

IMPACT OF NEW RETAIL FORMATS IN INDIA

Jameel A. Pathan¹

Kimaya Pol²

Abstract

Retail is currently the flourishing sector of the Indian economy. This trend is expected to continue for at least the next two-three decades, and it is attracting huge attention from all entrepreneurs, business heads, investors as well as real estate owners and builders. Availability of quality, retail space, wider availability of products and brand communication are some of the factors that are driving the retail in India. Retail sector is also supporting to create huge employment while a new form of organized retail sector has emerged within the retail industry and it gave speedy phase to Indian retail sector. The rationale of the study is twofold: First, to examine the nature of changes in the retail sector taking place due to organized form of retailing and implications of shift to this new form of retailing. Secondly, this area has remained largely an unexplored part of research till date especially in the Indian context. The broad objective of the study is to understand consumer behavior towards organised and unorganised retail stores and to find out the consumers satisfaction level from organised retail stores as well as unorganised retail stores. The perception of the traditional retailers about the modern retailing. The study uses primary data collected through in depth qualitative analysis to represent organized and unorganized retail sectors respectively.

Keywords: Organized retail, unorganized retail, consumer satisfaction, consumer behavior

Introduction

Retailing in India is receiving global recognition and attention and this emerging market is witnessing a significant change in its growth and investment pattern. It is not just the global players like Wal-Mart, Tesco and Metro group are eyeing to capture a pie of this market but also the domestic corporate behemoths like Reliance, KK Modi, Aditya Birla group, and Bharti group too are at some stage of retail development. Reliance, announced that it will invest \$3.4 billion to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2007. The last couple of years have been rosy for real estate developers and the retailers

¹ Assistant Professor, YMT College of Management,

² Research Scholar, JJTU Rajasthan

are finding suitable retail space in prominent locations. The industry is buoyant about growth and the early starters are in expansion mood. There is increased sophistication in the shopping pattern of consumers, which has resulted in big retail chains coming up in most metros; mini metros and towns being the next target. Consumer taste and preferences are changing leading to radical alteration in lifestyles and spending patterns which in turn is giving rise to new business opportunities. Companies need to be dynamic and proactive while responding to the everchanging trends in consumer lifestyle and behavior.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organised retailing makes up 3 percent or USD 6.4 billion. By 2010, organised retail is projected to reach USD 23 billion¹ and in terms of market share it is expected to rise by 20 to 25 per cent². The report also predicts a stronger retailer growth than that of GDP in the coming five years.

The generic growth is likely to be driven by changing lifestyles and by strong surge in income, which in turn will be supported by favorable demographic patterns. Rapid growth in international quality retail space brings joy to shoppers and shopping malls are becoming increasingly common in large cities, and announced development plans project at least 150 new shopping malls by 2008. The number of department stores is growing at a much faster pace than overall retail, at 24 per cent annually. Supermarkets have been taking an increasing share of general food and grocery trade over the last two decades.

Development of mega malls in India is adding new dimensions to the booming retail sector. Shopping experience in the nation of shopkeepers is changing and changing very fast. There is significant development in retail landscape not only in the metros but also in the smaller cities. Even ITC went one step ahead to revolutionize rural retail by developing 'Choupal Sagar' a rural mall. On one hand there are groups of visionary corporate working constantly to improve upon urban shopping experience and on the other hand some companies are trying to infuse innovative retail experience into the rural set up.

Consumer Trend

India is currently having the largest young population in the world and 54 per cent of India's population is below 25 years of age and 80 per cent are below 45 years. As per India's Marketing Whitebook (2006) by Businessworld, India has around 192 million households. Of these only a little over six million are 'affluent' – that is, with household income in excess of INR215, 000. Another 75 million households are in the category of 'well off' immediately below the affluent,

earning between INR45,000 and INR215,000. This is a sizable proportion which offers excellent opportunity for organized retailers to serve.

AC Nielsen's Retail and Shopper Trends 2004 Report made the following observations on shopper's behaviour in India:

- Indian shoppers spend an average of INR2500 on food, groceries and personal care items every month and
- convenience stores are booming in most markets, as the number of such stores exceeds 80,000.

According to the report, 48 per cent of shoppers in India admit that they 'love to try new things', making them the most novelty seeking shoppers around the region and total average monthly expenditure is only \$50, of this, \$21 is spent on fresh food, comprising 42 per cent of the entire monthly spend. Indians also appear to spend more on groceries and personal care items. Business communities believe that sizable disposable income in India is concentrated in the urban areas and well off and affluent classes; income distribution is unequal compared to other Asian economies. In fact, the 20 million middle class home in rural India equal the number in urban India⁴ and thus have the same purchasing power. Therefore, there is significant and considerable opportunity for organized retailers in the rural areas. There is no denying that the rural market holds immense promise for the organized retail but companies ponder over how to serve that market profitably.

Retail Drivers

On one hand favorable demographic and psychographic changes in the Indian consumer class, rising income, international exposure, availability of quality retail space, wider brand choice and better marketing communication are some of the factors driving Indian retail. On the other side a lot depends on the preparedness of Indian retailers in terms of having suitable formats, scalable business model, appropriate technology and relevant organization capability for the success.

Retail Space Development

Through the 1990s, organised retail in India added just 1 million sq. ft of space a year. Then, from 2001, the pace quickened dramatically. In 2003 alone, 10 million sq. ft was added by this fledgling industry. Now the story is completely different and the mall boom is all set to alter the competitive dynamics. Over 130 to 180 million sq ft of new mall space are estimated to come up

in the country in the next 3-5 years. Nearly 70% of the total new mall space coming up in FY07 and FY08 will be in the major cities reducing catchment areas for existing retailers. Key retail location like Mumbai (up 203% to 15mn), Delhi (up 527% to 23.2mn), Bangalore (up 128% to 4.1mn), Hyderabad (up 163% to 5.3mn), and Pune (up 188% to 23.2mn) are all seeing a mall construction boom and this space availability shall lower the barriers to entry. A state like Punjab is in the midst of mall boom. By the end of 2005 one single mall was operational with GRA of 1.2 lakh sq ft and by the end of 2008 there will be 37 malls operating with gross leasable area (GLA) of 15.2 million sq ft. Ludhiana is leading the way with 11 malls and GLA of 5 million sq ft.

Development of Retail Formats

It is difficult to fit a successful international format directly and expect a similar performance in India. The lessons from multinationals expanding to new geographies too point to this. For example, Wal-Mart is highly successful in USA but the story is different in Asian countries like China. Therefore, it is important for retailer to look at local conditions and insights into the local buying behaviour before shaping the format choice. Considering the diversity in terms of taste and preferences existing in India the retailers may go for experimentation to identify the winning format suited to different geographies and segments.

Malls

Mall development is phenomenal in India. The mall mania is spreading fast and entering even the second tier cities in India. Real estate developers are jumping very fast to take this further from Metro cities to smaller cities and corporate houses like ITC and Sriram group are making steady progress to make this phenomena feasible in rural market also. There is no denying that the top notch cities like Mumbai, Delhi, Bangalore, Hyderabad, Kolkata, Chennai and Pune are leading the way but the second tier cities like Ludhiana, Chandigarh, Nagapur and Surat are catching the eye of all retailers. Retail developers are in such a mood that they may over ride the requirement in a specific city.

Department Store

A department store offers an extensive assortment (width and depth) of goods and services that are organized into separate departments for the purpose of efficient buying, assortment, promotion and above all ease of shopping for the consumer. Such a format provides the greatest selection of any general merchandize and very often serves as the anchor store in shopping mall

or shopping centre. In India, the number of department stores is less compared to other retail formats such as supermarkets and discount stores. Shoppers' Stop is the first one to open a department store in the early 1990s and currently operates 19 stores in 10 different cities in India (Exhibit 3). The store strongly focuses on lifestyle retailing and mainly divides into five departments such as apparel, accessories, home décor, gift ideas and other services. Shopper's Stop is getting stronger and stronger year after year. It attracts more than 12 million shoppers every year with a conversion rate of 38 per cent. In the end of FY2000 this retailer had 5 stores and is in the process of reaching 39 stores with retail space of 2,502,747 sq ft by FY08.

Hypermarket

Hypermarkets have emerged as the biggest crowd pullers due to the fact that regular repeat purchases are a norm at such outlets. Hypermarkets not only offer consumers the most extensive merchandise mix, product and brand choices under one roof, but also create superior value for money advantages of hypermarket shopping. With product categories on offer ranging from fresh produce and FMCG products to electronics, value apparels, house ware, do it yourself (DIY) and outdoor products, the hypermarkets are becoming popular formats in India.. Number of players operating hypermarket format are increasing day by day. One of the leading players in this format is Pantaloon Retail India Limited (Exhibit 4) which operates 32 Big Bazaars in twenty cities. In early 2006, the K. Raheja Corp (C.L. Raheja Group) has introduced it's value retail concept Hypercity which is the country's largest hypermarket at 118000 sq ft. Hypercity carries product range varies from Foods, Homeware, Home Entertainment, Hi-Tech, Appliances, Furniture, Sports, Toys & Clothing. Hypercity Retail plans to open 55 hypermarkets by 2015. Reports in media indicate that Reliance is set to open its hyper market format called 'Reliance Mart' in Ahmedabad in December 2006 in 1.5 lakh sq ft of space¹³. As the market is expanding and consumers are in a mood to accept changes, hypermarkets are getting overwhelming response from consumer.

Supermarket

Unlike western countries where supermarkets are prominently visible, in our country this is lacking. The supermarkets largely concentrate on selling food related products and are considerably smaller in size compared to hypermarkets. Their value proposition is also different from the hypermarkets. The supermarkets offer relatively less assortments but focus on specific product categories. They do not play the game on price rather use convenience and affordability

as their salient features. In India this role is played by the provision stores and sweet shops. Interestingly the fresh vegetables and fruits are sold on the foot path and in open markets. Traditionally consumers feel conservative to buy fruits and vegetables from air conditioned supermarkets. They prefer to buy either from the local mobile vegetable sellers or from the nearest sabji market. Probably that works as deterrent factor for the growth of supermarkets in India. But the situation is changing and slowly supermarket operators are coming to their own. Food Bazaar operates in major cities in India with a floor space ranging from 6,000 sq ft to 16,000 square feet and the format sells both food and non-food items. The non-food items contribute about 22 per cent of total sales and rest is contributed by the food related items. A Food Store stocks an average of 7,000 stock keeping units (SKUs) and over 50,000 articles. The SKU's are divided into the broad categories - staples, fresh produce and branded foods, home & personal care products. Staples include groceries like rice, wheat, dal, spices and oils. Fresh produce comprise of fruits and vegetables, which are sold loose through the concessionaire arrangement. Along with national brands and local brands the store keeps private labels in some product categories such as utensil cleaners, preservatives and bakery products. For example in utensil cleaner category private label gives the highest margin about 25 per cent and commands a share of 50 per cent in the store. The private labels offer flexibility to both the retailer and the consumer on price front. The objective of the store is to offer variety at affordable price in each category. Food Bazaar is made the transition from a just grocery retailer to developing emotional bonding with shoppers by providing some value added services to the shoppers. Some of these initiatives include:

Juice counter: This provides customer to have fresh juices.

Live chakki: which allows customers to buy fresh wheat and have it grinded there at the store Fresh

Live kitchen: Customers have the option of buying vegetables, getting them chopped, cooked fully or partly. Soups, salads and sandwiches are also available.

Live dairy: This provides customers with fresh milk and milk products.

Convenience Stores

A Convenience store offers location advantage for the shoppers and provides ease of shopping and customized service to the shoppers. It charges average to above average prices, depending on the product category and carries a moderate number of stock keeping units (SKUs). Normally it

remains open for long hours and shoppers use it for buying fill-in merchandise and emergency purchases. In India, Convenience stores occupied 23 thousand sq. meter of retail space with sales of about Rs 1347 million in 2005 and are expected occupy 85 thousand square meter of selling space by 2010.

Discounters

Wal-Mart, the largest retailer in the world is a discounter. Practically the discounters offer several advantages such as lower price, wider assortment and quality assurance. The discounters like Wal-Mart and Aldi were able to quickly build scale and pass on benefits to the consumer. However, in the long run success depends on the operational efficiency and consistent value delivery to the consumer.

Branded Store

The major apparel brands in India are Madura Garments, Zodiac, Raymonds, Colour Plus and Arvind Mills. Some of branded apparel stores prominent in India are Madura Garments (140 stores), Weekender (75 stores), Benetton (100 stores), Grasim (110 exclusive showrooms), Madura Garments (40 stores), Wills Life style (40 stores), Lee (59 stores), Newport (500 stores), Wrangler (37 stores), John Players (80 stores) and Raymond. Raymond a nation wide retail chain has 260 Raymond shops deals in fabrics, apparels and accessories. In addition to that its distribution network includes 20 exclusive Park Avenue Parx stores, and 1,000 multi-brand outlets. These specialty stores sell the well known brands like Park Avenue, Parx, Manzoni and Be. Park Avenue is an upmarket brand, while Parx and Manzoni are targeted at the casual wear and the premium ranges respectively.

Retail Development in Rural India

Chennai based market research firm Francis Kanoi estimated the size of the rural market to be INR 1, 08,000 crore annually. During the survey in 2002 the firm took into account four categories - FMCG, durables, agri-inputs, and two- and four-wheelers for their estimation. Rural incomes are growing steadily as well. NCAER shows while the number of middle-class households (with annual income between Rs 45,000 and Rs 2.15 lakh) is at 16.4 million in urban India, the figure stands at 15.6 million¹⁸ in the rural areas, data from. Largely this rural market is untapped and there is huge opportunity for retailers. Therefore, in recent times rural retailing is witnessing explorations by both corporate houses and entrepreneurs – ITC's Choupal Sagar,

HLL's project Shakthi and Mahamaza are some of the models being tried out. At this juncture there is no conclusive evidence of winning rural retail formats available.

DSCL Haryali Kisan Bazaar

Hariyali stores keep wide range of product assortments such as fertilizers, pesticides, farm implements, seeds, animal feed and irrigation equipment among other agriculture-related products. They also have officers who offer free advices to farmers regarding best agriculture practices. Offering insurance and financial services to farmers is part of the business.

Mahindra & Mahindra Shubh Labh

This is the rural initiative taken by Mahindra & Mahindra group to provide complete package of products and services related to firm productivity. One of the basic objectives is to establish market linkage and optimize farm produce supply chain. There are about 36 franchised Shubh Labh store established in ten states in India.

Internet Retailing

The importance of internet retailing is growing all over the world. Some internet retailers such as ebay and rediff.com are providing a platform to vendors to sell their products online and they do not take the responsibility of delivering the product to buyer. They provide virtual shopping space to the vendors. On the other hand online retailers like amazon.com and walmart.com have to maintain their warehouse to stock products and take the responsibility of delivering products to the buyer. So, most of the brick and mortar stores are entering into online retailing as they have physical infrastructure and they can use that to capture additional consumer wallet. All the big retailers like Target, Sears and Kmart are operating online shop and some manufactures also operate online. For example Apple Inc. operates through apple.com and Dell Inc. sells its products online through dell.com.

Role of government

As in other countries, government policy can and should play an important role in modernizing the unorganized sector and improve its competitiveness. But question is what should be exact role of government. Should it go for policies for protection of traditional retailers by restricting organized retail or encourage organized retail to reap benefits that are generated by it? What should be mechanism to promote or protect one or other? Can government act only as a

facilitator or enablers or both? In the said context, it is imperative to develop a strategic roadmap for unorganized retail form to be able to survive, compete and keep the economy growing.

Challenges Ahead:-

- **Infrastructure:** Even though there is huge investment coming especially in the area of retail space development in the form of mall development, the challenges remain same from a retailer's view point as the cost to acquire retail space in mall is increasing.
- **Technology:** Technology is going to play a major role in retail development in India. Retailers are going to experience the impact of technology in retail.
- **Supply chain:** Till now most retailers in India have invested majorly into the front end but relatively little on the back end and supply chain. Even in countries like the USA, Germany and England where organized retail is highly developed supply chain efficiency is a concern.
- **Human resource:** Even though AT Kearny places India as most attractive retail market for the second consecutive year in a row but it is lagging behind in the retail labor index and positioned in the 8th place. At this point of time talent is in short supply and employee churn has been high for all players. It is very difficult to get experienced store managers to run stores.
- **Foreign Direct Investment** Though talk of opening up the retail sector for FDI has been making the rounds for quite some time now, no major breakthrough has happened yet.

The objectives of the research are:

- To find out the consumer behavior towards new retail formats (supermarkets/malls, hypermarkets, departmental stores etc) and unorganized (local Grocery stores, weekly bazaars etc) retail stores in Indore,
- To find out the consumers satisfaction level from retail stores

Conclusion

In the 2005 India Economic Summit, delegates conveyed mixed message about FDI but one final message was loud and clear that India's retail development is inevitable. Most of the organized retailers in India are harping on quality, service, convenience, satisfaction and assured benefits to lure shoppers into the store. Retailers should create value for the consumer and must

decide suitable vehicle to deliver desired consumer value. No doubt that retail format is one of the vehicles to deliver value proposition and also it helps to position the store in the mind of target shoppers. Probably in a growing market no one finds difficulty in pulling customer into store but that may not be sufficient to operate profitably. Retailers need to find out what matches consumer requirement and offer better than competition. Retailers certainly need to be innovative in designing the value proposition and deciding the format to deliver that to the consumer. It is not all about deciding the format but all about serving the consumer better, faster and at less cost. Retailers can use their store as an indicator of what they stand for and what value they offer.

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