1. INTRODUCTION

1.1 INTRODUCTION TO RETAILING

“Retail is any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution” [1]. “Retailing includes all the activities involved in selling goods and services to the final consumers for personal and non-business use” [2]. “Retailing is said to encompass the business activities involved in selling goods and services to consumers for their personal family or household use” [3]. The primary sales volume of any retailer is generated mainly from the sale of products to customers for their personal or family consumption.

“Retailing is defined as a conclusive set of activities or steps used to sell a product or a service to consumers for their personal or family use. Retailer is referred to as a person, agent, agency, company, or organization who is instrumental in reaching the goods or services to the ultimate consumer” [4]. The North American Industry Classification System (NAICS) indicates that the retail sector consists of those businesses that primarily engage in selling products without modification and delivering services that supplement the sale of products.

1.2 GLOBAL RETAIL INDUSTRY

Retail industry has contributed to the economic growth and development of many countries in the world. The industry is one of the fastest changing and dynamic industries. Retail industry across the world is increasingly becoming more complex. Retailers are finding it difficult to increase and maintain their profit margins due to high operating costs, market saturation, the rise in multi-channel retailing, ageing population, less affluent buyers, reduced customer loyalty and the rise of digital media [5]. These factors forced the local retailers look outside for a prospective market to expand their business and increase profit margin.
Retail Internationalization has become a trend in the recent years as many foreign retailers are looking for opportunities in developing countries due to the already saturated markets in their home country. Retailers of the western countries have thus emerged as global retailers.

1.3 RETAIL INDUSTRY IN INDIA

India, as a country is on its mission to reach the zenith of economic development. Indian market is considered to be one of the very attractive places for doing business and investing money due to the availability of huge manpower, varied natural resources and strong macro-economic factors. The economy of India is also the fourth largest ranked country in terms of Purchasing Power Parity (PPP). Retail industry occupies a predominant place in the world economy as well as Indian economy. India has emerged as the most desirable retail destinations in the world. The industry is witnessing the entry of many new players in the market. The contribution of Indian retail sector towards country’s GDP and total employment includes 10 percent and 8 percent, respectively [74].

Indian retail industry has been ranked twentieth among the top 30 developing countries identified for investment in retail by AT Kearney [75], management consulting firm in their Global Retail Development Index (GRDI). Indian retail market is the fifth largest in the world. Indian The industry is undergoing a shift over in the recent years. Retail industry in India is receiving enormous attention both by the local and the international retailers in the last two decades. The retail industry provides second largest employment in India after agriculture and employs more than thirty five (35) million people [76]. Retail market in India is projected to increase at a Compounded Annual Growth Rate of 10 per cent from US$ 641 billion in 2016 to US$ 1.6 trillion by 2026 [74].
The growth in the retail sector is due to the rising income levels, growing middle-class population and an increased disposable income of households [6, 7]. These factors are in turn driven by improved standard of living, changing lifestyle of people, growing middle-class population, secondary income from working women, increased penetration of organized retailers, etc. [77]. A report by Cuts International [8] has identified various factors that impact the development of organized retailing in India. These include the growth in the retail customer base, increasing disposable income, technological advancements such as debit cards, credit cards and online shopping, and the attractiveness towards shopping under a single roof. These factors are also supplemented by other reasons such as additional income by the employed women, huge investment by the government in infrastructure development, changing lifestyle of the Indian youth and changing customer choice.

The McKinsey report [78] on, “The Bird of Gold: The rise of Indian Consumer Market” estimated four times growth in the Indian consumer market by 2025. It is this size of the opportunity that attracts global retailers like Wal-Mart, Tesco and Carrefour interested in starting their business operations in India despite government restrictions on foreign direct investment in retail sector. Scott Price, president and CEO of Wal-Mart Asia, has referred India as a potential future retail market for Wal-Mart due to the availability of highly educated workforce and young generation of population [9].

The Indian retail sector is divided into two categories namely organized retailing and unorganized retailing. Traditional stores, popularly referred to as kirana stores or mom-and-pop stores, hand cart vendors and pavement sellers are part of the unorganized retail segment. The unorganized retail sector alone contributes more than 70% of the total grocery sales in India [10]. There are about 12 million traditional retail stores that are extend across 5000 towns and 6,00,000 villages in India. These stores offer products according to the needs of
customers in the neighborhood, maintain low prices and are conveniently located in the neighborhood [6, 7, 11].

On the other hand, retail chains like Reliance Fresh, More, etc. and hypermarkets like Spar, Big Bazaar, etc. owned and operated by corporate businesses as well as other large stores owned by individuals or group of individuals which are registered as retailer companies and pay taxes come under organized retailing companies [79]. The retail industry in India is extremely fragmented with unorganized retailers dominating the industry. However, the retail sector in India is experiencing huge structural changes as traditional stores pave way for new store types like supermarkets, departmental stores, hypermarkets, specialty stores, etc. According to a report on Indian Retail Industry by Cygnus, a Business Consulting and Research Company [80], western-style malls have started mushrooming in metro cities and Tier II cities introducing the Indian retail customer to a shopping experience that was never like before. Indian grocery retail sector is moving towards modern grocery retailing in urban parts of the country.

Organized retailing, which is a recent phenomena in the Indian market constitutes only eight percent of the total share of retail market and is anticipated to grow faster than the traditional sector. The share of organized retailing is estimated at twenty percent by 2020. Among all the segments, clothing & apparel segment shares almost one third of the organized retailing, followed by food & grocery sector. Food and grocery segment of organized retail is the next promising area which attracts huge investments from business houses in India. The sector has been identified to have enormous opportunities. Many new formats of retailing have emerged similar to the western style stores in this sector.
1.4 INDIAN GROCERY RETAIL INDUSTRY

The opportunities in Indian food and grocery retail sector are enormous, as it constitutes about 60 percent (Figure 1.1) of India’s retail market as a whole [81]. The sale of food and grocery items has been the major business for a traditional grocer in India. However, the food and grocery sector is experiencing structural changes in the recent years. Modern formats of retailing such as supermarkets that sell food and grocery items along with other line of merchandise have introduced the Indian customers a never before shopping experience. Indian consumers are slowly moving from traditional grocery stores to supermarkets for buying food and grocery items.

Figure 1.1 Indian Retail Market Share
1.5 TRADITIONAL GROCERY STORES

Traditional grocery stores account for more than 70 percent of total grocery sales in India [10] and occupy a predominant position in the Indian retail industry [11]. Traditional grocery stores are the kirana stores or the mom and pop stores which are owned by members of the family and cater to smaller communities or smaller sections of the society. These stores are individually owned retail outlets that predominantly sell grocery items. Revenue generated by a traditional grocer is by way of selling groceries for household consumption. Traditional grocers are people who are very much acquainted with the people in the neighbourhood.

In India, the food and grocery industry is still dominated by the traditional grocers. Traditional grocers identify themselves with the community or section of the society they serve. They provide a personal touch in whatever they do or the way in which they serve. They understand local preferences and stock items that accordingly. They provide value added services like offering credit facilities to the customers in the neighbourhood.

1.6 SUPERMARKETS

Supermarkets are self-serviced retail stores offering wide range of food and household products categorized into various departments. Supermarkets were introduced and subsequently gained importance in the United States in 1930s. These stores gained momentum in the 1940s and 1950s. Today, supermarkets have spread almost across all developing countries. The change in the demographic and lifestyle characteristics of the Indian consumers especially, in urban areas has led to the emergence of this new format of retailing in India. Supermarkets make the life of today’s generation easier by providing a wide range of products under a single roof. Customers today club their shopping trips when they visit a supermarket.
1.7 BACKGROUND OF THE STUDY

The Indian food and grocery sector is witnessing tremendous changes in the recent years with the introduction of newer formats of retailing like supermarkets and hypermarkets. This transition and exposure to various formats of retailing has in fact affected the way customers shop for food and grocery items. Customers today have more retail store types to choose from for satisfying their shopping needs. The retail customers are also found to patronize multiple store types to buy food and grocery items. Therefore, academicians and retailers are forced to know the reasons as to why customers choose a particular shop to buy food and grocery items and the factors that influence their store format choice behavior. It is also important to know the reasons behind customers patronizing multiple store format for buying food and grocery items.

1.8 SCOPE OF THE STUDY

The food and grocery sector has been considered for the study to explore consumers’ behaviour in the retail industry. This is due to the fact that, food and grocery retail segment remains the major contributor to the Indian retail industry in comparison to all other retail segments in India [77]. Among the various retail stores that sell food and grocery items, the study has considered only the traditional grocery stores and the supermarkets. This is because the shopping basket across these stores predominantly contains food and grocery items.

The study is conducted in Chennai, the fourth metropolitan city in India. The city, Chennai was chosen due to large number of supermarkets and traditional grocery stores that compete directly with each other. In order to understand the cross shopping behaviour of customers, store attributes were employed as predictors of retail store format choice and attitude towards retail store. Consumer demographics were employed to understand their role in store format choice. Shopping motives were used as moderators in the present study.
Thus, by gaining a detailed insight into the retail store attributes, consumer demographics and various shopping motives, retailers might either formulate new strategies or modify existing strategies to be competitive in the retail environment. The study will add value to the already existing body of knowledge in the area of Retailing Management. The present study will also give better insight into the Indian retail industry as the study focuses on the two competing store formats in terms of food and grocery selling such as, supermarket and traditional stores that are familiar to the Indian customers.

1.9 PROBLEM STATEMENT

Substantial research has been carried out in the area of retail management to analyze retail consumer behavior and the determinants of customer patronage towards retail stores. However, these research studies have been conducted in countries like the United States and other European countries. These countries witnessed a retail revolution in 1970s and 1980’s and thus many studies were conducted to understand various perspectives of the retail industry. Recent years have seen the emergence of various retail formats in the Indian grocery retail sector and thus, it is time for the retailers in India to explore the behavior of grocery consumers. Consumers are now exposed to different retail formats to compare and take a decision on where to shop for food and grocery items. The development in the Indian retail industry has attracted both the retailers and academicians. Very few empirical studies were conducted in India to understand the store format choice behavior of retail customers. These studies were indeed spread across various retail categories. Indian consumers do not patronize a single format for buying food and grocery items. This behaviour of retail customers has been identified as a significant problem and owing to a greater scope in this particular segment, the researcher feels that an in depth investigation is necessary in this regard.
1.10 CONCLUSION

The neighbourhood traditional grocery retail store was the only option available to people in India for over a period of time. This is gradually paving way to different formats of retailing like departmental stores, supermarkets, hypermarkets, etc. The mushrooming supermarkets pose a great threat to the traditional grocery stores in recent times. Despite, the growth in the number of supermarkets, the traditional grocery store is still the convenient avenue for shopping for a large segment of people in the country. The food & grocery segment has experienced a minimum penetration of organized retailers at 2.8 percent due to greater supply of fresh produce and groceries from the traditional retailers (77). The traditional grocery stores are redefining themselves by adopting self-service store formats as well as providing value-added services like credit payments and door delivery. At the same time, we must understand that the boom in organized retailing is primarily confined to the urban areas in the country.

The reasons behind the slow penetration of organized retailing in other parts of the country may be attributed to two main reasons. First, the opportunities in the urban markets are enormous and these markets are yet to feel the saturation. Second, in spite of being cost-effective, the modern retailing is always been identified with the lifestyle of people. Thus, in order to attract all the strata of the society, retail stores must identify with varying lifestyles of customers. However, this trend has been already observed with the mushrooming retail stores with “value for money” image. The attributes of other stores primarily attracts affluent group of people as well as those who are aspiring to be part of this affluent group. Therefore, it is assumed that the revolution in the retail industry is along the lines of the developing Indian economy.