ORGANIZED RETAILING IN INDIA- AN EMPIRICAL STUDY OF APPROPRIATE FORMATS AND EXPECTED TRENDS

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ABSTRACT

The retail sector and its environment have experienced radical changes in the last decade. Most of the challenges are due to changing demographic, social, politic, business climate, and changes in the retail sector including the addition of Wall Mart, Carrefour, K-Mart, etc. This paper examines the relative importance of the various products purchased at organized retail outlets and the choice of format, the consumer has when purchasing a product. The paper also discusses the expected development of organized retail in the future, focusing on aspects with potential effects on consumer purchasing behavior. Not all items are equally important for retail outlets and various products need specific retail formats.

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KEYWORDS: retailing, India, purchasing behavior, demographics, business climate

INTRODUCTION

The estimated value of retailing in India is USD 200 billion, of which organized retailing (i.e. modern trade) makes up approximately 3 percent or USD 6.4 billion. Expected annual growth of organized retail is 25-30 percent and is likely to reach USD 23 billion by 2010. At these levels, organized retail would constitute about 9 percent of overall retail sales. In modern retailing, a key strategic choice is format. Innovations in formats can provide an edge to retailers. Post-World War II, the key demographic trend was migration away from the city-centre towards the suburbs. This led to the emergence of the 'shopping centre', a cluster of outlets in a location offering a range of merchandise catering to most needs of the immediate suburb. The 50s saw the emergence of the 'enclosed' shopping mall, providing an end-to-end shopping and entertainment experience from food courts, theatres to shopping outlets.

It may be difficult to transplant a successful international format directly and expect a similar performance. Local conditions and insights into the local buying behavior have to shape the format choice. A considerable amount of experimentation is happening locally with regard to format. Players such as Subhiksha are providing convenience with discount on goods. International convenience formats typically charge a premium over the market prices. Similarly, ITC is experimenting with a model, which brings together a two-way flow of goods in the retail outlet - farmers sell their produce and purchase goods to fulfill their consumption needs. While the experience of these retailers as they scale up beyond their current geographies may provide new insights and lead to modification or fundamental re-engineering of their formats in the future, such experimentation and identification of an appropriate format for local conditions may differentiate winners from losers in the future Indian retail market.

The remainder of the paper is organized as follows: In the next section, we discuss the relevant literature. Next, we discuss the objectives and hypotheses of the research paper. The paper continues by discussion the data and methodology and results of the empirical analysis. The paper closes with some concluding comments.

REVIEW OF LITERATURE

From a retail perspective, the flow of good and service relates to classical economics theory, which generally tries to find an equilibrium point between maximizing producer's profit and consumer's utilization. Some authors suggest a relationship between retail activities and society, such as Howard (1933), Nystrom (1948) and Severa (1943). In his writing, "The whole Truth in Retail Advertising", Howard (1933) explained how retail advertising activities affect society behavior. He argued that "manipulative advertising" can destroy social's society structure. Nystrom (1948) examines the minimum wage in retailing and Severa (1943) examined the US Retail Credit in Wartime. The discussion about retail and its effect on society in this era (1925-1945) speaks about retail planning after World War II, price policy strategies and fulfilling the needs of society after war.

Copeland (1942) in his commodity theory suggests the need to classify goods and services, based on consumer needs in order to make distribution easy. Zanna and Fazio (1982) and Ajzen (1989) point out that an evaluative dimension is a common feature of all definitions of attitude. Shim et al. (2001) indicates that an individual's positive or negative evaluation of relevant behavior, is characterized by the person's beliefs regarding the perceived outcomes of performing the behavior. From this perspective, knowledge of consumers' attitudes can help explain the reasons behind their favorable and unfavorable evaluations of an object or a behavior. For example it can explain why consumers do or do not buy products of a particular brand name or shop at certain type of store.

In a discussion of the most appropriate formats for shopping for various products, Urbany, Dickson, and Kalapurakal(1996) and Ailawadi, Neslin, and Gedenk(2001) specifically developed a scale for measuring attitudes toward grocery shopping. Childers et. al. (2001) developed a scale to measure attitude towards shopping that utilizes a technological device. Donthu and Gilliland (1996); Donthu and Garcia (1999); Beatty and Ferrell (1998); Reynolds and Beatty (1999) and Ellis (1995) observed that shopping enjoyment actually pertains to the "affective" aspect of the shopping attitude which leads to know about the fit match about the types of product and the appropriate retail format .

Specialized retailers are developing rapidly in segment s such as consumer durables and white goods, books, music, lifestyle goods, household furnishings, healthcare and beauty. In the late 80's there were approximately 300 different types of cars, 400 brands of beer, and 21000 products in the average super market in the United States (McKenna, 1988). Literature in marketing and related behavioral sciences suggests a breadth of consumer motives for shopping. Howard and Sheth (1969) have developed the idea that the utilitarian motive to obtain desired items motivates consumers.

In the present study, an attempt is made to highlight the most important products being sought at modern retail outlets and the appropriate formats for their sales. The study may prove useful for the organized retailer to understand the consumers' preferences for various products and the appropriate retail formats.

OBJECTIVES OF THE STUDY AND HYPOTHESIS

This study has three objectives: to identify the relative importance of the various consumer products that consumers purchase at organized retail outlets; To know the appropriate retail formats for each of the selected items and to have an insight about the future trends of retail in India.

The following hypotheses are proposed:

<u>Hypothesis</u>

1. *All the items purchased at organized retail outlets are equally important.*

2. *All types of retail formats are equally appropriate for all items sold at organized retail outlets.*

3. *Organized retail has great potential in India.*

METHODOLOGY

The scope of this study is confined to the organized retail sector. The respondents belong to the National Capital Region (NCR) Delhi. The study examines primary as well as secondary data. The researchers collected data by using a convenience-sampling method. The researchers personally contacted three hundred sixty five consumers out of which only two hundred and thirty provided appropriate responses. These shoppers were inside either the mall or walk in customers. The researchers conducted the survey in the two months of August and September 2008. A five point Likert scale was used in the questionnaire. The data is analyzed using factor analysis and ANOVA. SPSS 11.5 version software is used.

RESULTS

In order to identify the relative importance of the various products important, the researchers have consulted various earlier studies. The India Retail Report 2007 suggests 13 items are important for sales through organized retail outlets. For the present study these 13 items were examined. The responses obtained were analyzed using factor analysis. The results were subjected to Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity tests. Bartlett's test of Sphericity rejects the null hypothesis. The approximate chi-square value in this case is 545.056 with 78 degrees of freedom, which is significant at the 0.00 level. The value of the KMO statistics (0.533) is also large (>0.5).Hence, all products are not equally important for organized retail outlets.

From table 1, it is evident that the first five variables represent 61.183 % of variance. Therefore, only these five factors with the variance greater than one were retained. The other factors are not included in the model. Thus, we extract only five factors from the thirteen initially selected variables. The results are depicted in Table 2 below.

Table 1: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.379	18.303	18.303	2.379	18.303	18.303
2	1.825	14.041	32.344	1.825	14.041	32.344
3	1.464	11.260	43.603	1.464	11.260	43.603
4	1.186	9.120	52.723	1.186	9.120	52.723
5	1.100	8.459	61.183	1.100	8.459	61.183
6	.995	7.655	68.838			
7	.924	7.107	75.945			
8	.735	5.651	81.595			
9	.655	5.041	86.636			
10	.604	4.650	91.285			
11	.536	4.121	95.406			
12	.423	3.252	98.658			
13	.174	1.342	100.000			

This table shows the amount of total variance explained by each of thirteen products.

Table 2: Rotated Component Matrix

	Component				
Retail Segments	**1**	**2**	**3**	**4**	**5**
Food and grocery	-.025	-.756	.009	-.228	.041
Health& Beauty Care Services	.914	-.013	.009	.030	.151
Clothing, Apparels and accessories	.153	.780	-.003	-.160	.003
Books, Music and gifts	.444	.044	-.074	.007	.659
Furnishing and Home Furnishing	.329	.319	.457	.090	-.296
Jewellery	-.124	.190	-.018	.172	-.533
Footwares	.030	.276	.124	.706	-.072
Catering services	.841	.154	.083	-.098	.095
Entertainment	-.210	.443	.132	.230	.622
Watches	.143	-.034	-.452	.557	-.161
Pharmaceuticals	.202	-.129	.652	.117	.102
Consumer Durables, Home appliances	.317	.219	-.183	-.547	-.114
Mobile, accessories & Services	-.142	.067	.807	-.004	-.048

Table 2 shows the following 5 components: 1= Health & beauty care services and Catering Services. 2 =Clothing, and apparels & accessories; Food and grocery. 3 = Mobile accessories & services and Pharmaceuticals. 4= footware and watches. 5 = books, music gifts and entertainment

Relative Importance of Retail Segments

Table 3 depicts the various retail segments in their descending order of importance for purchase through organized retail. The order of importance for various items for organized retailing are food and grocery; Clothing, apparels and accessories; Catering services; Health and beauty care services; Pharmaceuticals, Watches; Mobile, accessories and services; Books, music and gifts; Foot wares and Entertainment.

Table 3: Relative Importance of Retail Segments

Retail Segments	N	Mean	Std. Deviation	Variance
Food and grocery	230	3.3522	1.15686	1.338
Clothing, Apparels and accessories	230	3.2478	1.08759	1.183
Catering services	230	3.1261	.96068	.923
Health& Beauty Care Services	230	3.0217	.93194	.869
Pharmaceuticals	230	2.8522	.94609	.895
Watches	230	2.7957	1.10851	1.229
Mobile, accessories & Services	230	2.7913	1.05727	1.118
Books, Music and gifts	230	2.6174	.89718	.805
Footwares	230	2.5739	1.22607	1.503
Entertainment	230	2.2391	1.21822	1.484

Appropriate Retail Formats for Each of the Selected Items

In order to know whether all types of retail formats are suitable for all the retail segments, the responses were examined using ANOVA (Analysis Of Variance test). The results indicate that only the variables Health and Beauty Care Services and Catering Services have a level of significance greater than .05. Hence, the null hypothesis is accepted only for these two item. This finding implies that any type of retail format is suitable for the above-mentioned two services. For the remaining variables, the significance level is calculated is to be less than .05. Further, in order to identify the most appropriate retail format for the selected items, mean and standard deviation of the obtained data was calculated. On the basis of this data, the most appropriate retail formats are given below.

Food and grocery-Supermarket; Health and beauty care services-Supermarket; Clothing and Apparels'-Mall; Books; Music and Gifts-Convenience store and Mall; Catering services-Mall; Entertainment-Mall; Watches-Hypermarket; Pharmaceuticals-Hypermarket; Mobile, accessories & Services-Hypermarket; Foot wares-Departmental store.

Emerging Trends in Retailing

In order to identify the expected future trends, an analysis of various experts opinions were examined. It was generally agreed that revolutionary changes in the twenty-first century marketing will occur. "The age of diversity" characterizes the market place, in which consumers demand and get tremendous variety of products and services. Customers can provide large number of new ideas, which companies may not identify on their own. The retail market in India offers tremendous potential and the market is responding. The retail boom in India brings tremendous opportunities for foreign as well as domestic players.

It was observed that some of the experts had hesitantly opined that the position of the retail sector in India may be somewhat affected due to economic crisis in developed nations. However, some opined that the world, until recently, looked at India as the nation of the future, most significantly in the retail sector. With the changing face of retail, the Indian consumer has seen rapid transformation. Discussions also indicate that the global financial meltdown has started having its impact on the Indian economy. With the industrial production hitting a low of 1.3 percent, almost all sectors have now started severe cost cutting, including laying-off employees. Across all-sectors-manufacturing, retail, realty, IT and BPO, banking and financial services, the focus is now on trimming down employee strength. The region is no different, with the number of employees losing their jobs getting higher day-by-day.

Many respondents opined that in spite of all these difficulties the Indian retail sector remains one the most attractive emerging retail markets of the world. An 8-9 per cent GDP growth rate, a booming consumer market led by a 300 million strong English speaking middle-class, an immense untapped economic potential are just some of the reasons that the Indian shopper is very much sought after.

CONCLUSIONS

In India, a consuming class is emerging as a result of increasing income levels and dual career families with high disposable incomes. With retailers eyeing their presence in the market, it is important to identify the target shoppers as well as the prime factors of enjoyment in shopping. The results reveal that a majority of the consumers are pro shoppers, feeling enjoyment while shopping. Their key interests include getting product ideas or meeting friends. They also view shopping as a means of diversion to alleviate depression or break the monotony of daily routine. In addition to this, they also go shopping to have fun or just browse through the outlets.

There are revolutionary changes in the marketing in the twenty-first century. "The age of diversity" characterizes today's market place in which consumers demand, and receive, tremendous varieties of products and services. Understanding customers' perceptions, attitudes, desires, aspirations and expectations has become very important for marketers. Customers can provide large numbers of new ideas, which companies may not identify on their own. The retail markets in India offer tremendous potential and is growing fast. The retail boom in India brings tremendous opportunities for foreign as well as domestic players. The recent global financial meltdown is not expected to have a severe effect on the

Indian economy in general or on the retail sector. India has good fiscal as well as revenue policies and a well-developed banking system and network. We expect that India experience some heat but it will not melt down.

The limitation of this study is its scope, as the study is confined to the Indian retail sector. As such, the findings may not be applicable in the other countries. Future changes in economic conditions could again change the playing field.

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