

The study of Factors Affecting Consumer Preferences of Shopping at Organized Retail Stores in Delhi NCR

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Abstract- *The organized retail sector has experienced profound shift in the last decade due to change in the social, cultural & business environment. The primary focus of this research paper is consumer behavior & their shift towards organized retail shopping from traditional unorganized retail shopping taking into consideration of their purchasing pattern as well as shift in their perception which changes during their course of organized retail shopping experience. And also to check the hypothesis that the consumers prefer organized retail because of heavy discounts, ease of access and service delivery. This paper also highlights the challenges faced by retail industry.*

Keywords—Organized Retail, Unorganized Retail, Consumer Preference & Retail Growth.

I. INTRODUCTION

Retailing originated from the French word, “retailer” which means “cutting off, clip and divide” in tailoring. Retailing involves sale of goods and merchandise from a fixed location like a shop in small quantities for the direct consumption by the consumer. The retail industry in INDIA is contributing to the GDP and is also creating employment opportunities. Organized retail is playing important role in the developing countries. Unorganized retailers are also interested in staying in the market and compete with the organized retailers. Despite of this there are many challenges like lack of basic infrastructure, recognition of retail as industry, shrinkage etc. which are faced by retail industry in India. But still India has a tremendous future in retail industry because of the vast and untapped potential. Retail sector in India is divided into organized and unorganized retail sectors. The organized retailers are registered with the corporate business houses while conventional small stores, kirana shops are part of unorganized retail. In India the retail sector is expected to

increase up to \$675 billion by 2016. The growth of the organized retail has impact on the unorganized retail ^[1]. Unorganized retailers are competing with the organized retailers by upgrading technology and other service aspects. Indian retail industry contributes more than 13% to the GDP and this sector is expected to touch USD 1.3trillion by 2018. In this paper an attempt has been made to study the impact of the organized sector on unorganized sector. It provides detailed information about the growth of retail industry and customer movement from unorganized to organized retail. The retail sector has played an amazing role throughout the world in increasing productivity of consumer goods and services. The Indian retail industry is emerged as one of the most dynamic and fast growing industries with several players entering the market ^[2,3]. The organized retail segment is mainly dominated by the apparel and textile segment followed by the food, grocery and beverages segments^[4]. The Indian retail sector is largely dominated by unorganized retailers like the traditional family run stores and corner stores. The organized retail however is at a very beginning stage though attempts are being made to increase its proportion and infuse a huge opportunity for prospective new players. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India’s GDP. 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

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. This led to the evolution of organized retail industry and lately the concept of 'enclosed' shopping mall, providing an end-to-end shopping and entertainment experience from food courts, theatres to shopping outlets. In the ever-changing globalized and liberalized world of retailing, competition becomes the major organizational principle of marketing activities. In this dynamic business environment, consumer behavior, trends and issues of retailing are undergoing a transformation and continuously reshaping it for better business opportunities. This reshapes marketing and demand approaches to be altered accordingly. Thus all retail formats are taking challenge to formulate marketing strategies that will ensure them of achieving competitive advantage over other competing

formats. AT Kearney (2010) identified India as the third most attractive retail destination globally from among thirty emergent markets. As per this report Indian retail market is worth about \$410 billion, out of this 5% of sales are through organized retail. Further GRDI (2010) is of the view that Retail should continue to grow rapidly up to \$535 billion in 2013 with 10% coming from organized retail. Satish and Raju (2010) point out that retail sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population will take a higher growth trajectory^[15]. Changing life styles are promoting changes in retail environment. Time constraints and traffic congestion, increase in disposable incomes has created a need for new types of retail format. Getting the right product at right time at lowest possible cost is an advantage of consumers in the edge of retail transformation^[5-8].

Table.1: Global Scenario of Organized Retail

Country	Share of Organized Retail (in percentage)	Share of Unorganized Retail (In Percentage)	Remarks
India	6	94	Immense Opportunity for the growth of organized retailing.
China	20	80	Organized retail growth phase is going on.
South Korea	15	85	Immense opportunity for the growth of modern retailing
Indonesia	25	75	Organized retailing is developed.
Philippines	35	65	Organized retailing is developed
Thailand	40	60	Organized retailing is highly developed
Malaysia	50	50	Organized retailing is highly developed.

(Source: Articles on Retailing in Business Line, www.thehindubusinessline.com)

II. REVIEW OF LITERATURE

Literature review on parameters and attribute that, affect evaluation of store by consumer. Retailer accessibility to the customer is the set of options available to satisfy the product requirements. Product requirements refer to buying motives and their associated purchase criteria. Martineau (1958) categorized store attributes in two main categories: functional and psychological. The functional category includes attributes like location, assortment of products and store layout. The psychological category represents the feelings generated by the functional elements of the store. The former category has gained more attention in the subsequent research into store choice than the latter. Doyle & Fenwick (1975), propose that price, product variety, one-

stop shopping, quality, location of the store, advertisement, general appearance of the store and convenience are some major attributes looked upon by the consumers while evaluating a grocery store. The model proposed by Seth (1981), explained the competitive structure of the retail markets, the corporate image of the retailers, and the marketing activities influence the retailers' accessibility. Shaw et al (1992) in their opinion on the retailers and customer purchases stated that buyers use only a subset of product requirements to decide among many retailers when making an actual purchasing decision. Retailing is the one of the most dynamic and rapidly changing sectors of Indian industry. Multiple retail companies now dominate over unorganized retail sector and threatening their existence.

Arnold et al (1998) with reference to Wal-Mart discount departmental stores in United States of America that the impact on the other retail stores is high and many of which have at the disappearing stage. The unorganized retail sector face increased pressure from the organized retailers, super stores. Further as the economy and society has changed, so have retailers and shopping habits of consumers also altered tremendously (Dawson, 1988). Another study conducted by Morganosky (1997), on the structural changes in the retail markets and their implications on consumers revealed that due to the emergence of new retail formats, competition between retailers of organized and unorganized is tightening with pervasiveness and complexity of consumer cross shopping patterns across various retail channels. Brennan & Lundsten (2000), in their study on the consumer shopping habits identified that consumers shop at discounts for low prices and large variety and stores for the unique items they cannot find elsewhere. The closure of a small shop with a super store nearby would affect the residents of a local neighborhood differently compared to the closure of only shop in a small locality without a super store nearby and the decline in the number of small shops has different implications to the existing customers depending upon the locations and alternative options to shop (Smith & Sparks, 1997). If conventional unorganized retailers are to survive, it will be vitally important to understand what the residents in a particular community want from their retailers^[9]. Only those stores with a clear understanding of their customer wants and changes that are occurring within the market place can hope to survive by identifying and then satisfying some of those needs more effectively than their competitors^[10]. Independent, unorganized retailers have increasingly been under threat with the growth of major multiple retailers in the organized retail scene, but independent small shops operating in local community locations do serve a function whether it be a social or community one and provide a vital service to certain groups of consumers^[14]. Another study conducted by Radha Krishnan (2003), found that with the entry of superstores, the most affected stores are precisely the smaller stores, whose sales are associated with small areas, few number of employees, low sales volumes and the isolated stores (Stores that do not have partnership with other retailers). Brennan(1991), in his view on strategies adopted by the retailers opined that providing specialized services, offering better quality products and improved customer services were the most successful strategies, on the other hand increasing sales and promotions, lowering prices and increasing advertising were least successful. Mc. Gee

(1996) is also of the opinion that retailers facing threat from new discounters respond with lower prices and increased promotions. Covin & Covin (1990) also stated that small business strategies propose customer service and product specialization or customization as appropriate strategic moves. Among the other perceptions of the customer one of the most important factor they think and agree with is the new marketing concept which reduces their time and energy^[11, 12]. Among the other perceptions of the customer one of the most important factor they think and agree with is the new marketing concept of organized retailing that it reduces their time and energy^[13].

III. RESPONSE OF THE ORGANIZED&UNORGANIZEDRETAIL

The organized sector responded to the market potential very effectively which in turn increases its sales volumes in many folds in last decade. Majority of the population wanted to avail benefits and heavy discounts offered by organized stores and interested to stay in line with these stores which act as a facilitating agent for customer movement from unorganized to organized stores [Fig-IV].

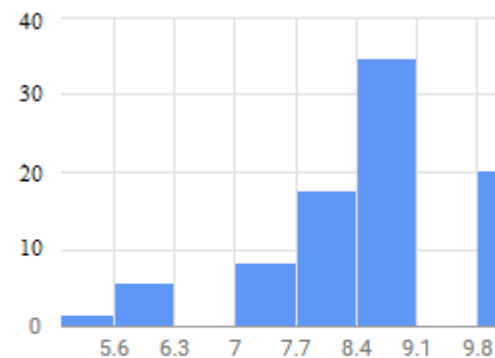


Fig-IV: Customer attraction due to heavy discounts & visual appeal of organized stores

While at the same time stores wanted to be competitive and provide various add on services like home delivery, easy exchange, easy return and refund policies. While on the other hand, unorganized sector have given competitive response to the organized sector by improving the business practices and upgrading technology to stay tuned with its huge customer base. And in the same way they extended credit facilities to attract more consumers like organized ones. Most of the unorganized retailers are committed to remain in their business, only 10 percent of them preferred to become the franchises of the organized retailers. Convenience is another important factor which turns customers towards organized stores [Fig-II].

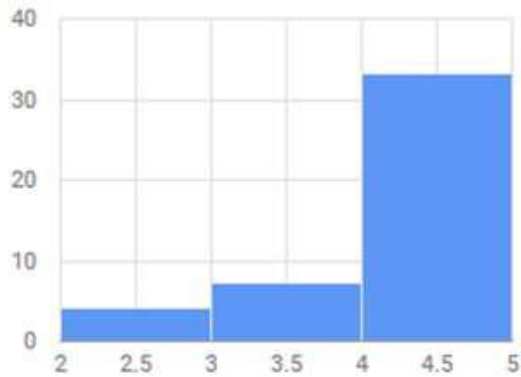


Fig-II: Relative importance of convenience factor & customized services provided by organized retail stores over unorganized stores

Customer wants that someone explain them about the product details and this is the competitive advantage of organized over unorganized sector, where they have plenty of trained executives who explains properly and motivates the potential customers to convert into buyers and buyers into loyal customers.

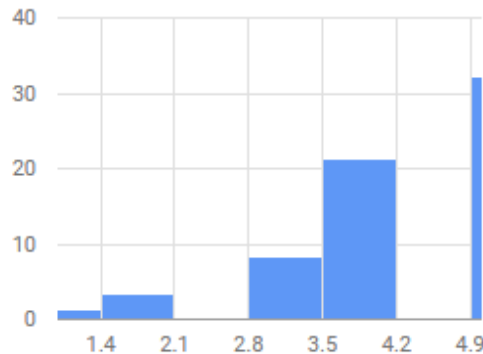


Fig-I: shopping frequency on a monthly basis

The shopping frequency is found to be high [Fig-I]. According to respondents, the accessibility and visual access are available at organized stores, which helps in price comparability over a range of products of similar kind from different companies and customers think it is an advantages over unorganized sector. Majority are in favor because of its time saving nature as organized retail provides one stop shopping for them. They are also happy with their management and their awareness campaigns via several marketing tools. Some respondents suggested that, if an interior map or guide provided to them at entrance would be a better experience and makes shopping easy. There should

be some seating arrangements for older people in case they are exhausted by shopping. Consumers also wanted that there should be a proper sign board or a guide is placed at entrance which navigates specific locations of the items to be found. Items should be synchronized in a way that largely needed products at the first row then the moderately needed products and finally putting the lesser needed items at the end of the store. The height of the rack and visibility of the products should be easy and clear and items should be attractively organized hence it could catch eyes of the buyer. Majority of population wanted regular discounts and home delivery options for smoother organized retail shopping experience. Majority of customers are in favor that they feel strong about recommending organized stores to others [Fig-V].

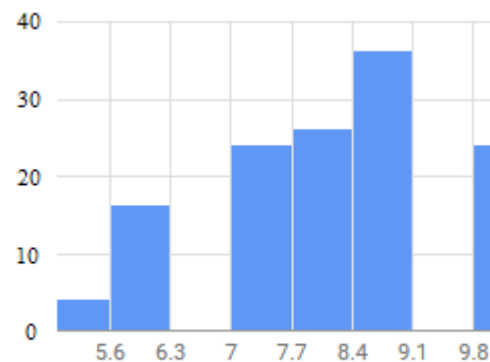


Fig-V: Likeliness of recommending organized retail stores to others

Also there should be option for requesting products not available and pass information after the availability to them, like wish list in E-Commerce sites. Respondents are highly satisfied with the shopping and value for money experience [Fig-III].

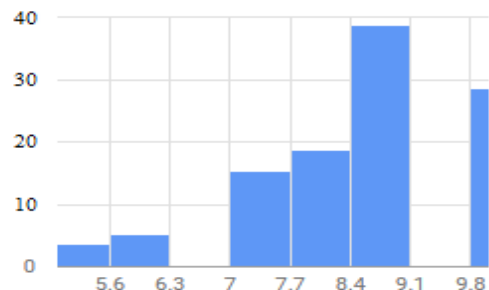


Fig-III: Value for money & satisfaction level against purchase- Organized stores

CHALLENGES OF RETAIL SECTORS SHRINKAGE

Retail shrinkage is the difference between the book value of stock and the actual stock or the unaccounted loss of retail goods. These losses include theft by employees, administrative errors, shoplifting by customers or vendor fraud. According to industry estimates, nearly 3-4% of the Indian chains turnover is lost on account of shrinkage. The organized industry players have invested IT, CCTV and antennas to overcome the problem of shrinkage.

CHALLENGES WITH RESPECT TO HUMAN RESOURCES

The Indian organized retail players shell out more than 7% of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees as there is a severe scarcity for skilled labour in India. The retail industry faces attrition rates as high as 50%, which is high when compared to other sectors. Changes in career path, employee benefits offered by competitors of similar industries, long and extended working hours and other prevailing conditions contribute to the high attrition. The organized retail segment in India is primarily dominated by the textile and apparel segment followed by the food, grocery and beverages segments. The changing customer preference and their changing consumption pattern is opening varied opportunities for retailing growth in Indian urban and suburban areas. There are several advantages of modern day organized retailing like, employment generation, better shopping experience by customers, creating a positive social change as well economies of scale. As per the reports issued by BCG, KPMG-indiaretailing.com and Deloitte, India has significant expansionary scope in organized retail of around 24% in 2020 (estimated) from 08% (2015-estimated).

IV. RETAIL SECTOR: RECOGNITION AS AN INDUSTRY STILL UNDER PROGRESS

The retail sector is not recognized as an industry by the government even though it generates the second largest employment next to agriculture. Lack of recognition as an industry affects the retail sector in the several ways. Due to the lack of established lending norms and consequent delay in financing activity, the existing and new players have lesser access to credit, which affects their growth and expansion plans. The absence of a single nodal agency leads to chaos, as retailers have to oblige to multiple authorities to get clearances and for regular operations.

V. LIMITATIONS

The findings of this research is prognostic, can provide a range of ideas for further research in the same domain but the time and manpower involved in this survey was limited and sample size was small. The primary objective of this paper is only giving an idea of consumer shift towards organized retail from unorganized retail with current status with growth perspective of organized retail industry and their competitive advantage over unorganized retail in the selected area. And this reveals customer movement and not overall shift. This research has traditional limitations associated with survey research such as selection errors, measurement errors and interviewers effect.

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