

Evolving Retail Sector in India and Loyalty of Indian Consumers

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成長するインドの小売セクターと消費者のロイヤリティ

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1. Introduction

Retail is one of the largest sectors in many national economies. The retail industry accounts for over US\$15 trillion in global revenue, and is expected to maintain strong growth. The industry is very diverse, with small retailers still prevalent in developing countries, while large firms are dominating increasingly.

Globally, India is among the top 10 retail markets. In 2013, the Indian retail sector was estimated at US\$ 520 billion. By 2018, it is likely to grow at a compounded annual growth of 13% to reach a size of US\$ 950 billion.

Food and Grocery is the largest category in the retail sector with 60% share followed by Apparel and Mobile and Telecom segment. In fact, many of the new entrants into the retail sector have identified grocery, food and daily necessities, as the driver of customer acquisition.

In this changing business environment in India, there believed to be substantial opportunities for new entrants such as the Japanese retailers: supermarkets and convenience store chains. With this in mind, this study focuses on India's potential customers to those new entrants. Middle-class consumers' demand for new in-store services in relation to their store choices and loyalty is closely examined. In addition, India's traditional small-scaled retailers called kiranas, which account for approximately 90% of India's retail industry, are studied. Discussions also include challenges and issues facing the Indian organized sector, together with implications for the foreign new entrants.

2. Store Format Choice and Loyalty

The concept of store loyalty is derived from the concept of brand loyalty, which refers to the tendency to make repeat purchases of products of the same brand. Store loyalty refers to the tendency to repeatedly shop at the same store for similar or other products.

The concepts of loyalty and commitment are borrowed from the field of organizational behavior. There is inherently a large affective component in loyalty. Amongst other factors, loyalty has elements trust which is built over a period of time with repeated experiences at a store and is likely to be relatively stable over a long period of time. A loyal customer would give preference to a specific store and would tend to be far more forgiving of errors of the store. There would also be a tendency to resolve any dissonance that arises from dissatisfaction by increasing the value of other attribute where the store is better or by downplaying the importance of the store's weaknesses. Loyalty can be dislodged only if there is a major dissonance. Such dissonance can arise from a significant decrease in store performance or a large mismatch between changing customer expectations and store offerings. Dissonance will be tolerated only to a certain extent or threshold. Beyond that threshold, loyalty is eroded, usually in favor of another store. This paper will describe loyalty from the perspective of store choice by shoppers and will then discuss their patronage behavior.

Store choice is recognized as a cognitive process. It is as much an information processing behavior as any other purchase decision. Many similarities have been found between store choice behavior of shoppers and brand choice. The only difference is the importance of the spatial dimension. While brand choice is devoid of any geography, the choice of a store is very much influenced by location.

In a study of store choice behavior among audio equipment shoppers, it was found that the amount of pre-purchase information regarding the brand determined the type of store chosen. Shoppers who had higher levels of pre-purchase information generally shopped at specialty stores, whereas shoppers with low pre-purchase information bought at department stores. This is mainly attributed to the tendency of customers to adopt a risk reduction policy with regard to their impending purchase. The importance placed on the customer's familiarity with the store will depend upon the perceived risk in making an erroneous purchase and the importance of the product category to the shopper.

As an extension to the above study, the store choice problem has also been studied using the framework of diffusion of innovation propounded by Cunningham. This application highlights that the perceived risk attached to a product is transferred to the store and such transfer is more likely for product categories that are not dominated by strong brands. In such cases, the store becomes a product of sorts and apparently is susceptible to the same kind of risk handling analysis technique accorded to products.

Another dimension that has been found to influence the store choice decision is the type of shopping task. A task is defined as the goal set by the shopper to resolve the needs derived out of a specific situation. Store choice is differentiated by the nature of the task. The store choice is considered a decision across various tasks as described by respondents, such as 'urgent purchase', 'large quantities', 'difficult job', 'regular purchase', and 'get ideas'.

Store choice has also been found to be dependent on the socio-economic background of consumers and their personality and purchase experience. As compared to young shoppers, elderly shoppers tend to be less price-conscious and proximity of residence to store is not an important factor for them. They consider shopping as a recreational activity and thus choose a store that is perceived to be high on 'entertainment' value. Store choice is considered a dynamic decision and can be conceptualized as a problem of deciding when and where to shop. The decision regarding where to shop is the traditional store location choice problem, and the one regarding when to shop is the shopping trip incidence problem relating to the timing of shopping trips. The two decision processes are correlated. Store choice has also been found to be dependent on the timing of shopping trips as consumers may go to a local store for short 'fill-in' trips and may visit a more distant grocery store for regular shopping trips. Both these decisions are influenced by shopper characteristics and consumption patterns.

3. Research Objective and Methodology

In India, the middle-class is growing and the lifestyle of consumers is changing. As such, demand for grocery is shifting both in terms of quality and quantity. Kiranas, small-scaled traditional Indian retailers, account for approximately 90% of the Indian retail industry today. And yet local modern retailers which include supermarkets and hypermarkets are growing rapidly. With this in mind, I have conducted a study which focuses on the Indian consumers' cognition. The study was conducted in December 2012. Two cities in the southern state of Tamil Nadu, Chennai and Coimbatore, were selected as the sites of the research.

Chennai, capital of the southern state of Tamil Nadu, is the fourth largest city in India, has a population of 4.4 million. As an industrialized metropolis, the population of the Chennai industrial area reaches 7.7 million. Coimbatore is the second largest city of Tamil Nadu after Chennai, and has a population of approximately 1 million.

The study was conducted mainly as a form of Central Location Test. Middle-income consumers who reside in either Chennai or Coimbatore initially contacted were screened based on their qualifications as sample respondents. Here, middle income consumers are defined as those whose annual income is 200,000 rupees or over.

The respondents' age range was between 20's and 40's. 80 respondents from each city

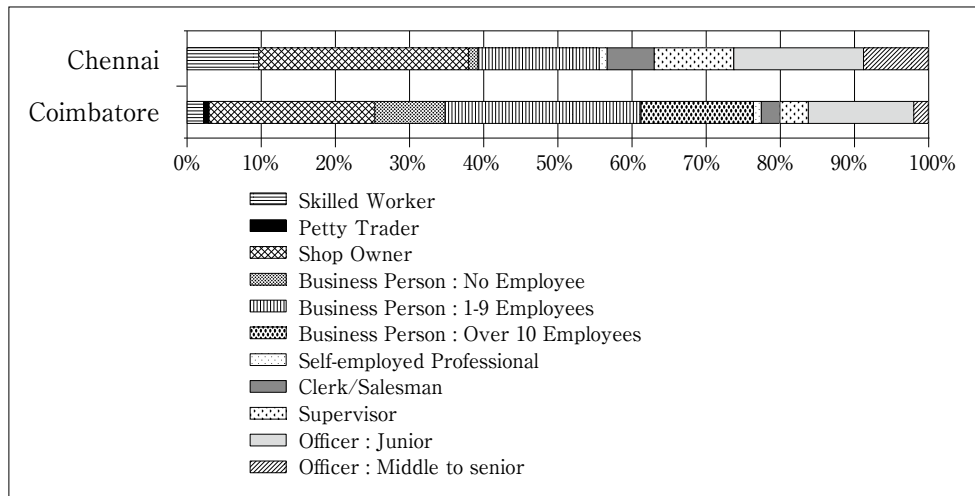
were selected and collected in a designated location in each of the two cities. The test was conducted as interviews on a one-on-one basis. The answers were analyzed and quantified to generate the implications. The questions asked in the interviews focused on the following areas.

- ① Evaluation of modern retailers and loyalty to those stores
- ② Satisfying and/or dissatisfying factors of the currently existing store formats; kiranas and modern retailers
- ③ Needs for in-store services
- ④ Others which include word-of-mouth influence, internet usage, and possession of credit cards.

The final respondents were divided into the following 4 groups.

- Group 1: Chennai residents who buy groceries on a daily basis at either a supermarket or a hypermarket
- Group 2: Chennai residents who bought electric appliances within 6 months prior to the test
- Group 3: Coimbatore residents who buy groceries on a daily basis at either a supermarket or a hypermarket
- Group 4: Coimbatore residents who bought electric appliances within 6 months prior to the test

Figure 1 Demographics of the Respondents: Occupation Held by Head of Household



Note: Figure developed by the author.

Table 1 Demographics of the Respondents: Gender and Age Ranges

			Gender		Total
			Male	Female	
Group 1	Age Range	20-24	7	7	14
		25-29	7	7	14
		30-34	7	7	14
		35-39	7	7	14
		40-44	6	6	12
		45-49	6	6	12
	Total		40	40	80
Group 2	Age Range	20-24	7	7	14
		25-29	7	7	14
		30-34	7	7	14
		35-39	8	7	15
		40-44	6	6	12
		45-49	5	6	11
	Total		40	40	80
Group 3	Age Range	20-24	5	8	13
		25-29	6	9	15
		30-34	5	7	12
		35-39	8	7	15
		40-44	5	9	14
		45-49	6	5	11
	Total		35	45	80
Group 4	Age Range	20-24	7	8	15
		25-29	7	6	13
		30-34	7	8	15
		35-39	7	7	14
		40-44	6	6	12
		45-49	5	6	11
	Total		39	41	80

Note: Table developed by the author.

Table 2 Demographics of the Sample Respondents: Annual Household Income

	Annual Household Income			
	Under 200,000-50,000 Rupees	Under 500,000-1 million Rupees	Under 1 million-3 million Rupees	3 million Rupees or Over
Chennai	57.5%	28.8%	12.5%	1.3%
Coimbatore	76.9%	20.6%	2.5%	0.0%
Overall	67.2%	24.7%	7.5%	0.6%

Note: Table developed by the author.

4. Store Choice Behavior of Indian Consumers

Given the Indian retailing environment, there is a growing need to evaluate the true drivers of shopping behavior in the Indian context. A large section of customers, for instance, feel that the new formats add insufficient additional value.

Table 3 Factors Related to Satisfaction/Dissatisfaction of Consumers

	Kiranans		Supermarkets/ Hypermarkets	
	Satisfied	Dissatisfied	Satisfied	Dissatisfied
Quality	72	74	94	8
Price (High/Low, Reasonability)	42	26	39	41
Operation	160	78	236	128
Site (Proximity/ Environment)	124	1	7	3
Extensiveness of Product Line	8	10	66	7
One-Stop-Shopping	0	4	124	0
Service (Delivery/ Credit/ Display)	20	6	16	8
Exterior/ Interior	1	23	4	1
In-store Ambience/ Congestion	1	16	4	21
Staff (Attentiveness/ Knowledge)	4	13	12	22
Time Consumption	2	1	3	58
Properness of Packaging	0	4	0	0
Parking Space	0	0	0	8
None	1	166	0	167

Note: Table developed by the author.

Table 4 Potential Needs for New In-store Services

	Will not use	Not likely to use	Don't know	Likely to use	Will definitely use
Utility Payment	0.6%	7.5%	4.4%	16.9%	70.6%
In-store ATM	1.6%	6.6%	8.1%	20.0%	63.8%
Reservation/Ticketing for Public Transportation	0.6%	0.0%	4.1%	29.1%	66.3%
Copying/Faxing	2.2%	2.2%	7.8%	32.2%	55.6%
Shipping/Receiving Packages	0.3%	1.3%	8.4%	25.6%	64.4%
Digital Printing	1.6%	2.8%	8.8%	32.8%	54.1%

Note: Table developed by the author.

Based on these findings, dissonance of the Indian consumers with the existing stores which include supermarkets has been identified. The dissonance observed may present significant business opportunities for the Japanese retailers which include convenience store chains. For instance, there believed to be strong demand for ready-to-eat lunch and delicatessen among the middle-class people: especially double income families, who wish to save time spent on housekeeping. If a store is equipped with facilities for providing various services which may include utility payment, reservation/ticketing for public transportation, and package shipping/receiving, then one-stop-shopping will be enjoyed by its customers. Further, clean and comfortable ambience, together with properly trained sales assistants based on the Japanese quality standards are likely to appeal to the Indian consumers.

The following are additional key observations from the study conducted.

- ① Convenience and merchandise are the primary reasons for choosing a store.
- ② Shoppers would like to minimize the effort of shopping by reducing either travel-time or time spent in the shop.
- ③ The gender and age of the shoppers greatly influence the choice of store. Monthly household income comes out as a significant factor as well.
- ④ Shoppers in the age group of 30-50 have the highest expectations from a store and hence used many more dimensions in making choices.
- ⑤ Men give more importance to proximity. Women tend to trade this off with the merchandise offered by the store. Also, women are more regular buyers of the store.
- ⑥ Ambience and facilities are more important when the shoppers spend more time in the store.
- ⑦ Brand spread in the merchandise is given greater importance in stores that not only carried the preferred brand but also gave an opportunity to compare other brands.
- ⑧ Many stores, such as cigarette and tobacco product outlets, are visited for reasons other the product.

The major drivers for choosing a grocery store seem to be proximity to place of residence and the comfort level that the respondent experiences in dealing with the store owner, as measured in terms of their personal relationship with the shopkeeper. However, product variety and convenient timings seem to be the primary impressions about the stores that respondents remember after visiting them. Similar variance in store choice drivers and post visit impressions were noted among other categories of stores.

5. Kirana Stores and Shoppers

Kirana stores are not distinctly visible, and the shopping complexes where the stores are located are usually not presuming. Usually the entrance of a kirana store is made of mud and is not paved. The entrance appears to be an extension of a house. The shop is usually small and do not have much space for customers to move in. The shopkeeper seems to be offended when anybody tries to get into the store. He prefers the transaction to be conducted over the counter. However, when a customer wishes to check the quality of rice or type of pulses, he/she would step into the store and moves around uncomfortably. The shopkeeper does not seem to mind this intrusion in case of regular customers. There is no place for any customer to sit. Only the shop owner sits occasionally.

Shelves were partially filled at the time of the study. Things were not kept in order, and were arranged haphazardly. Although each product had a specific shelf space, it was invariably covered with dust and not kept in any orderly manner. Many sachets and other items were dangling from the top right in the middle of the store, which made the store look cluttered. The counter was in order but appeared quite unappealing with the weighing machine right in front. The polythene packs were dumped just behind the counter. They were pulled out randomly whenever asked for by customers. The sacks containing rice and pulses were all kept on the floor, adding to the disorderly look of the store.

Suppliers came at their own leisure time and arranged their products in accordance with their convenience. The shop owner did not seem to mind this, and let the supplier arrange the items in any fashion.

Figure 2 Traditional Kirana Stores



Note: Photographs taken by the author

Observations of customers at the store indicated the following:

- ① Customers were primarily comprised of laborer-class consumers. They often purchased small quantities of essentials, i.e., dried pulses, rice, and cooking oil.
- ② Another set of customers were housewives from neighboring localities who did their

daily or weekly shopping.

- ③ The store offered home delivery to its long-term customers. Often, customers came and gave the storekeeper a list.
- ④ The neighboring shop owners would occasionally buy merchandise on credit. Laborers, on the other hand, made cash purchases. Regular customers had credit accounts.
- ⑤ Some women exchanged pleasantries, and only a few were chatty.
- ⑥ Rarely did any customer enquire about discounts.
- ⑦ A lot of children came to read comic strips in a local newspaper, which was kept beside the counter.

6. Organized Retailers in India

6.1. Major Local Players

The following represent the primary factors driving the organized retail sector¹.

- Higher incomes driving the purchase of essential and nonessential products: more and more evolving consumption patterns of Indian customers
- New technology and lifestyle trends creating replacement demand increase in rural income as well as urbanization
- Growth of modern trade format across urban, Tier I, Tier II and Tier III cities and towns²
- Rapid urbanization and growing trend towards nuclear families

Organized retailing in India is receiving global recognition and there is a change in its growth and investment pattern. Alongside the global players such as Wal-Mart, Carrefour, Tesco and Metro group, there are also growing domestic players. These include Reliance, KK Modi, Aditya Birla group, and Bharti group who are at various stages of their retail development.

¹ http://www.pwc.in/en_IN/in/assets/pdfs/industries/retail-and-consumer/retail-report-300812.pdf.

² Tier 1 refers to the metros such as Bombay, Delhi, Madras, Calcutta, Hyderabad, and Bangalor. Tier 2 cities are the next largest which include Coimbatore, Trivandrum, Cochin, Vizag, Mangalore, and Pune. Tier 3 refers to smaller cities such as Trichy.

Table 5 Key Indian Players in Organized Retail

Pantaron Retail Ltd. (Future Group venture)	Over 2 million sq. ft. of retail space spread over 35 cities with 65 stores and 21 factory outlets
Shoppers Stop (K Raheja Group venture)	Over 3.21 million sq. Ft. of retail space spread over 23 cities with 51 stores
Spencers Retail (part of RP-SG Group)	Retail footage of close to 1 million sq. ft. across 45 cities with 200 stores
Lifestyle Retail (Landmark Group venture)	Approximately 15 lifestyle and eight Home Centre stores
Bharti Retail	74 Easyday stores with plans to invest about 2.5 billion USD over the next five years to add about 10 million sq. ft. of retail space in the country
Reliance Retail	700 stores with revenue of 7,600 crore INR
Aditya Birla 'More'	575 stores with approximate revenue of 2,000 crore INR. Recently, purchased stake in Pantaloon Retail
Tata Trent	59 Westside stores, 13 Starbazaar hypermarkets and 26 Landmark bookstores

Source: PWC-FICCI Report on Indian Retail 2012.

6.2. Potential Foreign New Entrants and Challenges Faced

Large international supermarket chains such as Wal-Mart, Carrefour and Tesco have opened in many countries across the world. These countries include emerging economies such as Brazil, China, and Russia. And yet they have not been allowed to sell directly to shoppers in India; they can sell only as a cash and carry or a wholesale store. The allowance of only one-brand stores has not allowed Foreign Direct Investment (FDI) in multi-brand retail and this has made the entry of global retailers into the Indian organized retail sector challenging³.

Among these global retailers, Carrefour, a French international hypermarket chain, emphasizes huge potential in conducting retail business in India. Carrefour has grown to become one of the world's leading retail groups over the past 40 years. It is the world's second-largest retailer in terms of revenue after Wal-Mart and the largest in Europe. The reasons for its success throughout the world include the facilities it offers at its hypermarkets, such as one-stop shopping, low prices, self-service, and free parking.

Due to the lucrative benefits for players in the Indian retail market, Carrefour is expected to face several competitors. Local Indian competitors include Reliance Industries

³ The country, however, allows multi-brand retailers to enter the market through franchise agreements and 51% FDI in single-brand retail, 100% in cash and carry, and 0% in multi-brand retail is allowed.

Ltd., which plans to invest US\$ 6 billion in opening 1,000 hypermarkets and 1,500 supermarkets; Pantaloons plans to increase its retail space to 30 million ft² with a US\$ 1 billion investment. Also, Bharti Telecoms is in talks with British global giant Tesco for a \$750 million joint venture. Other international competitors such as Wal-Mart and Metro AG are also undergoing discussions to set up shops in India. And yet since the restriction of only one-brand stores has made the entry of these retailers difficult, Wal-Mart and Metro AG are trying to enter indirectly through franchise agreements and cash-and-carry wholesale trading.

7. Findings and Conclusions

Dissonance of the Indian consumers with the existing stores which include supermarkets has been identified. The dissonance observed may present significant business opportunities for the Japanese retailers which include convenience store chains. For instance, there believed to be strong demand for ready-to-eat lunch and delicatessen among the middle-class people; especially double income families, who wish to save time spent on house-keeping. If a store is equipped with facilities for providing various services which may include utility payment, reservation/ticketing for public transportation, and package shipping/receiving, one-stop-shopping will be enjoyed by its customers. Further, clean and comfortable ambience, together with properly trained sales assistants based on the Japanese quality standards are likely to appeal to the Indian consumers.

- ① Demand for ready-to-eat food and frozen food, which are popular in developing countries, is being accepted in a wide scale starting from the high-net-worth individuals. This is largely due to the changes in their lifestyle.
- ② There are significant needs for new services which include the following:
 - utility payment
 - reservations and ticketing for public transportation such as buses and trains
 - shipping and receiving of packages
- ③ Consumers who shop at retail stores place high value on not just the quality and prices of the goods but also the ambience of the store. Attentiveness and competence of the shop assistants are also regarded as important.

Indian retail presents several growth opportunities, but achieving this growth profitably has been a concern for the retailers in the market. The challenges that the Indian retail sector is facing include the lack of retail space and rising real estate prices due to increased demand. Trained manpower shortage has been also an issue. This is due to the fact that it is still difficult and expensive to find and retain well-educated people.

The key challenges for international retailers looking to enter the Indian sector also include an uncertain political environment of the country. Further, these global players would need to take serious consideration of consumer behavioral issues and policy implications.

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