

Emerging Trends in Retail Industry:

The Study of Consumer Purchasing Behavior in Organized and Unorganized Markets in Lucknow District of Uttar Pradesh

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Abstract

India is one of the biggest markets of for retail players in the world. Lots of supermarkets, hypermarkets, departmental stores have been inaugurated in last few years in different parts of India. The shopping culture is changed from traditional marketing culture to mall culture. The author had discussed about the Organized and Unorganized retailing, Ronald Gist Margin- Turnover framework of retail, Scenario of Indian retail industry. The objectives of the study are:

- To understand the relationship between Organized and Unorganized retail sector with reference to the factors affecting consumer purchasing behavior.
- To find out the most influencing factor that affects the consumers' purchasing behavior.

The use of correlation is done to find out the relationship between the organized and unorganized retail sector with reference to the factors that affect the consumers' purchasing behavior. The percentage method is used to find out the most influencing factor that affects the consumers' purchasing behavior. By making the use of above tool, it was easy to understand the type of relationship among the sectors considering the factors of consumer purchasing behavior.

Keywords: Retailing, Retail Trade, Organized Retail, Unorganized Retail.

1. Introduction

1.1 Scenario of Indian Retail Industry

There are huge opportunities in the Indian retail industry; global giants like Tesco, Metro AG and Wal-Mart entered the Indian retail Industry. The challenges faced by the Indian retail industry are changes in the behavior pattern of Indian customers due to the western influence, continuous increase in the cost of retail space, and training and retaining skilled manpower as well as competition from global players in retail. On the other hand, the growth factors favoring the Indian retail industry are: increase in per capita income, and thus increase in the household consumption; improvement in infrastructure as well as increased availability of retail space; availability of financing sources; huge inflow of Foreign Direct Investments (FDI) in India; and the effect of globalization. Also the Indian organized retail sector's impact has changed the lifestyle of the Indian consumers. With the onset of globalized economy, the psyche of the Indian consumers has changed. In today's world, Indian consumers are knowledgeable about the concepts of quality of products and services. Since liberalization, Indian consumers are getting a taste of the latest national and international products, especially with the help of print as well as electronic media.

The relaxation by the Indian government on regulatory controls of FDI has helped the growth of the organized retail sector. The number of shopping malls is increasing at a rapid pace in the major cities and there are elaborate plans of expansion by all the players. As the count of retail stores or supermarkets is going up, it is gradually taking up the lion's share in food trade. The growth of the organized retail sector is even expected to be faster than the growth of the Gross Domestic Product (GDP). The success of the retail sector would also depend on the degree of penetration into the lower income group in order to tap the possible customers in the lowest levels of the society. With the arrival of the Transnational Companies (TNC), the Indian retail sector is undergoing major transformations, and more changes will be seen in the future. The trends of the future include: organized retail sector growing up to 10 percent of total retail market by December 2011; no single format of stores due to huge differences in regional cultures; and of course the encouraging format of hyper marts. [1]

1.2 About Retail Industry

Retail, when talk about this word it reminds about the kirana stores who used to sell the grocery items and consumers use to visit there for their monthly purchases, but now the scene of retailing is changed from kirana stores to big supermarkets. This is the big shift of retailing from unorganized retailing to organized retail structure. India is one of the big consumer markets in the world but the concept of organized retail came into existence very late.

1.3 Margin and Turnover: Two key parameters of retailing

The success in retail operations is governed largely by two parameters: margin and turnover. To become successful in retail operations it is necessary to be strong in either of the two parameters. The framework for margin and turnover was given by Ronald Gist [2]. Using margin and turnover as the two parameters Ronald Gist has provided an easy-to-follow conceptual framework of retail structure which can be used in understanding retail structure and in formulating retail strategy.

Margin is defined as the percentage mark-up at which the inventory in the store is sold and turnover is defined as the number of times the average inventory is sold in a year. It can be applied to practically all types of retail businesses.

The diagrammatic representation of Ronald Gist Margin-Turnover framework is in the below figure:

1.4 Low Margin- High Turnover Stores

These stores assume that low price is the most important patronage determinant. The stores in this category price their products below the market. In all their marketing communications, they emphasis on price. Here consumers 'buy' products, rather than the store 'selling' them.

1.5 High Margin- Low Turnover Stores

These stores assume that service, distinctive merchandise and sales approach, are the most important patronage determinant. The stores in this category price their products above the market. All these stores emphasis on merchandise strength.

1.6 High Margin- High Turnover Stores

These stores stock a narrow line of items, which turn over

rapidly. Typically, they are located at non- commercial location, but in proximity to a major thoroughfare. Because of locational convenience, they can charge above- market prices.

1.7 Low Margin- Low Turnover Stores

Outlets in this category are the ones that have been forced by price competition to maintain low margins. At the same time, they do not sell a high volume, may be because of poor location, or incompetent management, or undercapitalization. The turnover also will be poor in these stores.

Figure 1: High Turnover

L-H Low Margin- High Turnover Example: A discount store	H-H High Margin- High Turnover Example: A convenience food store
Low Margin L-L Low Margin- Low Turnover A store of this type is a 'disaster'	High Margin H-L High Margin- Low Turnover Example: An up-market speciality store

Low Turnover

Ronald Gist Margin- Turnover Framework

1.8 Organized Retail v/s Unorganized Retail

1.8.1 Organised Retail Sector

Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

1.8.2 Domestic Organised Retail Sector

The domestic organized retail industry is at a nascent stage. At the macro level factors such as rising disposable income, dominance of the younger population in spending, urbanization, shift of the traditional family structure towards the nuclear family are buttressing the organized retail growth in India. Being considered as a sunrise sector of the economy, several large business houses are entering the retail industry under multiple modern retail formats.

The macroeconomic landscape indicates that the domestic retail industry has immense scope for the modern as well as traditional retailers to co-exist. Organized retailing is expected to promote quality; employment; improve business process practices; spur investments in support industries; and enable the modernization of the fragmented traditional retail.

1.8.3 Unorganized Retail Sector

Indian retail is dominated by a large number of small retailers consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called "unorganized retail" or

traditional retail. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Unorganized retailers normally do not pay taxes and most of them are not even registered for sales tax, VAT, or income tax. [3]

1.9 Challenges in Retail

The retail industry in India is facing severe challenges while operating in India. Some of these are discussed below:

- The industry is facing a severe shortage of talented professionals, especially at the middle-management level.
- Most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding.
- Lack of adequate infrastructure with respect to roads, electricity, cold chains and ports has further led to the impediment of a pan-India network of suppliers. Due to these constraints, retail chains have to resort to multiple vendors for their requirements, thereby, raising costs and prices.
- The available talent pool does not back retail sector as the sector has only recently emerged from its nascent phase. Further, retailing is yet to become a preferred career option for most of India's educated class that has chosen sectors like IT, BPO and financial services.
- Even though the Government is attempting to implement a uniform value-added tax across states, the system is currently plagued with differential tax rates for various states leading to increased costs and complexities in establishing an effective distribution network.
- Stringent labor laws govern the number of hours worked and minimum wages to be paid leading to limited flexibility of operations and employment of part-time employees.
- Further, multiple clearances are required by the same company for opening new outlets adding to the costs incurred and time taken to expand presence in the country.
- The retail sector does not have 'industry' status yet making it difficult for retailers to raise finance from banks to fund their expansion plans.
- Government restrictions on the FDI are leading to an absence of foreign players resulting into limited exposure to best practices. [4]

1.10 Changing Trends in Retailing

Retailing in India is at a very initial stage of its evolution, but within a small period of time certain trends are clearly emerging which are in line with the global experiences. Organized retailing is witnessing a wave of players entering the industry. Organized retailers in India are trying out a variety of formats, ranging from discount stores to supermarkets to hypermarkets to speciality chains. Yet, Indian retailing has still not been able to come up with many successful formats that can be scaled up and applied across India. A common element of the expansion plans of different players appears to be the hypermarket. All leading Indian retail players are either already present or have plans for hypermarkets. Some of the notable exceptions have been garment retailers like Madura Garments & Raymonds who have scaled their exclusive showroom format across the country. [5]

1.11 Consumer Purchasing Behavior

Consumers buying behavior has to do with the attitude,

intention, preference and strength to commitment and the consumer's ways of identification. Consumers buying behaviour can also be referred to as the buying behaviour of the final consumer. Consumer buying behaviour is a complicated issue due to the fact that many internal and external factors have effect on consumers buying decision. [6]

Consumers do not pass through all the stages in their everyday purchase. For example in everyday commodity purchase, information search and evaluation are omitted. In other words, consumers faced with complex purchase situation pass through all this stages.

- **Need recognition:** this is when the consumers defined their problem or need. A need could arise either as a result of internal or external stimulus. Example of an internal stimulus is when you need to eat something as a result of hunger. External stimulus arises from commercial on television after which the consumer thinks that the brand/product is needed. Therefore it is of importance that marketers find out what stimulus attracts interest in their brand.
- **Information search:** this is when consumers start to search for information either through commercial source, personal source, public source, and experiential source. This information enhances the consumer's knowledge and awareness of the available brand.
- **Alternative evaluation:** this is the stage whereby the consumers evaluate and rank alternative brand based on the information they have. Such information can be price or quality etc.
- **Purchase decision:** this is when consumers purchase the product. Consumer's perception of a brand can be influenced by unforeseen situational factors and attitude of others.
- **Post-purchase decision:** this is when the consumers compare their expectation and perceived performance. Kotler et al (1999) stated that they get satisfied when their expectations are the same with the product performance. [7]

2. Objectives of this Study

The author considered following objectives for the study:

- To understand the relationship between Organized and Unorganized retail sector with reference to the factors affecting consumer purchasing behavior.
- To find out the most influencing factor that affects the consumers' purchasing behavior.

3. Research Methodology

3.1 Study Area

The area of this study in terms of geography is Lucknow district of Uttar Pradesh and the industry author selected for the study is Retail Industry. As author found that there are many upcoming opportunities in the Lucknow market for retail industry, the author decided to select the Lucknow market and Retail Industry for his work.

3.2 Sampling Method and Sample Size

The sample method used for this study is random sampling technique that is every nth sample was considered as respondent. The author selected the sample size of 200 respondents from Lucknow district.

3.3 Data Collection

As the research is based on primary data, therefore, the primary data was collected by interviewing the respondents personally. The author used structured questionnaire for interviewing the respondents and the questionnaire was distributed with proper instructions.

3.4 Analytical Techniques

Analytical Techniques are the statistical tools that author used for finding the results from the collected data. The author presented the data in the Table 1 and the used percentage methods, covariance, standard deviation and correlation technique to find out the relationship of Consumer purchasing Behavior in Organized and Unorganized retail sector with reference to the factors affecting consumer purchasing behavior. Percentage method is used to analyze the most influencing factor that affects the consumers' purchasing behavior. The formulae used in this study are:

Calculating the Covariance:

$$\text{Covariance} = \frac{\sum xy}{N}$$

Calculating the Standard Deviation:

$$SD = \sqrt{\frac{\sum x^2}{N}}$$

Calculating the Correlation:

$$r = \frac{\text{Cov. (X, Y)}}{\text{SD of X and SD of Y}}$$

Table 1: Factors of Consumer Purchasing Behavior

Factors of Consumer Purchasing Behavior	Respondents		Percentage	
	Organized Retail	Unorganized Retail	Organized Retail	Unorganized Retail
Quality	15	10	15%	10%
Price	18	7	18%	7%
Reference Group and Family Influence	7	13	7%	13%
Income	12	17	12%	17%
Social Status	6	5	6%	5%
Shopping Lifestyle	5	4	5%	4%
Schemes and Offers	21	12	21%	12%
Customer Service	10	10	10%	10%
Convenience (Reach)	6	22	6%	22%

After analyzing the respondents' opinion it is found that schemes and offers launched by the companies from time to time is the major factor that affects the purchasing behavior in organized retail. The retail organization launches the various schemes on special occasions and also on regular basis that attracts the customers more for making the purchase whereas in unorganized retail the respondents consider convenience (reach) as an influencing factor in making purchases.

Table 2: Relationship between Organized and Unorganized Retail With Respect to Purchasing Behavior

Factors of Consumer Purchasing Behavior	Organized Retail X	Unorganized Retail Y	X- X1 = x	Y- Y1 = y	xy
Quality	15	10	-9	-5	45
Price	18	7	-12	-2	24
Reference Group and Family Influence	7	13	-1	-8	8
Income	12	17	-6	-12	72
Social Status	6	5	0	0	0
Shopping Lifestyle	5	4	1	1	1
Schemes and Offers	21	12	-15	-7	105
Customer Service	10	10	-4	-5	20
Convenience (Reach)	6	22	0	-17	0
Total	100	100	-46	-55	275

Now the covariance will be calculated. The formula of covariance is:

$$\text{Covariance} = \frac{\sum xy}{N}$$

From the above formula the covariance is calculated,

Covariance = 30.556

Further to calculate the correlation the author calculated the standard deviation of X and Y. The formula that author used to calculate the standard deviation is

$$SD = \sqrt{\frac{\sum x^2}{N}}$$

The author calculated the standard deviation of X and Y, the result of standard deviation of both is:

SD of X=5.798
SD of Y=5.754

To calculate the correlation between the markets of Delhi and London, the author placed the values of covariance and standard deviation of X and standard deviation of Y in the following formula:

$$r = \frac{\text{Cov. (X, Y)}}{\text{SD of X and SD of Y}}$$

Now,

$$r = \frac{30.556}{5.798 * 5.754}$$

Further,

$$r = \frac{30.556}{33.362}$$

Therefore the result of correlation is

Value of r = + .915

The value of correlation should lie between -1 to +1, here the value of correlation is +.915, therefore it is found that high positive relationship exists between the variables. [8]

4. Conclusion

The conclusion derived from the analysis of the collected data is that there is a high positive correlation between organized and unorganized retail sector with reference to the factors affecting consumer purchasing behavior. It is found that the relationship

is highly positive among the variables. The result regarding the most influencing factors is also analyzed. The author identified the factors on which study is done are- Quality of the product, Price, Reference group or family influence, Income, Social Status, Shopping Lifestyle, Schemes and Offers, Customer Service and Convenience or Reach.

The author concluded that the above mentioned factors have deep impact on customers purchasing behavior. It is also concluded that customers prefer those purchase point where there are more schemes and offers. As after analyzing the primary data it is found that schemes and offers are found the most influencing factor of consumer purchasing behavior in organized retail, whereas when talking about the unorganized retail it is found that convenience or reach is considered as most influencing factor of consumer purchasing behavior.

5. References

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