

## Effect of Retailing Naunces Society

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### **Retailing Overview**

India is witnessing an unprecedented consumption boom. The economy is growing between 7 and 9 percent and the resulting improvements in income dynamics along with factors like favorable demographics and spending patterns are driving the consumption demand.

Indian Retail Industry is ranked among the ten largest retail markets in the world. The attitudinal shift of the Indian consumer in terms of "Choice Preference", "Value for Money" and the emergence of organized retail formats have transformed the face of Retailing in India. The Indian retail industry is currently estimated to be a US\$ 200 billion industry and organized Retailing comprises of 3 per cent (or) US\$6.4 Billion of the retail industry. With a growth over 20 percent per annum over the last 5 years, organized retailing is projected to reach US\$ 23 Billion by 2010. The Indian retail industry though predominantly fragmented through the owner -run " Mom and Pop outlets" has been witnessing the emergence of a few medium sized Indian Retail chains, namely Pantaloon Retail, RPG Retail, Shoppers Stop, Westside (Tata Group) and Lifestyle International.

Given the attractiveness of the Indian retail sector, foreign retailers like Wal-Mart, Carrefour SA( Europe's largest retailer) and Tesco Plc( the UK's largest retailer) were keen to enter this growing market, despite the Indian retail sector being closed to foreign direct investment (FDI). In February 2006, the Indian Government had announced its decision to allow FDI of upto 51% in single brand retailing. Wal-Mart had said that India is high on its priority and that it is closely monitoring the Government's policy on FDI in the retail sector.

In the last few years, Indians have gone through a dramatic transformation in lifestyle by moving from traditional spending on food, groceries and clothing to lifestyle categories that deliver better quality and taste. Modern retailing satisfies rising demand for such goods and services with many players entering the bandwagon in an attempt to tap greater opportunities.

According to the 'Global Retail Development Index (GRDI) 2006' by the management consulting firm 'A.T. Kearney', India has retained it's topmost position in the annual study of retail investment attractiveness among 30 emerging markets.

The index is based on more than 25 macro-economic and retail-specific variables. For instance, the country risk includes parameters like political risk, economic performance, debt indicators, credit ratings, access bank finance and business risk. The market attractiveness covers retail sales per capita, urban population, laws and regulations and business efficiency. Similarly, market saturation captures share of modern retailing, number of international retailers etc. and time pressure has been calculated as the sum of CAGR (2000- 2005) of the retail sales and the retail sales area weighted by the CAGR of the GDP between 2000-05. The study quotes: "The Indian retail market is gradually but surely opening up, while China's market becomes increasingly saturated. Similarly, Asia has dislodged Eastern Europe as the most attractive region".

### **Growth of Retailing Industry**

#### **The Growth Drivers**

The Indian Retail growth can be attributed to the several factors including

- *Demography Dynamics:* Approximately 60 per cent of Indian population below 30 years of age.
- *Double Incomes:* Increasing instances of Double Incomes in most families coupled with the rise in spending power.
- *Plastic Revolution:* Increasing use of credit cards for categories relating to Apparel, Consumer Durable Goods, Food and Grocery etc.

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- *Urbanization*: increased urbanization has led to higher customer density areas thus enabling retailers to use lesser number of stores to target the same number of customers. Aggregation of demand that occurs due to urbanization helps a retailer in reaping the economies of scale.
- *Covering distances has become easier*: With increased automobile penetration and an overall improvement in the transportation infrastructure, covering distances has become easier than before. Now a customer can travel miles to reach a particular shop, if he or she sees value in shopping from a particular location.

### **Technology in Retail**

Over the years as the consumer demand increased and the retailers geared up to meet this increase, technology evolved rapidly to support this growth. The hardware and software tools that have now become almost essential for retailing can be into 3 broad categories.

- Customer interfacing systems
- Operation support systems
- Strategic decision support systems

### **Customer Interfacing Systems**

- *Bar Coding and Scanners*: Point of sale systems use scanners and bar coding to identify an item, use pre-stored data to calculate the cost and generate the total bill for a client. Tunnel Scanning is a new concept where the consumer pushes the full shopping cart through an electronic gate to the point of sale. In a matter of seconds, the items in the cart are hit with laser beams and scanned. All that the consumer has to do is to pay for the goods.
- *Payment*: Payment through credit cards has become quite widespread and this enables a fast and easy payment process. Electronic cheque conversion, a recent development in this area, processes a cheque electronically by transmitting transaction information to the retailer and consumer's bank. Rather than manually process a cheque, the retailer voids it and hands it back to the consumer along with a receipt, having digitally captured and stored the image of the cheque, which makes the process very fast.
- *Internet*: Internet is also rapidly evolving as a customer interface, removing the need of a consumer physically visiting the store.

### **Operation Support Systems**

- *ERP System*: Various ERP vendors have developed retail-specific systems which help in integrating all the functions from warehousing to distribution, front and back office store systems and merchandising. An integrated supply chain helps the retailer in maintaining his stocks, getting his supplies on time, preventing stock-outs and thus reducing his costs, while servicing the customer better.
- *CRM Systems*: The rise of loyalty programs, mail order and the Internet has provided retailers with real access to consumer data. Data warehousing & mining technologies offers retailers the tools they need to make sense of their consumer data and apply it to business. This, along with the various available CRM (Customer Relationship Management) Systems, allows the retailers to study the purchase behavior of consumers in detail and grow the value of individual consumers to their businesses.
- *Advanced Planning and Scheduling Systems*: APS systems can provide improved control across the supply chain all the way from raw material suppliers to the retail shelf. These APS packages complement existing (but often limited) ERP packages. They enable consolidation of activities such as long term budgeting, monthly forecasting, weekly factory scheduling and daily distribution scheduling into one overall planning process using a single set of data.
- *Leading manufactures*, distributors and retailers are considering APS packages such as those from i2, Manugistics, Bann, MerciaLines and Stirling-Douglas.

### **Strategic Decision Support Systems**

- *Store Site Location*: Demographics and buying patterns of residents of an area can be used to compare various possible sites for opening new stores. Today, software packages are helping

retailers not only on this decision but also in decisions regarding store sizing and floor-spaces as well.

- *Visual Merchandising*: The decision on how to place & stack items in a store is no more taken on the gut feel of the store manager. A larger number of visual merchandising tools are available to him to evaluate the impact of his stacking options. The SPACEMAN Store Suit from AC Nielsen and ModaCAD are example of products helping in modeling a retail store design.

### **Investment Opportunities**

- *Potential for Investment*: The total estimated Investment Opportunity in the Retail sector is around US\$ 5-6 Billion in the next five years.
- *Location*: With modern Retail formats having made their foray into the top cities namely Hyderabad, Coimbatore, Ahmedabad, Mumbai, Pune, Chennai, Bangalore, Delhi, Nagpur etc.
- *Sectors with High Growth Potential*: Certain segments that promise a high growth are
  - Food and Grocery (91 per cent)
  - Clothing (55 per cent)
  - Furniture and Fixtures (27 per cent)
  - Pharmacy (27 per cent)
  - Durables, Footwear & Leather, Watch & Jewellery (18 per cent)
- *Fastest Growing Formats*: Some of the formats that offer good growth potential are:
  - Specialty and Super Market (45 per cent)
  - Hyper Market (36 per cent)
  - Discount stores (27 per cent)
  - Department Stores (18 per cent)
  - Convenience Stores and E-Retailing (9 per cent)
- *Supply Chain Infrastructure*: Supply chain infrastructure in terms of cold chain and Logistics.
- *Rural Retail*: Retail sector offers opportunities for exploration and investment in rural areas, with Corporates and Entrepreneurs having made a foray in the past. India's rural population has caught the eye of retailers looking for new areas of growth. ITC launched the country's first rural mall ' Chaupal Sagar', offering a diverse product range from FMCG to electronics appliance to automobiles, attempting to provide farmers a one-stop destination for all of their needs. There has been yet another initiative by the DCM Sriram Group called the ' Hariyali Bazaar', that has initially started off by providing farm related inputs and services but plans to introduce the complete shopping basket in due course. Other corporate bodies include Escorts and Tata Chemicals (with Tata Kisan Sansar) setting up agri-stores to provide products/services targeted at the farmer in order to tap the vast rural market.
- *Wholesale Trading*: Wholesale trading also holds huge potential for growth. German giant Metro AG and South African Shoprite Holdings have already made headway in this segment by setting up stores selling merchandise on a wholesale basis in Bangalore and Mumbai respectively. These new-format cash-and-carry stores attract large volumes from a sizeable number of retailers who do not have to maintain relationships with multiple suppliers for all their needs.
- *Cheap Consumer Credit*

**Major Formats of In-Store Retailing**

<u>Format</u>	<u>Description</u>	<u>The Value Proposition</u>
Branded Stores	Exclusive showrooms either owned or franchised out by a manufacturer.	Complete range available for a given brand, certified product quality
Specialty Stores	Focus on a specific consumer need, carry most of the brands available	Greater choice to the consumer, comparison between brands is possible
Department Stores	Large stores having a wide variety of products, organized into different departments such as clothing, house wares, furniture, appliances, toys, etc.	One stop shop catering to varied/ consumer needs.
Supermark-ets	Extremely large self-service retail outlets	One stop shop catering to varied consumer needs
Discount Stores	Stores offering discounts on the retail price through selling high volumes and reaping economies of scale	Low Prices
Hyper- mart	Larger than a supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city	Low prices, vast choice available including services such as cafeterias.
Convenience stores	Small self-service formats located in crowded urban areas.	Convenient location and extended operating hours.
Shopping Malls	An enclosure having different formats of in-store retailers, all under one roof.	Variety of shops available to each other.

**Foreign Direct Investment Policy in Retail**

- *Foreign Direct Investment (FDI)*: To the extent of 100 per cent in Cash and Carry Wholesale formats. Franchisee arrangements are also permitted in retail trade.
- *Single Brand Products*: FDI upto 51 per cent is permissible in the retail trade of single brand products subject to the following conditions.
  - Products to be sold should be of a 'Single Brand' only.
  - Products should be sold under the same brand Internationally.
  - 'Single Brand' product retailing would cover only products which are branded during manufacturing

**Changing lifestyle of customers**

By the turn of the 20th century the face of the Indian retailing industry had changed significantly. The retailing industry, which, until the early 1990s was dominated by the unorganized sector witnessed a rapid growth in the organized sector with the entry of corporate groups such as Tata, RPG, ITC and Bennett Coleman & Company. The Indian customers witnessed an increasing exposure to new domestic and foreign products through different media, such as television and the Internet. Apart from this, social changes such as increase in the number of nuclear families and the growing number of working couples resulting in increased spending power reflects the Indian consumers personal consumption. Increased availability of retail space, rapid urbanization, and qualified manpower also boosted the growth of the organized retailing sector.

Food retailing was a key area that saw some actions at the national level, with players like Food world and Subhiksha, establishing stores all over India. While supermarket and departmental chains replaced traditional grocery and general store formats, introduction of fast foods (McDonalds), packaged foods (MTR), vending machines and specialty beverage parlors (Nescafe, Tata Tea, Cafe Coffee and Barista) brought about significant changes in the eating habits of Indian consumers.

However, it was the non-food sector that saw tremendous action, with the introduction of new product segments. These segments mainly comprised lifestyle/apparel/ fashion/accessories (Shoppers Stop, Westside, Lifestyle, Pantaloons, Reebok), books/music (Landmark and Crosswords), drugs and pharmacy and beauty (Health & Glow, CavinKare and Shahnaz Husain). The emergence of new segments also resulted in new store formats, including hypermarkets, large supermarkets (3,500-5,000 sq.ft), mini supermarkets (1,000-2,000 sq.ft), convenience stores (750-1000 sq.ft) and discount/shopping/grocer. According to reports, organized retailing, which accounted for about 6% of the total Retail industry in 1999, was expected to increase to about 20% by 2005.

The Indian FMCG industry was also witnessing significant changes through the 1990s. Many leading FMCG players such as Hindustan Lever Ltd. (HLL) and Procter & Gamble India Ltd. (P&G) have been facing severe problems on account of increased competition from small and regional players and from slow growth across its various product categories. As a result, many of these companies were forced to revamp their product, marketing, distribution and customer service strategies to strengthen their position in the market.

The realization of the customer's growing awareness and the need to meet changing requirements and preferences on account of changing lifestyles also contributed to the formulation of customer-centric strategies. HLL led the way in revolutionizing the product, market, distribution and service formats of the FMCG industry by focusing on rural markets, direct distribution, creating new product, distribution and service formats such as Sangam, Ayush Ayurvedic Center and Lakme Salons.

The primary data collection study was conducted by providing structured questionnaires, targeting retailer such as V mart, small shops and even to the consumers visiting retails in Vytilla, Kochi. The results are being provided in graphical representation below taking into consideration of their age giving scores (details provided in sample questionnaire attached). Some factors have been identified that generate marginal as well as diversified changes in the attitude and lifestyle of consumers. The factors are satisfaction, Interest, Confusion, Enthusiasm and Selection & Time.

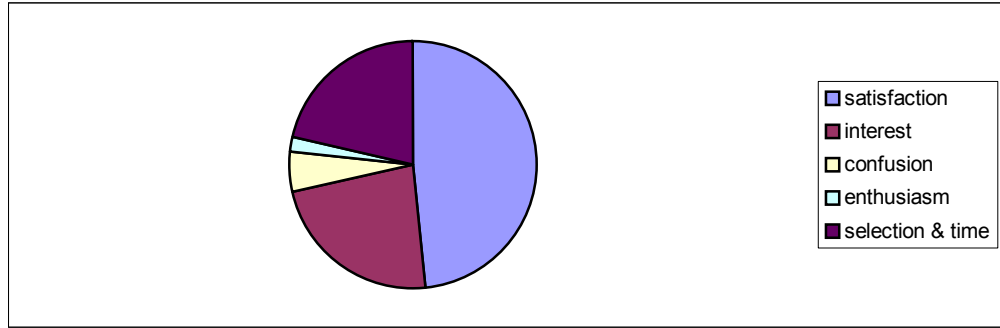
Questions numbers, which link and differentiate these characteristics on the questionnaire, is given below:

Satisfaction	1,6,7,11,14,18,19
Interest	4,5,10,20
Confusion	15,16
Enthusiasm	3

The graphical representation are given below:

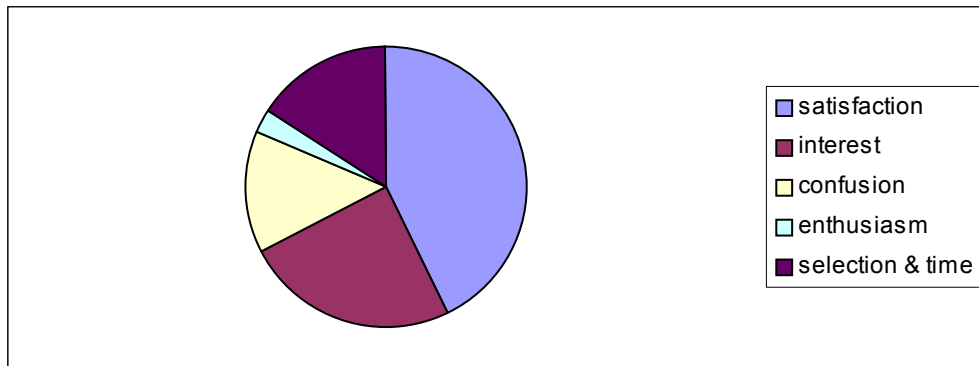
For Age 21-29

Satisfaction	27
Interest	13
Confusion	4
Enthusiasm	1
Selection & time	12



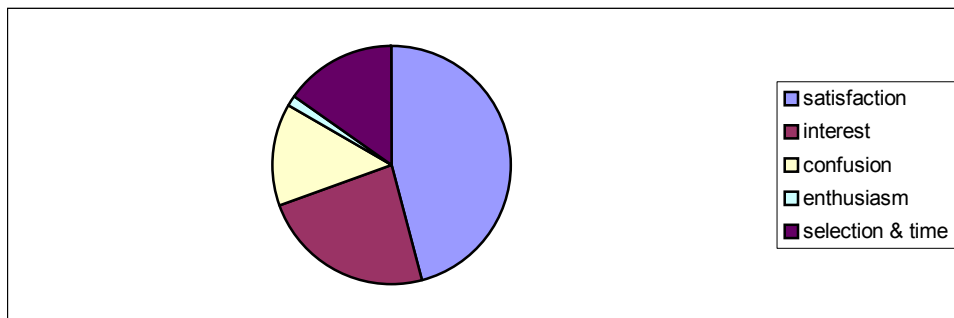
For Age 30-39

Satisfaction	30
Interest	17
Confusion	10
Enthusiasm	2
Selection & time	11



For Age 40-49

Satisfaction	33
Interest	17
Confusion	10
Enthusiasm	1
Selection & time	11



**Huge retail industry has produced employment and competition**

**Increase in Employment:**

**Created Employment for semi-skilled and unskilled people.**

**How competition has increased?**

**Indian Retail- expanding the number of formats**

In modern Retailing, a key strategic choice is the format. Innovation in formats can provide an edge to Retailers, ranging from discount stores to supermarkets & hypermarkets and specialty chains. Formats Adopted by Key Players in India is shown in the exhibit below:

<u>Retailer</u>	<u>Original formats</u>	<u>Later Formats</u>
RPG Retail	Supermarket (Foodworld)	Hypermarket (Spencer's) Specialty Store (Health and Glow)
Piramal's	Department Store (Piramyd Megastore)	Discount Store (TruMart)
Pantaloon Retail	Small format outlets (Shoppe) Department Store (Pantaloon)	Supermarket (Food Bazaar) Hypermarket (Big Bazaar) Mall (Central)
K Raheja Group	Department Store (shopper's stop) Specialty Store (Crossword)	Supermarket (TBA) Hypermarket (TBA)
Tata/ Trent	Department Store (Westside)	Hypermarket (Star India Bazaar)
Landmark Group	Department Store (Lifestyle)	Hypermarket (TBA)
Others	Discount Store (Subhiksha, Margin Free, Apna Bazaar), Supermarket (Nilgiri's), Specialty Electronics	

**Road Ahead; Plans of Large Retailers**

- *Reliance Retail*: Investing Rs.30,000 crore (\$6.67 billion) in setting up multiple retail formats with expected sales of Rs.90,000 crore-plus (\$20 billion) by 2009-10.
- *Pantaloon Retail*: Plans to occupy 10 mn sq.ft retail space and achieve Rs.9,000 crore-plus (\$2 bn) sales by 2008.
- *RPG*: Planning IPO, will have 450-plus Music World, 50-plus Spencer's Hyper covering 4 mn sq.ft by 2010.
- *LIFESTYLE*: Investing Rs.400 crore-plus (\$90 mn) in next five years on Max Hypermarkets & value retail stores, home and lifestyle centers.
- *Raheja's*: It Operates Shoppers Stop, Crossword, Inorbit Mall, and 'Home Stop' formats. Will operate 55 Hypercity hypermarkets with US\$100 million sales across India by 2015.
- *Piramyd Retail*: Aiming to occupy 1.75-million sq.ft retail space through 150 stores in next five years.
- *TATA (Trent Ltd.)*: Trent to open 27 more stores across its retail formats adding 1 mn sq.ft of space in the next 12 DLF malls. Titan industries to add 50-plus Titan and Tanishq stores in 2006.

**Problems to the business of small shops:**

India is the country having the most unorganized retail market. Traditionally the retail business is run by Mom & Pop having Shop in the front & house at the back. More than 99% retailers function in less than 500Sq.Ft of area. All the merchandise was purchased as per the taste & vim and fancies of the proprietor. The pricing was done on ad hock basis or by seeing at the face of customer. Generally the accounts of trading & home are not maintained separately. Profits were accumulated in slow moving & non-moving stocks which were to become redundant or consumed in-house. Thus profits were vanished without their knowledge. The Manufactures were to distribute goods through C & F agents to Distributors & Wholesalers.

Retailers happen to source the merchandise from Wholesalers and reach the end-users. The merchandise price used to get inflated to a great extent till it reaches from Manufacturer to End-user. Selling prices were largely not controlled by Manufacturers. Branding was not an issue for majority of customers. More than 99% customers were price sensitive & not quality or Brand Sensitive at the same time they are Brand conscious also. Weekly Bazaar in many small towns was held and almost all the commodities were on the scene including livestock. Bargaining was the unwritten law of market hence market was controlled by handful of distributors and/or Wholesalers.

Virtually there was only one format of retailing & that was mass retail. Retailer to consumer ratio was very low, for all the categories without exception. Variety in terms of quality, Styles were on regional basis and very low range was available at any given single place. Almost all the purchases / (buying) by mass population was need oriented & next turn may be on festivals, Marriages, Birthdays & some specific occasions.

Impulsive buying or consumption is restricted to food or vegetables etc. Having extra pair of trousers or Shirts or Casuals & Formals or leisure wear & sports wear or different pair of shoes for occasions is still a luxury for majority population except for those living in Metros. However electronic & electrical home appliances do hold appropriate image into the minds of these consumers. In the coming times also majority of organized retailers will find it difficult to keep balance with rest of the unbranded retail market which is very huge.

Problems faced by Small shops at Vytilla, Kochi

- ❏ *Job losses*: Since mom-and-pop stores provide job opportunities to semi-skilled and unskilled people.
- ❏ Small retailers sell items like pulse, rice, sugar and edible oil much cheaper
- ❏ Established Branded Retailers are price-competitive
- ❏ Large retailers get the suppliers to mark up the price significantly on which the large retailer offers a huge discount subsequently.
- ❏ Government is administering 'slow poison' to the extant small retailers.
- ❏ There is a large change in atmospherics of small shops due to competition from Big Retailers(V-mart in vytila, Mithra, FabMall)
- ❏ Huge expenses were made to change store layout to satisfy the customers and to make repeat purchase.

These are the problems related to small shops due to huge marketing(Retail) outlet like V-mart in Vyttila

### **Future of Retail**

- *Shoppertainment*: It will be a convergence of shopping, entertainment and eating. Shopping and entertainment together called Shoppertainment is targeted at the family. It's more than just shopping.
- *E-tailing*: Is the selling of retail goods on the Internet. Short for "electronic retailing". The term seems to be almost inevitable addition to e-mail, e-business, and e-commerce. It is synonymous with business-to-consumer (B2C) transaction.

### **Conclusion**

So these are the main points to be discussed conceptually to prove retail chains effect on small shops. Taking into consideration customer who are loyal to certain shops it can be seen that there is also a shift in these loyal customers too when making purchasing decision. They are also being attached towards these large retail shops. It can be linked in such a way that knowledge of customers has made changes to preferences of customers, lifestyle of customers. This has been flavored with the inputs from new innovative retailing outlets, CRM etc. It can be found that there is high preference given to needs and wants of customers. Altogether it can be stated that competition is always persistent in retailing which can hinder the small shops in future.