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Factors affecting Customer Preference for Organized & Unorganized Retailing- A Study of Indian Retail Industry

(With special reference to food & grocery items)

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Abstract

The Indian retailing sector is at an inflexion point where the growth of organized retailing and consumption by the Indian population is going to take a higher growth trajectory. The Indian population is observing a noteworthy demographics change. Increasing young working population under age of 24 years, sharp rise in the per capita income, an increase of dual income nuclear families in the urban areas, along with increasing working women population, internet revolution and emerging opportunities in the services sector are going to be the key growth drivers of the organized retail sector in India. The whole model of shopping has altered in terms of format and consumer shopping behavior pattern, which ultimately could lead to a shopping revolution in India.
This changing retail scenario necessitates a need to study shifting preferences of consumers towards various retail formats and whether there is any relation between the demographic profile of the consumers and preferred retail format and does income besides other family attributes play a role in selection of the retail formats, are some of the questions require a probe in. Chi square test was used to study the impact of demographic factors on purchase orientations of the customers. It was found out that majority of the customers preferred organized retail stores over kirana stores, because of its product variety, promotional offers etc., whereas kirana stores are preferred because of the credit facility.

Keywords: **Organized Retailing, kirana stores, retail formats, hypermarkets, consumer preference.**

1.Introduction

Retailing in India is one of the pillars of its economy and accounts for 10% of its GDP (Dixit, 2014). The Indian retail market is estimated to be US$ 600 billion with a CAGR of 15% over the last five years, which is much higher than the growth of Indian GDP in the same period and is expected to double to US$ 1trillion by 2020 (Source: IBEF). It is one of the top five retail markets in the world by economic value and employs about 8% of the population. Further, with the online medium of retail gaining more and more acceptance, there is a tremendous growth opportunity for retail companies, both domestic and international.
As of 2013, India's retailing industry was essentially owner manned small shops. Larger format convenience stores and supermarkets accounted for just about 8% percent of the industry, and these were present only in large urban centers. However, the organized retail sector is now expanding and modernizing rapidly in line with India's economic growth and recent Government of India's initiatives, and is expected to capture 20% of the country's retail market by 2020. ("Retail Global, 2011).
The Indian Retail Industry in the single brand segment has received FDI equity inflows to the tune of US$ 275.38 million in the period of April 2000-January 2015. (Source: DIPP)
With this changing retail scenario, the total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. With the emergence of organized stores, apprehensions about the closure of unorganized retail outlets have been expressed.

However, the success or failure of any retail outlet depends on the attitude of customers towards it. Hence, this study would attempt to determine the differences in the attitude and preferences of consumers towards unorganized and organized retailers and predict the future of unorganized retailers in India by analyzing responses.

2.Literature Review:

Mathew and Gupta (2008) while studying the impact of organized retailing on traditional retailing observed that with the increase in number of various formats for shopping like malls, departmental stores, hypermarkets etc., the Indian consumer's preferences are changing towards these.
Similar observations were reported by Urvashi Gupta (2012) in her study in Jammu. Arshad et al., (2007) have found that dynamics of the demographics, double income, urbanization and internet revolution tilt the consumer's preference towards organized retail outlets.
The study by Jasola (2007) highlights that malls, specialty stores, discount stores, department stores, hypermarkets, supermarkets, convenience stores and multi-brand outlets are the most preferred retail formats in India. In the organized sector, super-markets contribute to 30% of all food and grocery retail sales.
A study by Mishra & Dash (2008) points out that 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.
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).
Ghosh and Tripathi (2010), attempted to analyze purchase pattern of customers towards organized retail outlets in terms of merchandise categories purchased, time spent within the store, number of merchandise purchased on each visit, stores switching behavior and store attribute. The results of the study depicted that the younger generation has greater tendency to visit organized retail outlets. The shoppers which remained within a store for at least two hours considered shopping to be a stress releaser and fun activity. The commonly purchased items from a retail outlet are garments followed by groceries, lifestyle products and household appliances. The study further reveals that customers in tier 2 and tier 3 cities evaluate a store on convenience and merchandise mix, store atmosphere and services.
Prasad and Aryasri (2008), and Reynes and Benito2008, have expressed that customer satisfaction and loyalty have become critical issues for the survival of retailers in a typical retail market characterized by the growing heterogeneity of customer demand and proliferation of new types of retail formats.
Sathya (2012) and Sheela Rani (2012) in their research work as private labels i.e., retailers own brand are attracting consumers and have created keen interest in making purchase decision of these brands. Further, they have stated that private label brand is emerging due to the growth of organized retailers. Lakshmi Narayan, K et al., (2013) in their study unorganized retailer near organized retailers are heavily affected in terms of profit and volume. They have stated that some factors like location, goodwill, loose items, convenient timings, credit facility and home delivery are attracting the customers towards unorganized retail stores.

3.Objectives

The major objective this research project is "Factors affecting Customer Preference for Organized Retailing and Unorganized Retailing-A Study of Indian Retail Industry".

- To study the customer preferences for organized and unorganized retailing when buying food and grocery items.
- To identify factors that influence customer's preference for organized and unorganized retailing.
- To study the shopping behavior of customers for grocery and food items related purchases.
- To study the influence of demographic factors on buying decisions from organized and unorganized retailers.

4. Hypothesis:

- $H_0$1: There is no relationship between the choice of retail outlet (kirana store/ hypermarket) and amount of money spent on monthly grocery items.
- $H_0$2: There is no relationship between frequency of purchase and time spent on shopping.
- $H_0$3: There is no relationship between choice of retail outlet and whether customer stick to their purchase list.

- H_{04}: There is no relationship between choice of retail outlet and time spent on shopping.

5. Research Methodology:

This study tries to analyze the factors affecting consumer preferences for organized and unorganized retailing, specifically when it comes to buying of food and grocery items. A structured close ended questionnaire was designed by interviewing 3 retailers each from organized and unorganized retail outlets, the retailers were asked about the criteria's that customers consider when making a purchase for grocery items. The responses of the retailer were further discussed with 10 customers, and a final questionnaire was made based on the responses obtained. Responses of 100 customers were taken on the finalized questionnaire through a researcher controlled sampling technique.

Analysis & Interpretation:

Table 5.1 Customer Buying Preference

Choice of Retail Outlet	No. of Respodents
Kirana Shops	32
Super/ Hyper Markets	68
Total	70

Most of the customers (68%) chose Super/ Hyper Market as their preferred choice for shopping. Only 32% of the respondents said that they preferred kirana store over hyper markets to buy their monthly grocery items from.

Table 5.2 Importance of parameters, in selecting a retail outlet (1- Imp; 5- Least Imp)

Factors	1	2	3	4	5
Location	36	51	13	0	0
Prices	57	29	10	4	0
Range of Products	67	33	0	0	0
Loyalty Schemes	3	30	16	33	18
Promotional Schemes	14	47	23	7	9
Time (Shopping & Billing)	28	47	17	6	2

As per table 5.2, most of the customers consider range of products, prices of products, and location of the outlet as the most important factors affecting their preference for a retail outlet, followed by promotional schemes and time spent on billing and shopping. However, Loyalty schemes are not very important deciding factor affecting choice for a retail outlet.

Table 5.3 Rating of Kirana Stores on various parameters (1= Highly Satisfied; 5= Highly Dissatisfied)

Factors	1	2	3	4	5
Location	21	57	19	3	0
Price	27	45	13	12	3
Billing Time	34	52	12	2	0
Parking Facility	32	36	19	11	2
Promotional Offers	6	21	16	42	15
Credit Facility	23	39	23	11	4

Table 5.4 Rating of Supermarkets/ hypermarkets on various parameters (1= Highly Satisfied; 5= Highly Dissatisfied)

Factors	1	2	3	4	5
Location	13	51	27	8	1
Price	23	49	19	5	4
Billing Time	4	23	16	35	22
Parking Facility	31	29	17	20	3
Promotional Offers	35	41	10	12	2
Credit Facility	4	32	23	41	4

Table 5.3 & 5.4 shows that billing time and credit facility are the problem areas as far as organized retailing is concerned, while customers are satisfied with the promotional schemes offered at hypermarkets/ supermarkets.

Table 5.5 Customer having a pre-decided list

Whether Customers make a list for shopping items	No. of Respondents
Yes	93
No	7
Total	100

Majority of the customers (93%) said that yes, they do make a list for shopping while visiting a store to purchase grocery items. Only 7% respondents said that they don't prepare any list for shopping.

Table 5.6 Customer sticking to the list when shopping

Do customers stick to their purchase list when shopping	No. of respondents
Stick to List	21
Mostly Stick to List	74
Do Impulsive Buying Mostly	5
Total	100

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Majority of the respondents (74%) said that they mostly stick to the purchasing list while shopping for grocery items. 21% said that they strictly stick to the list while shopping for grocery items and the rest 5% said that though they carry a list of items to be bought yet they do a lot of impulsive purchase.

Table 5.7 Relationship between Demographic Profile & Importance of Factors affecting choice of outlet

	Age	Gender	Income	Occupation
Location	8.335 0.401	0.282 0.868	2.508 0.868	13.101 0.218
Price	8.078 0.779	5.982 0.112	15.864 0.070	14.811 0.465
Quality of goods	5.958 0.202	0.060 0.807	2.435 0.487	8.265 0.142
Behavior of salesperson	5.941 0.654	1.512 0.470	5.059 0.536	4.873 0.899
Store Brand Name	21.650 0.420	4.942 0.176	6.764 0.662	20.868 0.141
Parking Facility	22.923 0.116	6.429 0.169	36.405 0.000	32.612 0.037
Range of Products Available	2.238 0.692	0.011 0.917	1.644 0.649	5.890 0.317
Ambience	8.658 0.372	1.503 0.472	16.219 0.013	8.587 0.572
Customer Loyalty Schemes	32.699 0.008	5.020 0.285	22.565 0.032	29.072 0.086
Promotional Schemes	16.241 0.436	1.484 0.830	14.334 0.280	13.847 0.838
Billing/ Queue Time	7.107 0.525	0.766 0.682	9.936 0.127	6.462 0.775
Availability of all Items in One Go	10.196 0.599	4.646 0.200	11.997 0.213	14.416 0.494

Form the table 5.7, it is clear that price, range, quality, promotional schemes, billing/ queue time holds almost same importance for all customers irrespective of their age, gender, occupation and income. This means that these features are to be ensured for all kind of customers irrespective of their age, occupation, income etc. by the retail outlet to attract more customers. However, relationship was found between the following factors. Parking Facility & Income Groups, as people belonging to the income range of Rs. 20,000/- per month or less doesn't consider parking as an important factor affecting their choice of a retail store. Income and Ambience as people earning between Rs. 40,000 to Rs. 60,000 said that ambience is either an important factor affecting their choice of retail outlet. Age and Customer Loyalty Schemes as for people aging between 50-60 years and more than 60 years said that for them it is not an important factor affecting their choice of retail outlet. Income and Customer Loyalty Schemes as for people earning less than 20,000 pm and earning more than 60,000 pm, is not an important factor affecting their choice of retail outlet.

Following Hypothesis were tested using Pearson chi square test, the results are mentioned as under:

$H_0$1: There is no relationship between the choice of retail outlet (kirana store/ hypermarket) and amount of money spent on monthly grocery items.

The results shows that the Pearson chi-square value is 6.008 and its significant value is .111, this means that there is no relationship between the choice of retail outlet (kirana store/ hypermarket) and the amount of money spent on monthly grocery items.

$H_0$2: There is no relationship between frequency of purchase and time spent on shopping.

While on test the $H_0$2 as the chi-square value is 51.968 and its significant value is .000, this means that there is a relationship between frequency of purchase and time spent on shopping.

$H_0$3: There is no relationship between choice of retail outlet and whether customer stick to their purchase list.

For the third hypothesis, the pearson chi-square value is 3.368 and its significant value is .338, this means there is no relationship between choice of retail outlet and whether they stick to the list.

H_{04}: There is no relationship between choice of retail outlet and time spent on shopping

The pearson chi-square value for $H_0$4 is 19.495 and its significant value is .001, this means there is a relationship between choice of retail outlet and time spent on shopping.

6. Conclusion

Due to the changing demographics, increase in DINKS families, urbanization, and awareness due to electronic media especially internet the customers have multiple options to choose from modern retail outlets to neighborhood shops. The outcome points out that majority of the consumers visit organized formats for variety, easy availability, promotional offers and convenient parking facility etc.

And thus, in order to increase footwalls Kirana stores should focus in providing a variety of products at reasonable prices. It can be concluded from the study that credit facility is the major reason behind purchasing from kirana stores.

7.Research Implications:

This research will help the unorganized retailers to retain their share in the overall market. It will also help them to give tough competition to organized retailing by identifying parameters that are important for customers. The study will help the foreign & domestic investors in grabbing the best investment opportunities by giving them a deeper insight about customer preferences in both tier 1 & tier 2 cities. Marketers, through this study would be able to identify various parameters and their impact on customer preferences which will help them in designing the marketing strategies accordingly.

8.Limitations & Future Implications

The study has been conducted for studying the customer preferences for organized and unorganized retail outlet in case of grocery purchases. Future researchers may take up other kind of products like apparels, fruits and vegetables etc. Moreover, the study has been carried out in Delhi NCR and the sample has been taken through convenience sampling techniques. A more representative sample can be taken in future studies. Further a comparison can be drawn among customer belonging to Tier 1 and tier 2 cites and their preference for organized and unorganized retailing.

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