CHAPTER 1. INTRODUCTION

Statement of Problem

Global retail sales reflecting the growth trend in world economy were estimated at US$11.37 trillion in 2006. Retail sales through modern retail\(^1\) have observed a faster growth than the total retail sales. According to Planet Retail Database (as cited in Joseph & Soundararajan, 2009), the share of modern retail has grown by seven percentage points in a span of ten years from about 45 percent in 1996 to over 52 percent in 2006. The dominance of traditional retail sector in developing economies is reflected by the low share of organised retail in these countries in contrast with the shares in developed economies. The share of organised retail varies from 1 percent in Pakistan, 4 percent in India to 85 percent in U.S.A.

The organised retail has entered in developing economies in three successive waves (Reardon, Henson, & Berdegue, 2007; Reardon & Hopkins, 2006). The first wave happened in the early to mid 1990s in South America, East Asia outside China, North Central Europe and South Africa. The second wave of modern retail occurred during the mid to late 1990s in Southeast Asian countries, Southern-Central Europe, Mexico and Central America. The third wave started in

\(^1\) Modern retail or organised retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is part of modern retail. A single large department store is also modern retail.
the late 1990s and early years of 2000s in parts of Africa, some countries in Central and South America, Southeast Asia, China, India and Russia. The third wave countries that include China, India and Russia can be called as the late adopters in the diffusion of modern retail (Joseph & Soundararajan, 2009).

The growth of retail trade in India reflects the growth in the Indian economy. A.T. Kearney, the international reputed consulting firm known for its annual ranking of emerging economies based on Global Retail Development Index (GRDI), has ranked India as number one for three consecutive years (2005, 2006 and 2007) indicating that the country is the most attractive market for global retailers to enter. Indian retail, though dominated by 13 million traditional retailers consisting of local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand cart hawkers, pavement vendors, etc., has seen the entry of a number of organised retailers across thirty five metro cities and other important cities from lower town-classes. Though, the share of modern retail in India was estimated at 4 percent in 2006-07, modern retail sales grew at 19.5 percent per annum as compared to only 11.7 percent annual growth in traditional retail during 2004-07 (Joseph & Soundararajan, 2009).

Modern retail business as anywhere else in the world is driven by four factors in India: a) improving sourcing efficiencies; b) expanding product assortment; c) differentiating service; and d) enhancing the store ambience. Store brands\(^2\) and

\(^2\) Store brands or private labels refer to the merchandise that carries wholesalers or retailer’s own brand name or a brand name created exclusively for that particular wholesaler or retailer. Thus, the store brand carries either the retailer’s own name or a name that is exclusively created by the retailer
manufacturer's brands\textsuperscript{3} are the two key components of product assortment strategy of retailers worldwide. For retail chains, development of store brands is viewed as a strategy for improving store image and profitability (Quelch & Harding, 1996). Store brands serve as a basis for store differentiation because the store brand cannot be bought elsewhere and therefore it is not easily substitutable by switching to another store (Sayman, Hoch, & Raju, 2002). On the other hand, manufacturer's brands cannot be used to differentiate the store unless they are sold on lower prices (Baltas, 1999; Hansen, Singh, & Chintagunta, 2006; Derek McMaster, 1987). For the retailers, store brands are the only brands that require taking full responsibility for product introduction, product sourcing and warehousing, advertising and promotions. In contrast to shared risk and returns for manufacturer's brands, the retailers play the sole role in success of store brands (Dhar & Hoch, 1997).

Since the store brands are priced on an average 31 percent lower than their manufacturer's counterparts globally, they record higher unit shares than value shares in the market (Nielsen, 2005). In India, store brands presently contribute to a turnover of Rs 7000 millions, accounting for 25 percent of the turnover of key retailers in the country (Roy, 2008). The majority of store brands are present in the food and grocery category, followed by apparel, laundry and personal care.

\textsuperscript{3} Manufacturer's brands are products designed, produced, controlled and marketed by a manufacturer. Retailers have very little or no influence over product quality, advertising and brand image, packaging and wholesale cost in case of manufacturer's brands. The national and regional/local brands fall into this category.
products. Some organised retail chains in India generate more than 40-50 percent of their sales from private label products (Rajesh, 2009).

Studying consumer choice behaviour under situations where manufacturer's brands and store brands compete directly for the consumer's patronage has been an important stream of store brand research. The first attempt to understand the characteristics of store brand prone and non-store brand prone consumers was made by Frank and Boyd (1965) and the study brought attention of the academia towards store brand buying behaviour and several research studies followed subsequently. The literature available on store brand research indicates existence of three broad categories of research interest amongst store brand researchers. First, there are researches, which have tried to investigate the differences in objective and perceived product attributes and befits between manufacturer's brands and store brands (Bellizzi, Hamilton, Krueckeberg, & Martin, 1981; Cunningham, Hardy, & Imperia, 1982; Dick, Jain, & Richardson, 1997). The second category of literature on store brand research includes several studies that have examined the characteristics of store brand buyers and have attempted to discover if the propensity to buy store brands is associated with those consumer characteristics (Baltas, 1997; Baltas & Argouslidis, 2007; Bettman, 1974; Burger & Schott, 1972; Burton, Lichtenstein, & Garretson, 1998; Dick, Jain, & Richardson, 1995; Frank & Boyd, 1965; Garretson, Fisher, & Burton, 2002; Harcar, Kara, & Kucukemiroglu, 2006; Lybeck, Holumnd-Rytkonen, & Saaksjarvi, 2006; Omar, 1996; Richardson, Dick, & Jain, 1994; Shannon & Lockshin, 2001). Majority of these researches are done in context of frequently
purchased household consumption food and non-food consumer packaged goods. The third stream of store brand research literature includes researches that have tried to measure store brand proneness and attempted for joint determination of explanatory power of correlates of store brand proneness (Ailawadi, Scott, & Gedenk, 2001; Baltas, 2003; Baltas, Doyle, & Dyson, 1997; Batra & Sinha, 2000; Cataluna, Garcia, & Phau, 2006; Richardson, Jain, & Dick, 1996).

As revealed by the extant literature on store brand buying behaviour, correlates of store brand proneness include a wide range of consumer-related characteristics like demographics, behavioral pattern, psychographics, private brand attitude, perceptual variation between manufacturer's brands and store brands, consumer product knowledge, etc. However, empirical findings on many of these correlates vary widely across studies in terms of direction of relationship between individual correlate and store brand proneness and relative importance of factors in jointly explaining store brand proneness. There have been very few attempts in past towards creating a unified and cohesive framework of understanding store brand proneness by integrating various factors identified in studies on store brand buying behaviour (Ailawadi, et al., 2001; Baltas, 1997, 2003; Baltas & Argouslidis, 2007; Baltas, et al., 1997; Batra & Sinha, 2000; Bettman, 1974; Cataluna, et al., 2006; Richardson, et al., 1996).

There have been very few attempts in past towards creating a unified and cohesive framework of understanding store brand proneness by integrating various factors identified in studies on store brand buying behavior.
Moreover, there is hardly any such study in Indian context that attempts to understand consumer choice behaviour concerning store brands. Most of the studies originated from U.S.A. or Europe presenting a different socio-economic, political and retail environment.

Consumer decision-making styles are referred as consumer personality, which consumers adhere to, even when they are applied to different goods, services or purchasing situations. In store buying behaviour literature, we do not find any reference to a study that examines the behaviour in relation to the consumer decision-making styles.

These are the gaps, which this research attempts to fill, at least partially and develop a more comprehensive understanding of store brand proneness in an emerging economy context.

Conceptually, this study proposes a comprehensive structural model, which enables academician, practitioners and retailers to better understand the consumer related factors that influence consumer's choice of store brands. This is also the first attempt in which role of consumer decision-making styles in determining the level of store brand proneness is measured along with other consumer related factors. The study shows how behavioral characteristics of consumers specific to modern retail stores affect consumers' brand choice. This is very important for management of store brands in emerging economies with predominance of traditional retail.
Research Purpose and Objectives

The purpose of this thesis is to investigate the consumer decision-making with respect to choice between store brands and manufacturer's brands. The principal question focuses on identifying factors, which correlate with consumer's propensity to purchase store brands and explain the heterogeneity in consumers' preferences for store brands over manufacturer's brands based on the identified factors.

Research hypotheses addressed following research questions:

1. Does consumers' propensity to purchase store brands vary due to different perceptions and preferences among consumers for store brands and manufacturer's brands?

2. How does consumers' knowledge affect the store brand purchase?

3. How does consumers' perceived risk associated with brand usage affects their store brand consumption?

4. How do consumers' socio- demographic characteristics influence their store brand proneness?

5. Can heterogeneity in store brand proneness be explained by the consumers' psychographics that indicates their decision-making styles?

6. How does consumers' shopping behaviour affect consumers' store brand proneness?
Research Methodology

The purpose of this study is to examine the relationship between various factors and store brand proneness, which implies analysis of quantitative data. Therefore, collection of numerical descriptions of the socio-demographic, perceptual, psychographic and behavioral factors of the study population became necessary. Among all approaches of social science research, surveys are the most effective means of social description. Surveys are found useful in addressing research questions related to social background information, reports of past behaviour, attitudes, beliefs and values, behavioural intentions and sensitive questions (Singleton & Straits, 2005). Survey is therefore chosen as the appropriate research strategy for this study due to the benefits of survey research design. The areas chosen for the data collection are Ahmedabad and Vadodara cities of Gujarat state. Average monthly spending on FMCG products in Ahmedabad and Vadodara are Rs 2,869 and Rs 2,816 respectively (Datta, 2006). These two cities appear in the top-ten list of FMCG Havens.

The RK Swamy BBDO\textsuperscript{4} ranking of 784 towns on the basis of market potential value (MPV) places Ahmedabad at seventh and Vadodara at fifteenth position and classify them in ‘AA’ and ‘A’ category of towns respectively (Bijapurkar, 2006).

\textsuperscript{4} The RK Swamy BBDO Guide to Urban Markets provided a rigorous explanatory framework of indexing market potential across different towns. It postulates that market potential value of a town is a function of the number of consumers a town has, the means these consumers have, the consumption behaviour in these towns, the awareness levels – a composite of exposure to media and extent of female literacy and the extent of market supporting infrastructure that exists.
Twenty-four product categories from food & grocery and non-food household consumption items are selected to measure the store brand proneness of the household. The survey is carried out in two phases. In the initial phase, store intercept interview of shoppers at the randomly selected organised retail chains in the study areas is done to recruit the respondents for the main survey. The database prepared from the recruitment survey is used as the sampling frame for the sample selection in the main survey. A proportionate stratified sampling method is followed to sample 500 subjects for the study. In-home interviews are done to carry out the main survey. Data coding and cleaning will be done using the statistical analysis software SPSS 17.0. Structural Equation Modeling analysis of store brand proneness has been undertaken using the AMOS18.0 statistical program.

Proposed Contents of the Thesis

The Chapter I: Introduction presents the statement of the problem as well as the purpose and objectives of the study. The Chapter II: Review of Literature contains a comprehensive review of extant literature on store brand research. In addition, the chapter contains relevant literature on consumer behaviour that forms the theoretical foundation of the study. The Chapter III: Research Hypotheses is built on the previous chapter and presents a detailed description of the proposed structural model to measure store brand proneness and test the research hypotheses developed for the study. The Chapter IV: Research
Methodology discusses the issues related to methodology for empirical testing of the hypotheses postulated in the Chapter III. The Chapter V: Data Analysis follows the description on methodology. This chapter presents the results of data analysis. Firstly, the chapter describes the descriptive summary of the sample describing demographic and shopping characteristics of the survey respondents, sample size and response rate. This is followed by the description of statistical inference procedure to examine the differences between store brand buyers and manufacturer’s brand buyer. Several design quality issues related to assumptions; reliability and validity along with the results of Structural Equation Modeling analysis and hypothesis testing. The last chapter of the thesis Chapter VI: Discussion & Implications presents the discussion of the results reported in the Chapter V. Managerial implications of this research are discussed in depth in this chapter. The chapter also provides an outline of contributions made by this study. The concluding section presents the limitation of this study and suggestions for future research.