sector but has also enhanced the confidence of the customers in the retail services provided by the particular retail chain, as after sales service is considered to be an integral ingredient of the watch purchase.

1.12 FACTORS AFFECTING RETAILING IN INDIA
Various factors are affecting retailing in India. The biggest deterrent in the development of Organized retailing in India, it would undoubtedly be the cost of real estate. The high cost of real estate in India, in spite of the fact that the per capita income is one of the lowest in the world, makes the country a land of contradictions. In fact so exorbitant is the cost of property in almost every major town of India that it makes the very concept of organized retailing nonviable. Obsolete rental laws have compounded the situation even further and unless immediate and serious steps are initiated in this direction, it would be fairly long before the benefits of this concept reach the public at large.

Rampant corruption and poor implementation of taxation laws also permit a majority of the unorganized retail fraternity with substantially large turnovers, to avoid paying full taxes. This segment of retailers prefers to undertake most purchase and sale transactions in cash and does not usually maintain any accounting records. It is primarily on account of this factor that most unorganized retailers including those having very large turnovers, shun computerized billing, inventory control mechanisms and even computerized accounting though the investment required for this is quite marginal and can easily be afforded by them. This trend has always made competition very unfair for the honest retailer and has also been a major discouraging factor for many prospective entrepreneurs thinking of venturing into organized retailing.
There is no single factor but numerous factors which have prevented organized retailing from taking off as it should have in India. Some of the leading factors that have restricted this growth are as follows:

1.12.1 **High Real Estate Costs**

Across the world retailers prefer to lease-own all the locations for their store premises and real estate costs thus constitute one of the highest expense heads for any retail operation. In India, the high cost of real estate, in spite of the fact that the per capita income in the country is one of the lowest in the world, makes retailing a difficult choice as a business proposition. More than half of the towns and villages in the country do not even have access to basic infrastructural facilities like adequate water and electricity, while others that do have some skeletal infrastructure, are in an advanced state of deterioration. As a result, all those who can afford a reasonable standard of living have very few choices, and most of the relatively better towns and cities thus get over-crowded and over-populated causing real estate prices to escalate. The gap between demand and supply is one of the prime reasons for this high cost.

1.12.2 **Obsolete Rental Laws**

The problem of low rentals has been further aggravated by the obsolete rent control laws, which are ludicrous enough to virtually give legal sanction to a tenant to occupy a particular premises for good and thus become a lifelong liability for the landlord. The position of the landlord is, in reality, reduced to that of being a mere caretaker of his property and that too entirely at his own expense without any contribution from the tenant. The rental laws of the country are so absurd that they often permit a tenant to occupy the rented premises at less than a fraction of the latter’s actual market rate even after the expiry of the lease. This has given rise to the caustic adage, ‘Once a tenant, always a tenant’. This problem has undoubtedly been the biggest hurdle in the development of organized retailing. It may seem surprising but true that even in premises rented out to government agencies, continues to be the same, if not worse.

1.12.3 **Lack of finance options**

The availability of finance is always the core ingredient for any enterprise and is even more crucial for a new one. Most new business need more capital in the initial stage than at a later stage of the project and organized retailing is no exception. However, while most large and small industries have many options for resource mobilization, the avenues for sourcing finance for the retail sector in India are surprisingly very limited. Even many developing countries around the world categorize supermarkets as
a part of their social infrastructure and lay great emphasis on their development, but surprisingly in India, most of the financial institutions are totally ignorant of this. Many of these institutions are also likely to claim that 'retailing' is not even in their charter and hence they do not have the authority to evaluate a proposal in this field.

1.12.4 High Interest Costs

Apart from lack of avenues for resource mobilization, the retailer also faces hurdles in terms of high interest costs. As is obvious, interest is a major component in any business the world over the rates charged by financial institutions has a major bearing on the profitability of the business community at large. While most developed and developing countries around the world understand the business of retailing quite well and are usually positive in their attitude while lending to the retail community, in India the situation is rather bleak. As mentioned above, most financial institutions in India do not even have the retail companies at interest rates ranging between 4 and 7 percent per annum, in India the rate is not less than 20 percent in most cases. This substantially increases the cost of the inventory which, in turn, prevents most retailers from holding an adequate inventory.

1.12.5 Unplanned Cities

The absence of any sincere and concerted effort to control population growth in India is aggravated by the fact that the country has, by and large, grown in an extremely unplanned manner, and most of its important towns and cities are so overcrowded in both the residential as well as commercial areas that finding suitable premises here for a retail store is an extremely difficult task. Over crowded towns and cities thus prevent the development of such stores by posing the following hurdles

- Prospective entrepreneurs are unable to find a location suitable for their store format, since location is the most crucial sustainable factor for the success of any retail store.
- Even the locations that are available are usually far too small for them to accommodate all their products or offer adequate service to all their customers.
- If one is lucky on both the above counts, it is most likely that the property which is finally chosen is beyond the retailer's budget and would hence make his project financially unviable.
1.12.6 Rampant Corruption
Surveys by most of the leading analysis around the world have proved beyond doubt that South Asia is among the most corrupt regions of the world with the highest authorities in the system being hand in glove with the corrupt elements. This is most true of India’s taxation system wherein only a very small percentage of India’s population actually pays any income tax. The situation with regard to sales tax is even grimmer and for reason best known to the authorities, the system continues to function as such. As a result most retailers in the unorganized retail sector continue to flourish as they have, over the years, mastered the art of evading taxes which itself forms a major portion of their earnings. It is primarily because of this factor that most such independent retailers including those with very large turnovers shun computerized billing, inventory control and computerized accounting, even though they can easily afford the investment involved in computerization.

1.12.7 Exorbitant Electricity Costs
It has been found that electricity costs throughout India are among the highest in the world relative to its per capita income. Since organized retail stores usually occupy a fairly large space and are also generally required to be centrally air-conditioned, especially in a tropical country like India, with good lighting, they consume a lot of energy. Apart from learning monumental air-conditioning costs, most supermarkets also stock a large variety of perishable food products, which need to be kept under constant refrigeration. The refrigeration equipment used by supermarkets also consumes substantial energy which further adds to the recurring costs in terms of electricity consumption. All these essential elements put together ultimately make electricity consumption a major expense head for most retailers, especially those who open their stores for long hours and may be even seven days a week. The exorbitant electricity thus has a tremendous impact on the feasibility of a retail operation.

1.12.8 Lack of Skilled Manpower
Since organized retailing in India is still in its infancy, very few trained professionals are available to skillfully manage the various departments of a retail operation. Until recently even the job opportunities in this field were very limited, and till date there is not a single university or institute that conducts any credible retailing course recognized by the global retail community. Students are thus unable to take up retailing as a part of their graduation or even during their post graduate studies. Most retail companies in India thus have a tough time in identifying, recruiting and training
retail personnel. An intensive in-house training program thus becomes extremely crucial for every serious retailer with a vision for success in the long-term. The problem of lack of skilled manpower is aggravated by the fact that many people avoid the retail sector on account of the long hours of work it entails. Weekends are considered peak times for retailers and those who wish to become a part of this industry must be prepared to sacrifice their weekends.

1.12.9 Week Consumer Laws

Week Consumer Laws are the one of the major obstacle to the growth of retailing in India. The legal redressed system in India is perceived to be a time-consuming and frustrating affair that often precludes the delivery of timely justice. It was to mitigate this problem of delayed justice that the concept of consumer courts was introduced but even these courts have failed to produce the desired results. As a result, many unscrupulous retailers especially in the unorganized sector continue to sell inferior or spurious products and easily get away with it. Retailers in the unorganized segment, on other hand, suffer immensely when manufacturers supplying critical equipment fail to keep their commitments of after-sales service, thus seriously harming the credibility of retail operation in the country.

Apart from the above major factors, there are many other reasons due to which India has lagged behind most other countries in providing a world class shopping environment to its population. Good stores also find it difficult to compete with retailing hawkers in most Indian towns and cities, who do not have to even pay rent or electricity charges. Thousands of such hawkers sell practically all low cost products in every large city and town, thus accounting for a major share of the market.

Other factors responsible for the slow growth of retailing in India include the normal Indian entrepreneur’s short-term mentality, lack of any assistance or encouragement from the government, lack of an organized cold-chain, and high import duties on most food and FMCG items. Until 1990 Indian retail did not even have enough products or brands to display in large organized stores. With the announcement of Liberalization policies the flow of international brands into India boosted the development of organized retailing in the country.

1.13. BENEFITS OF ORGANISED RETAILING

Retailing is good for national economies where it has a positive influence on inflation and product availability. It also creates fortunes for its owners and is a tremendous source of employment. Every economy in the world has benefited immensely from
the advent of organized retailing in their respective countries. It is no wonder then that almost every developed and developing country in the world has not only accepted organized retailing with open arms but has also taken pains to promote it. It is obvious that none of these nations would have adopted organized retailing so wholeheartedly and with such magnitude had it not benefited their economies. India has been virtually the only developing country in the world that has been extremely slow in adopting this organized pattern of retailing. In fact even smaller countries like Thailand, Mauritius and Sri Lanka have made sincere endeavors in this direction while in countries like Singapore and Malaysia, even the national government has taken proactive steps to prioritize this sector. Today these countries thus have some of the best supermarkets, department stores and shopping malls which are comparable with those in the most developed nations in the world. It may not an exaggeration to say that organized retailing has made a major contribution to the tremendous development and progress of these countries which has enhanced the quality of the lives of their citizens immensely. In fact, the economies of many of these countries have grown so significantly in the past that it is believed that in spite of the recent crash of the south-east Asian economies, they are still far ahead of the Indian economy. It is estimated that even if India were to maintain a 7 percent growth rate per annum, it would still take India nearly two decades to match even the recently collapsed per capita income levels of that of a country like Indonesia. In fact it is still not too late and if India still wakes up to this tremendous potential we may still be able to avail of many of these benefits, which are detailed below:

1.13.1. Encourage to the Food Processing Industry

Since the Indian retail market is an extremely fragmented market, it is practically impossible for existing or prospective entrepreneurs in the food processing industry to distribute their products throughout the thousands of small individual shops either directly or through hundreds of distributors. Indian retailing has been so overwhelmingly dominated by unorganized retailing, that processed foods were never given their due importance. As a result, it is estimated that over 40 per cent of our agricultural production actually gets wasted on account of it not being processed so as to enable it to last longer. This situation could have been saved to a large extent by encouraging both domestic and international supermarket chains to establish themselves across the length and breadth of the country. It is considered quite normal for an international supermarket chain to establish itself in a country as vast as India,
with at least a medium term plan of 200—300 stores with a centralized buying and distribution system which is among their prime areas of expertise. These chains would then be able to create a direct link with the producers and be able to move their goods to their respective stores in record time. The time lag which is currently being faced would thus have been reduced substantially and so would have been our nation wastage.

1.13.2. Employment Opportunities
As mentioned earlier, had this tremendous national wastage been controlled in time, many opportunities would have emerged in the areas of agriculture, food preservation, food processing, transport, retailing and logistics. This could have also facilitated tremendous progress, both directly and indirectly for our nation. In fact if the domestic retail market had encouraged the food processing industry, exports of such foods which were and still are in great demand would have also grown substantially and so would have job opportunities.

1.13.3. Better Quality Products
A more organized retail environment obviously meant higher standards of quality across the entire spectrum of products sold in the Indian retail market. It is a well established fact that organized retailing not only creates competition between the national and international brands of consumer products, but also among the chain store retailers, as much of their own goodwill too is at stake. As a direct result, the end-consumer would have been able to purchase products with much greater confidence as well as at far more competitive prices.

1.13.4. Better Social Infrastructure
Interestingly, the history of most countries around the world has repeatedly shown that organized retailing has emerged with greater success during the times of recession in those countries. This is because of fierce competition between retailers is a natural outcome of the development of the organized retail sector in any country. As a result, it is always the end-consumer who stands to benefit in terms of price, quality and even service levels. Chain store retailers prefer to make most of their purchases centrally and are hence able to negotiate very good prices with their suppliers. This development also has a significant impact on the manufacturers who are unable to retain their otherwise fat margins on account of the dictates of the large retailers. Stiff competition thereafter compels these retailers to pass on a major portion of this price benefit to the end consumer who ultimately gets the products at extremely competitive
prices, critics believed that this would most definitely bring down the standard of living throughout and a lot more would become affordable by many more.

1.13.5. Better Showcase for Exports
Organized retailing is a primarily a method by which products are displayed and sold in a more logical and scientific manner. This in turn enables the consumer to choose from a much larger variety of brands all of which are displayed together in an extremely comfortable environment. All of us have, at one time or another, been tempted to purchase a certain product primarily because the same was displayed well and look good on the store shelf. Research has proven all over the world that a good display increases sales of a product quite substantially and it is no wonder then that companies spend such large resources in the display and presentation of their merchandise. These very principles are also applicable for our exports, since had our exporters had the opportunity to showcase and display their products in a live environment within our very own country, they may have been able to get much better business from their overseas clients.

1.13.6. Benefit to Tourism
It is a well established fact that the quality of retailing in a country has a major bearing on the volume of tourist traffic to that country. Countries such as Singapore, Malaysia and UAE are some of the best examples of this fact. The governments of these countries have laid special emphasis on the growth of retailing in their countries and have, in fact, played a pro-active role in its development. We are well aware that every country has its own special ethnic products, which also act as an added attraction for the tourists. Despite our country’s rich cultural heritage, however, we have miserably failed to leverage this strength in terms of motivating the international traveler to make such purchases in a dignified manner there by losing precious foreign exchange in the process as well. It is again obvious that unless such products are attractively displayed, we would not be able to achieve the optimum sales. Had the same tourist or foreign buyer been witness to the same range of products in a live and organized retail environment, his level of interest and confidence would most definitely have been much greater.

1.13.7. Better Realization of Taxes
It is estimated that the Indian government loses a few hundred crores every year in terms of taxes to be recovered from the unorganized retail sector. This is because the large majority retailers in the unorganized sector deliberately do not maintain proper
accounting records and the Indian tax authorities have neither the manpower nor the motivation to collect taxes sincerely from such a vast and fragmented Indian retail market. While most of these retailers make their purchases in cash, they also offer no decent bill for the products we purchase. The authorities are also unable to find any concrete proof of such tax evasion. Many retailers in this segment have also accumulated vast profits, which are not reflected in their turnovers.

It is thus quite obvious that with the advent of organized retailing in India, which could take up a sizable chunk of the market share, this segment would always be totally transparent with regards to their financial accounts. This in turn would lead to a far more rewarding exercise for the authorities and for the national exchequer. Even the former would have a much lesser number of retailers to deal with, from whom they would also be able to generate timely revenue.

It is universally believed that changes in the shopping trends of the public at large should always be exploited and never resisted. Nowhere is this truer than in India where the shopping experience for the consumer is as far from being delightful as it is humanly possible to make. In the state of bazaars in most parts of the country has become too pathetic to get any worse. Consumers are sick and tired of being swindled and abused in filthy, rundown shops and change is inevitable. It is now time to say goodbye to the filthy, rundown shops and change is inevitable. It is now time to say goodbye to filthy bazaars and embrace the concept of shopping in plush retail stores where the same products are available in a much wider range being offered to customers in India is widening by the day and it is definitely high time for well-turned out, attractive stores to adorn their shelves with these products and offer to their end-consumers with greater respect and dignity. It could then really be a win-all situation.

1.14. PERCEPTION AND RETAIL STRATEGY

Information is the primary raw material the marketer works with in influencing consumers. Therefore, an understanding of the perception of information is an essential guide to marketing strategy. Most retail environments contain a vast array of information. Given the fact that consumers cannot process all of this information, retailers need to be concerned about information overload. That is, they do not want consumers to become frustrated or minimize their in-store information processing. Retailers often use exposure very effectively. Store interiors are designed with frequently sought items (canned goods, fresh fruits\vegetable, meats) separated so that the average consumer will travel through more of the store. This increases total
exposure. High-margin items are often placed in high-traffic areas to capitalize on increased exposure.

Shelf position and amount of shelf space influence which items and brands are allocated attention. Point-of-purchase displays also attract attention to sale and high-margin items. Stores are designed with highly visible shelves and overhead signs to make locating items (an information-processing task) as easy as possible. Stores provide reference prices to increase consumer's abilities to accurately interpret price information. Unit price information by brand may be displayed on a separate sign in ascending or descending order to facilitate price comparisons. Nutrition information provided in a similar manner enhances consumer's abilities to choose nutritious brands.

The total mix of in-store information cues (brands, layout, point-of-purchase displays, etc.) external building characteristics, and advertising combine to form the meaning or store image assigned the store. Semiotics has been used to design a hypermarket to meet consumer needs, merchandising requirements, and marketing strategy.

1.14.1. Concept of Perception
Perception is the cognitive process which involves selecting, organizing and interpreting the stimulus. Thus perception is the process of selecting, organizing and interpreting or attaching meaning to the events happening in the environment.

1.14.2. Definition of Perception
"Perception may be defined as a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment"

1.14.3. Features of Perception
Perception in the intellectual process through which a person selects the data from the environment, organizes it and obtain meaning from it. The physical process of obtaining data from environment, known as sensation is distinct from it.

Perception is the basic cognitive or psychological process. The manner in which a person perceives the environment affects his behavior. Thus, people's actions, emotions thoughts or feelings are triggered by the perception of their surroundings.

Perception, being an intellectual and psychological process, becomes a subjective process and different people may perceive the same environmental event differently based on what particular aspects of the situation they choose to absorb how they organize this information and the manner in which they interpret it to obtain the grasp
of the situation. Thus, the subjectively perceived “reality” in any given setting may be different for different people.

1.14.4. Sensation and Perception

Sometimes confusion arises between sensation and perception as both are the cognitive processes and both are beads of the same string. Behavioral scientists generally acknowledge that all knowledge of the world depends on the senses and their stimulation, but the facts of raw sensory data are insufficient to produce or to explain the coherent picture of the world as experienced by the normal adult.

Sensation may be described as the response of a physical sensory organ. The physical senses are vision, hearing, touch, smell and taste. These senses are bombarded by stimuli continuously, both external and internal to human body and reactions in particular sense organ take place because of these. Examples of sensation may be reaction of eye to color, ear to sound and so on. These examples show that sensation deals with very elementary behavior that is largely determined by the physiological functioning.

Perception is something more than sensation. It correlates, integrates and comprehends diverse sensations and information from many organs of the body by means of which a person identifies things and objects, the sensations relate to. Perception classifies the stimuli based on past experiences (learning), feeling and motives. Thus perception is determined by both physiological and psychological characteristics of the organism.

1.14.5. Perceptual Process

Perception is a process consisting of several sub-processes. We can take an input-throughput-output approach to understand the dynamics of the perceptual process. This approach emphasizes that there is input which is processed and gives output. The stimuli in the environment-subjects, events or people can be considered as the perceptual inputs. The actual transformation of these inputs through the perceptual mechanisms’ of selection, organization and interpretation can be treated as the throughputs and the resultant opinions, feelings, attitudes etc., which ultimately influence our behavior.

1.14.6. Perceptual Inputs

Perceptual inputs in the form of stimuli are not the part of actual perception process though these are necessary for occurrence of perception. Stimuli may be in the form
of objects, events or people. When the perceiver interacts with a stimulus, sensation takes place which, we have seen earlier, starts perception process.

1.14.7. Perceptual Mechanism
Perceptual mechanism involves three elements-selections of stimuli, organization of stimuli and interpretation of stimuli.

Selection of Stimuli
After receiving the stimuli from the environment, some are selected for further processing while others are screened out because it is not possible for a person to select all stimuli which he sees in the environment. There are two types of factors which affect selection of stimuli. These are external and related to stimuli and internal related to the perceiver.

Organization of Stimuli
After the stimuli are received, these are organized in some form in order to make sense out of that. The various forms of organizing stimuli are figure-ground, perceptual grouping, simplification and closure.

Interpretation of the Stimuli
The perceptual inputs that have been organized will have to be interpreted by the perceiver so that he can sense and extract some meaning of what is going on in the situation. People interpret the meaning of what they have selectively perceived and organized in terms of their own assumptions of people, things and situations. They also become judgmental as well and tend to interpret the things as good\bad, beautiful\ugly and so on which are quite relative terms. In such a process there are chances of misinterpretation. Interpretation of stimuli is affected by characteristics of the perceiver. These factors also affect the total perception process.

Perceptual Outputs
Based on the perceptual mechanism which ends with interpretation of stimuli, perceptual outputs emerge. These outputs may be in the form of covert actions like development of attitudes, opinions, beliefs, impression about the stimuli under consideration. These outputs along with other factors affecting human behavior may
result in overt behavior. For overt behavior to occur, perception is not the sole decider though it is important.

1.15. PERCEPTUAL SELECTIVITY
Perception is a selective process and as the people can sense only limited amount of information in the environment, they are characteristically selective. By selection, certain aspects of stimuli are screened out and others are admitted. Those which are admitted remain in the awareness of the people and those which are screened out fall below the threshold. For example, when people read a newspaper, they do not read the entire newspaper but only those news which interest them. Similar things happen in other cases too. This is known as perceptual selectivity. This is caused by variety of factors which may be grouped into two categories: external and internal.

1.15.1 External Factors in Perceptual Selectivity
The external factors consist of environmental influences and are in the form of the characteristics of perceptual inputs or stimuli. These characteristics may distinguish a particular stimulus from other stimulus of the same group. Such characteristics may be in the form of size, intensity, repetition, novelty and familiarity, contrast and motion. Their impact on the perceptual selectivity as follows:

**Size**
Size is a characteristic which may affect the perceptual selectivity by affecting the attraction of the perceiver. Generally, bigger is the size of perceived stimulus. Higher is the probability that it attracts the attention of the perceiver and the he may select it for perception. Usually, letter of higher sizes in newspapers or journals are first selected for reading.

**Intensity**
The intensity principle of attention states that the more intense the external stimulus is, the more likely is to be perceived. A loud sound, strong odor or bright light is noticed more as compared to a soft sound, weak odor, or dim light. For example, based on the intensity principle, commercials on television are slightly louder than the regular programs.

**Repetition**
The repetition principle states that a repeated external stimulus is more attention getting than a single one. Repetition increases people’s alertness to the stimulus. Advertisers use this principle by repeated advertisement of the same product to attract
people's attention. In the organizational context, repeated instruction, even for the routine work, is based on this principle.

**Novelty and Familiarity**
Novelty and familiarity principle states that either a novel or familiar external situation can serve as attention getter. New objects or events in a familiar setting or familiar objects or events in new setting draw better attention. For example, in job rotation, when workers jobs are changed from time to time, they become more attentive to their new jobs as compared to the previous ones. Similarly, communication in familiar jargons attracts more attention.

**Contrast**
The Contrast principle states that external stimuli which stand against the background, or which are not what people are expecting, receive more attention. Letters of bold types, persons dressed differently than others, building of different colors in the same locality etc., get more attention. Contrast is a kind of uniqueness which can be used for attention getting.

**Motion**
Motion principle states that a moving object draws more attention as compared to a stationary object. For example, workers may pay more attention to the materials moving by them on a conveyor belt as compared to the maintenance needs of a machine lying next to them. Advertisers use this principle in their advertising by designing signs which incorporate moving parts, for example, commercials on televisions (moving ones) get more attention than print media.

All these factors are related to stimuli. While these factors affect perceptual selectivity, their uses can be made properly, otherwise, negative consequences may emerge. For example, the principle that the louder sound attracts more attention may make a supervisor in a factory to believe that if he speaks loudly to his workers, they will pay more attention. However, by speaking loudly, the supervisor may actually be turning the workers off instead of getting their attention. This phenomenon may be true in the case of other factors too.

1.15.2. Internal Factors in Perceptual Selectivity
Internal factors are related to the individual's complex psychological makeup. People generally select those stimuli and situations from the environment that appeal to, or compatible to, their personality, motivation and other personal factors. There are a
number of such factors—self-concept, beliefs, expectations, inner needs, response disposition, response salience and perceptual defense—which filter the stimuli which do not suit the people.

**Self-Concept**

The way a person views the world depends a great deal on the concept or image he has about himself. The concept plays an internal role in perceptual selectivity. It can be thought of as internal form of attention getting and is largely based on the individual’s complex psychological makeup. Knowing oneself makes it easier to see others accurately. Peoples own characteristics affect the characteristics which they are likely to see in others. They select only that aspects which they find match with their characteristics.

**Beliefs**

A person’s beliefs have profound influence on his perception. Thus a fact is conceived not on what it is but what a person believes it to be. The individual normally censors stimulus inputs to avoid disturbance of his existing beliefs. This is referred to as ‘maintenance of cognitive consistency’. Katz argues that (i) an individual self-censor his intake of communications so as to shield his beliefs and practices from attack; (ii) An individual seeks out communications which support his beliefs and practices; and (iii) the latter is particularly true when the beliefs and practices in question have undergone attack or the individual has otherwise been made of them.

**Expectations**

Expectations affect what a person perceives. Expectations are related with the state of anticipation of a particular behavior from a person. Even in the organizational setting, expectations affect people’s perception. Such expectations may affect their perception. Though such expectations may change because of direct contact and expectations may fall near actual but a mental set about beliefs, expectations and values filters perception and may be lasting and difficult to change.

**Inner Needs**

People’s perception is determined by their inner needs. The need is a feeling of tension or discomfort when one thinks he is missing something or when he feels he has not quite closed a gap in his knowledge. People with different needs usually experience different stimuli. Similarly people with different needs select different items to remember or respond to. When people are not able to satisfy their needs, they are engaged in wishful thinking which is a way to satisfy the needs not real world but
in imaginary world, the day dreaming. According to Freud, wishful thinking is the means by which the Id, a part of personality, attempts to achieve tension reduction. In such cases, people will perceive only those items which are in consistence with their wishful thinking.

**Response Disposition**
Response disposition refers to a person's tendency to perceive familiar stimuli rather than unfamiliar ones. Thus, a person will perceive the things with which he is familiar. For example, persons having a particular value take lesser time in recognizing the words having implications in the area of that value, but take longer time in recognizing the words not associated with value. In an experiment, persons having dominant religious value took lesser time in recognizing words related with economic value such as 'cost' or 'price'.

**Response Salience**
Response salience is the set of dispositions which are not determined not by the familiarity of the stimulus situations. But by the persons own cognitive predispositions. Thus, a particular problem in an organization may be viewed as a marketing problem by marketing personnel, a control problem by accounting people, and human relations problem by personnel people. It indicates that type of response salience people have affects their perception. The reason for this phenomenon lies in the background of the people for which they are trained. They are trained to look at the situation from one point of view only, not from other points of view.

**Perceptual Defense**
Perception Defense refers to the screening of those elements which create conflict and threatening situation in people. They may even perceive other factors to be present that are not a part of the stimulus situation. Perceptual defense is performed by
1. Denying the existence or importance of conflicting information.
2. Distorting the new information to match the old one, or
3. Acknowledging the new information but treating it as a non-representative exception

There are empirical evidences that suggest the existence of perceptual defense mechanism. On the basis of these empirical evidences, Lawless has derived following conclusions.
1. Emotionally disturbing information has a higher threshold for recognition than neutral or non-disturbing information.
2. Disturbing information is likely to bring about substitute perceptions which are distorted to prevent recognition of disturbing elements.

3. Emotionally arousing information actually does arouse emotion even though the emotion is distorted and directed elsewhere.

1.16. THE NATURE OF PERCEPTION

Perception is the critical activity that links the individual consumer to group, situation and marketer influences. *Information processing* is a series of activities by which stimuli are perceived, transformed into information and stored. Information processing model consists four major stages: exposure, attention, interpretation and memory. The first three of these constitute *Perception*. Exposure occurs when stimulus such as billboard comes within range of a person's sensory receptor nerves—vision, for example. Attention occurs when the receptor nerves pass the sensations on to the brain for processing. Interpretation is the assignment of meaning to the received sensations. Memory is the short-term use of the meaning for immediate decision making or the longer-term retention of the meaning. However these processes occur virtually simultaneously and are clearly interactive. That is our memory influences the information we are exposed to, attend to, and the interpretations we assign. At the same time, memory itself is being shaped by the information it is receiving.

Both perception and memory are extremely selective. Of the massive amount of information available, an individual can be exposed to only a limited amount. Of the information to which the individual is exposed, only a relatively small percentage is attended to and passed on to the central processing part of the brain for interpretation. The meaning assigned to a stimulus is as much or more a function of the individual as it is the stimulus itself. Much of the interpreted information will not be available to active memory when the individual needs to make a purchase decision.
This selectivity sometimes referred to as *perceptual defenses*, means that individuals are not passive recipients of marketing messages. Rather, consumers largely determine the messages they will encounter and notice as well as the meaning they will assign them. Clearly, the marketing manager faces a challenging task when communicating with consumers.

1.17. EXPOSURE

Exposure occurs when a stimulus comes within range of our sensory receptor nerves. For an individual to be exposed to a stimulus requires only that the stimulus be placed within the person's relevant environment. The individual need not receive the stimulus for exposure to have occurred. That is, you have been exposed to a television commercial if it aired while you were in the room, even if you were talking to a friend and did not notice the commercial.

An individual is generally exposed to no more than a small fraction of the available stimuli. There are now hundreds of television channels, thousands of radio stations, and an exponentially increasing number of sites on the World Wide Web. Yet, one
normally watches only one television station at a time, reads one magazine, newspaper or journal at a time.

Most of the stimuli to which an individual is exposed are "self-selected". That is, we deliberately seek out exposure to certain stimuli and avoid others. Generally, we seek information that we think will help us achieve our goals. These goals may be immediate or long range. Immediate goals could involve seeking stimuli such as television program for amusement, an advertisement to assist in a purchase decision, or a compliment to enhance our self-concept. Long range goals might involve studying this text in hopes of passing the next exam, obtaining a degree, becoming a better marketing manager, or all three. An individual's goals and the types of information needed to achieve those goals are a function of the individual's existing and desired lifestyle and such short term motives as hunger or curiosity.

Of course, we are also exposed to a large number of stimuli on a more or less random basis during our daily activities. While driving, we may hear commercials, see billboard and display ads and so on, that we did not purposefully seek out.

The impact of the active, self-selecting nature of exposure can be seen in the zipping, zapping and muting of television commercials. **Zipping** occurs when one fast forwards through a commercial on a prerecorded program. **Zapping** involves switching channels when a commercial appears. **Muting** is turning the sound off during commercial breaks.

One study of zipping found that most commercials were zipped and most of these were zipped without any viewing at all. This is important, as it means that the advertiser has only limited ability to reduce zipping by creative advertising. However, there is evidence that moderately unique ads and ads that arouse positive feelings are less subject to zipping than are others ads.

Zapping has been found to be influenced by the same ad characteristics as zipping. In addition, the situation itself (presence of remote control, VCR time shifter, cable TV), the amount of clutter (number of ads during a time period), and the type of household (multiple-person, higher income, with males present, which children under 18) increasing zapping. As with zipping, most commercials were zapped as soon as they appeared. Many consumers habitually zap all commercials, though about 40 percent of consumers rarely zap commercials. It should be noted that zapped and muted commercials may still attract some attention. The zapper/muter must pay some attention to the screen to know when to return to the television program.
1.18. ATTENTION

Attention occurs when the stimulus activates one or more sensory receptor nerves, and the resulting sensations go to the brain for processing. We are constantly exposed to thousands of times more stimuli than we can process. The average supermarket has 3000 individual items. It would take hours to attend to each of them. Each television network shows 6000 commercials per week and radio stations air many more. Therefore, we have to be selective in attending to marketing as well as to other messages. This selectivity has major implications for marketing managers and others concerned with communicating with consumers. Attention always occurs within the context of a situation. The same individual may devote different levels of attention to the same stimulus in different situations. Attention, therefore, is determined by three factors—the stimulus in different situations. Attention, therefore, is determined by three factors—the stimulus, the individual and the situation.

**Stimulus Factors**

Stimulus Factors are physical characteristics of the stimulus itself. A number of stimulus characteristics tend to attract our attention independently of our individual characteristics.

**Size and Intensity**

The size of the stimulus influences the probability of paying attention. Larger stimuli are more likely to be noticed than smaller ones. Thus, a full page advertisement is more likely to be noticed than a half-page advertisement. Another analysis of 86,000 ads found the following average number of inquiries for additional information in relation to ad size.

Frequency, the number of times the same ad appears in the same issue of a magazine, has an impact of similar to ad size. Multiple insertions were found to increase recall by 20 percent in one study and by 200 percent in another. The intensity (e.g., loudness, brightness) of a stimulus operates in much the same manner.

**Color and Movement**

Both Color and Movement serve to attract attention, with brightly colored and moving items being more noticeable. A brightly colored package is more apt to receive attention than a dull package. A study on the impact of color in newspaper advertising
concluded that "median sales gains (on reduced-price items) of approximately 41 percent may be generated by the addition of one color to black-and-white in retail newspaper advertising".

Above figure shows the relative attention-attracting ability of black-and-white and of four color magazine ads of different sizes.

**Position**

Position refers to the placement of an object in a person's visual field. Objects placed near the center of the visual field are more likely to be noticed than those near the edge of the field. This is primary reason why consumer goods manufacturers compete fiercely for eye-level space in grocery stores. Likewise, advertisements on the right-hand page receive more attention than those on the left.

**Isolation**

Isolation is separating a stimulus object from other objects. The use of "white space" (placing a brief message in the center of an otherwise blank or white advertisement) is based on this principle, as is surrounding a key part of a radio commercial with a brief moment of silence.

**Format**

Format refers to the manner in which the message is presented. In general, simple, straightforward presentations receive more attention than complex presentations. Elements in the message that increase the effort required to process the message tend
to decrease attention. Advertisements that lack a clear visual point of reference or have inappropriate movement (too fast, slow or jumpy) increase the processing effort and decreasing attention. However, format interacts strongly with individual characteristics. What some individuals find to be complex, others find interesting. Format, like the other stimulus elements, must be developed with a specific target market in mind.

**Contrast**

Contrast refers to our tendency to attend more closely to stimuli that contrast with their background than to stimuli that blend with it. Contrast has been found to be a primary component of award-winning headlines. Ads that differ from the type of ad consumers expect for a product category often motivate more attention than ads that are more typical for the product category. The headline, colors and design of the ads contrast with expectations and will cause many to attend to the Adds.

**Information Quantity**

Information Quantity, relates more to the total stimulus field than to any particular item in that field. Although there is substantial variation among individuals, all consumers have limited capacities to process information. *Information overload* occurs when consumers are confronted with so much information that they cannot or will not attend to all of it. Instead, they become frustrated and either postpone or give up the decision, make a random choice or utilize a suboptimal portion of the total information available.

One study found that consumers purchased more items as the number of catalogs they received increased and then at a certain point the number of items purchased decreased as additional catalogs were received. The explanation was that information overload had been reached and consumers had stopped reading any of the catalogs.

There are no general rules or guidelines concerning how much information consumers can or will use. Marketers and various consumer groups want product labels, packages and advertisements to provide sufficient information to allow for an informed decision. Marketers must determine the information needs of their target markets and provide the information should be presented first, and it should be highlighted or otherwise stand out from the main part of the text. More detailed and less important data can be provided in broachers, videotapes and infomercials that interested consumers can seek out.
**Individual Factors**

Individual factors are characteristics of the individual. Interest or need seems to be the primary individual characteristic that influences attention. Interest is a reflection of overall lifestyle as well as a result of long-term goals and plans. Short term goals and plans are, of course, heavily influenced by the situation. In addition, individuals differ in their ability to attend to information.

Individuals seek out (exposure) and examine (attend to) information relevant to their current needs. For example, an individual contemplating a vacation is likely to attend to vacation-related advertisements. Individuals attending to a specialized medium are particularly receptive to advertisements for related products. Parents with young children are more likely to notice and read warning labels on products such as food supplements than are individuals without young children.

**Situation Factors**

**Situational Factors**

Situational Factors include stimuli in the environmental other than the focal stimulus (i.e., the ad or package) and temporary characteristics of the individual that are induced by the environment, such as time pressures or a very crowded store. Obviously, individuals in a hurry are less likely to attend to available stimuli than are those with extra time (if you have ever been on a long flight without a book, you may recall reading even the ads in the airline magazine). Individuals in an unpleasant environment—such as an overcrowded store or a store that is too noisy, too warm, or too cold—will not attend to many of the available stimuli as they attempt to minimize their time in such an environment.

**Program Involvement**

Print, radio and television ads occur in the context of program, magazine or newspaper. In general, the audience is attending to the medium because of the program or editorial content, not the advertisement. In fact, as we saw earlier, many individuals actively avoid commercials by zapping them. Does the nature of the program or editorial content in which an ad appears influence the attention that the ad will receive? The answer to this question is clearly yes. Program involvement not only increases the attention paid to the ad, it also affects the viewers attitude toward the ad and the product being advertised.
Non-focused Attention

Hemispheric Lateralization

Hemispheric Lateralization is a term applied to activities that takes place on each side of the brain. The left side of the brain is primarily responsible for verbal information, symbolic representation, sequential analysis and the ability to be conscious and report what is happening. It controls those activities we typically call rational thought. The right side of the brain deals with pictorial, geometric, timeless and nonverbal information without the individual being able to verbally report it. It works with images and impressions.

The left brain needs fairly frequent rest. However, the right brain can easily scan large amounts of information over an extended time period. This had led Krugman to suggest that “it is the right brain’s picture-taking ability that permits the rapid screening of the environment-to select what it is the left brain should focus on. Evidence indicates that there is some validity to this theory. This indicates that advertising, particularly advertisement repeated over time, will have substantial effects that traditional measures of advertising effectiveness cannot detect.

Subliminal Stimuli

A message presented so fast or so softly or so masked by other messages that one is not aware of “seeing” or “hearing” it is called a subliminal stimulus. Subliminal stimulus has been the focus of intense study as well as public concern.

1.19. INTERPRETATION

Interpretation is the assignment of meaning to sensations. It is a function of the pattern formed by the characteristics of the stimulus, the individual, and the situation. Thus, the entire message, including the context in which it occurs, influences our interpretation, as does the situation in which we find ourselves. We assign meaning to the tone and “feel” of the message as well as the actual words and symbols.

Cognitive Interpretation is a process whereby stimuli are placed into existing categories of meaning. This is an interactive process. The addition of new information to existing categories also alters those categories and their relationships with other categories. It is the individual’s interpretation, not objective reality that will influence behavior. For example, a firm may introduce a high quality new brand at a lower price than existing brands because the firm has a more efficient production or marketing process. If consumers interpret this lower price to mean lower quality, the new brand will not be successful regardless of the objective reality. This example indicates the
critical importance of distinguishing between semantic meanings, the conventional meaning assigned to a word such as found in the dictionary and psychological meaning, the specific meaning assigned a word by a given individual or group of individuals based on their experiences and the context or situation in which the term is used. Marketers must be concerned with psychological meaning. For example, the semantic meaning of the expression *on sale* is a “price reduction from the normal level”. However, when applied to fashion clothes, the psychological meaning that some consumers would derive is “these clothes are, or soon will be, out of style”.

*Affective Interpretation* is the emotional or feeling response triggered by a stimulus such as an ad. Like cognitive interpretation, there are “normal” (within culture) emotional responses to many stimuli. Likewise, there is also individual variation to this response.

1.19.1. Individual Characteristics

Marketing stimuli have meaning only as individuals interpret them. A number of individual characteristics influence interpretation. For example, gender and social class affect the meaning assigned to owing various products. Likewise, gender affects the nature of the emotional response to nudity in ads. There is evidence that our language may influence how we interpret and recall written and verbal information. Two particularly important personal variables affecting interpretation are learning and expectations.

*Learning*

Time, space, friendship and colors are learned and vary widely across cultures. Even within the same culture, different subcultures assign different meanings to similar stimuli. For example, a dinner refers to the noon meal for some social classes in some geographic regions of the United States and to the evening meal for other social classes and geographic regions. Likewise, many consumers have a very warm emotional response when presented with pictures of fried chicken or people frying chicken. They learned this response because of fried chicken’s role in picnics and family gatherings when they were young. Marketers must be certain that the target audience has learned the same meaning that they wish to portray.

*Expectations*

Individual’s interpretation of stimuli tend to be consistent with their expectations. For example, we expect dark brown pudding to taste like chocolate, not vanilla, because
dark pudding is generally chocolate flavored and vanilla pudding is generally cream colored. In a recent taste test, 100 percent of a sample of college students accepted dark brown vanilla pudding as chocolate. Further, in comparing three versions of the vanilla pudding that differed only in degree of darkness, the students rated the darkest as having the best chocolate flavor. Thus their expectations, cued by color, led to an interpretation that was inconsistent with "objective" reality.

Consumers will frequently evaluate the performance of a well-known brand or a more expensive brand as higher than that of an identical product with an unknown brand name or a lower price. Consumers also frequently attribute advertisements for new or unknown brands to well-known brands. Even an "objective" product feature such as price is sometimes interpreted to be closer to an expected price. Likewise brands with promotional signs on them in retail stores are interpreted as having reduced prices even when the sign does not indicate that prices have been reduced and when, in fact, prices have not been reduced.

1.19.2. Situational Characteristics

A variety of situational characteristics influence interpretation. Temporary characteristics of the individual, such as hunger or loneliness, influence the interpretation of a given stimulus, as do moods. The amount of time available also affects the meaning assigned to marketing messages. Likewise physical characteristics of the situation such as temperature, the number and characteristics of other individuals present, the nature of the material surrounding the message in question, external distractions, and the reason the message is being processed affect how the message is interpreted.

1.19.3. Stimulus Characteristics

Structure- product, package, advertisement or sales presentation

Semiotics - (creation, maintenance and alteration of meaning for signs)- words, pictures, music, colors, forms, smells, gestures, products, prices

Direct - brand name, price, and physical product appearance and retailer reputation

Indirect- country of origin, MNC

Message - overall style, visual and auditory background, and other nonverbal and verbal

The stimulus sets the basic structure to which an individual responds. The structure and nature of the product, package, advertisement or sales presentation have major impact on the nature of the mental processes that are activated and on the final
meaning assigned to the message. In recognition of the critical importance of the meaning associated with stimuli, marketers are beginning to use semiotics.

Semiotics is the science of how meaning is created, maintained and altered. It focuses on signs, which are anything that conveys meaning, including words, pictures, music, colors, forms, smells, gestures, products, prices and so forth. Thus, while signs are part of the stimulus meaning is assigned to them by the audience.

Consumers across many cultures use brand name, price, and physical product appearance and retailer reputation as signals of product quality. In addition, factors indirectly related to the product, such as its country of origin, can have a major influence on the meaning assigned the product. All aspects of the message itself influence our interpretation. This can include our reaction to the overall style, visual and auditory background, and other nonverbal and verbal aspects of the message, as well as its explicit content. For example, the entry of a new brand into a market results in a revaluation of existing brands as well as an initial evaluation of the new brand.

**Sensory Discrimination**

The ability of an individual to distinguish between similar stimuli is called *sensory discrimination*. This involves such variables as the sounds of stereo systems, the taste of food products, or the clarity of display screens. Marketers obviously must know how much they need to change a brand in order for consumers to notice the change. The minimum amount that one brand can differ from another with the difference still being noticed is referred to as the *just noticeable difference* (J.n.d.). marketers seeking to find a promotable difference between their brand and a competitor's must surpass the j.n.d. in order for the improvement or change to be noticed by consumers.

On the other hand, a marketer sometimes may want to change a product feature but not have the consumer perceive any change and hence not surpass the j.n.d.

The higher the initial level of the attribute, the greater the amount that attributes must be changed before the change will be noticed. This relationship is formally as:

\[ j.n.d = L d / I = K \]

Where j.n.d. = Just noticeable difference

\[ I = \text{Initial level of the attribute} \]
\[ L d = \text{Change in the attribute} \]
\[ K = \text{Constant that varies with each sense mode} \]
1.19.4. Interpreting Images

A useful approach to designing ads using pictures and other nonverbal images is rhetorical theory. Rhetoric approaches messages by framing them as an attempt by the sender of the message to influence the recipient of the message. The intent to influence is a critical part of the analysis of the message and its interpretation. The sender crafts a message with the intention of influencing the audience. The sender selects the symbols—words, pictures, colors and so forth—to use based on the anticipated response based on knowledge of the learned meanings the various elements of the message, infer the sender’s intention, evaluate the argument and formulate a response.

In this view, images have learned meaning beyond their direct representation of reality. “A picture is worth a thousand words” not just because it may convey reality more efficiently than words but because it may convey meanings that words cannot adequately express. This approach requires us to construct ads whose total meaning, the interpretation formed by the words and the images in the ad, is internally consistent (the words and images convey consistent or complementary meanings) and will produce the desired response in the audience. Any images used in an ad will convey meaning to an audience both as individual symbols and through their interaction with other symbols in the ad. Thus a picture of a pumpkin and a hay stick in an ad will produce the meaning of a ritual—thanks giving in many consumers.

1.19.5. Consumer Inferences

A consumer inference is the process by which consumers assign a value to an attribute or item not contained in an ad based on other data in the ad. When data about an attribute is missing, consuming may assign it a value based on a presumed relationship between that attribute and one for which data is available, they may assign it the average of their assessments of the available attributes, they may assume it to be weaker than the attributes for which data is supplied, or any of a large number of other strategies may be used.