FOOD AND GROCERY RETAIL: A COMPARATIVE STUDY BETWEEN ORGANIZED AND TRADITIONAL FORMATS

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ABSTRACT

Indian retail is witnessing a confluence of several favorable factors such as steady economic growth, favorable demographics, easy availability of credit, investments in infrastructure creation, and supply of real estate and malls. This, coupled with low penetration, creates a base for the next big leap of growth for the organized retailing industry. The organized retail in India is at the helm of action with robust growth in the economy trickling down to every segment in the country. The direct beneficiary is the consumer. In the last few years, the country has seen the evolution of a large and growing young consumer group, with tastes and preferences vastly different from the older set of consumers. Aiding the robust demand scenario, created by the attractive consumer set, is the investment in supply chain and real estate that will take organized retail across the country. It was inferred that a combination of the demand and supply side factors is the key driver of a 42% CAGR in organized retail over FY07-11E. It can be predicted that the organized retail can achieve sustainable growth due to two major factors: consumer/demand side and retailer/supply side.

The overall purpose of this research has been to study and understand the effect of modern retail formats on traditional retail formats in India. With rapid change and expansion in the retail environment, it has become all the more necessary to identify the different parameters that drive overall satisfaction of consumers for modern retail formats and traditional retail formats.

Key Words: Consumer behaviour, overall satisfaction, retail
1. Introduction

India like Britain is a nation of shopkeepers. With over 12 million retail outlets, India has one of the highest densities of retail outlets in the world with one retail outlet for ~90 persons. (Pankaj Gupta, 2006). Retail in India has been characterized by the presence of small shops, local neighborhood stores also called kirana shops, stalls, street vendors and hawkers. These stores stocked grocery products, households products, staple items like rice, wheat, sanitary products, cold drinks, soaps etc all in space of as little as 300 sq.feet. Till the mid 1990s retailing was a low cost structure, mostly owner-operated, had negligible real estate and labour costs and little or no taxes to pay. Consumer familiarity that ran from generation to generation was one big advantage for the traditional retailing sector.

However in the past decade India has witnessed a retail boom. With the entry of modern retailers over the last few years, the share of organized retail has been growing rapidly to reach 5% of the total market (FICCI-Ernst & Young, 2007). Today retailing is the largest private sector in India and second to agriculture in employment. The entire retail trade contributes about 10-11% to India’s GDP and is valued at an estimated Rs 9,30,000 crores. The per capita consumption of India around US$ 400 compares poorly to US (US$ 27,643) and Asian countries such as Japan (US$ 20,337), China US$ 609, Malaysia (US$ 2,042) and Thailand (US$ 1,572). This indicates tremendous scope for growth of the retail sector in India.

Earlier, retailers largely catered to lifestyle, clothing and apparel needs of the consumers. However currently, grocery stores, specialty stores to cater to the needs of music and book lovers etc have also started mushrooming at various locations. The sector can be broadly divided into two segments: Value retailing, which is typically a low margin-high volume business (primarily food and groceries) and Lifestyle retailing, a high margin-low volume business (primarily apparel, footwear, etc).

Food and grocery is the second-largest segment of the retail industry and the potential for new entrants in this segment is enormous, particularly in untapped markets like rural and semi-rural areas. Growing at the rate of 30%, the Indian food retail is going to be the major driving force for the retail industry. It is currently estimated at US$152 billion; it accounts for over half the total retail market in India and is growing at 3.5% to 4% annually (FICCI-Ernst&Young, 2007). The organized segment of the market, however represents just around 1% of the total market; i.e the lowest penetration level amongst all major categories in the retail sector. This low penetration presents significant opportunity for companies seeking to enter this retail sector.

Thus we see that the Indian retail sector is poised for major changes. The large pool of emerging middle class, with population of more than 350 million lies at the center for the major retail industry players. The changing consumption patterns are raising the demand for lifestyle products. Growing consumerism would be a key driver for organized retail in India. Traditional formats are going to be competing with modern formats. Increasing consumer awareness, higher disposable income, increasing working women, affluence all these factors are going to influence the consumer’s attitudes, belief and behavior towards the activity called shopping.
2. Need for research

From the above literature review and changed retail scenario in India, it becomes imperative to understand the consumer behavior in the plethora of choices available. The scope of the research is to gain an understanding in the changing and evolving mindset of the consumer when it comes to his shopping behavior. The research is focused on the food and grocery segment given that this segment is the second largest segment. Fuelled by large disposable incomes – the food sector is witnessing a remarkable change in consumption patterns, especially in terms of food. Many people also believe that food should be as fresh as possible and hence they prefer the hand carts for fruits and vegetables. It is the aim of the present research to study the consumer behavior in Food and grocery in the context of traditional stores vs new modern formats. Is the consumer ordering his monthly grocery and household items from the neighbourhood kirana store since it is easy and convenient or does he prefer to go to a modern format like Big Bazaar which offers him a superior shopping experience and great discounts on bulk purchases? Does he prefer the modern format over the traditional mom and pop stores in certain circumstances? Can the two formats co-exist given that the consumer has different expectations on different occasions? The researchers have defined the objectives of the research as follows:

3. Objectives of Research

1. To understand the primary triggers of visiting a modern retail format. What are the other triggers that may have led to a shift from traditional formats to modern format?
2. To study the commitment levels of shoppers among traditional formats and modern formats and identify the key drivers of commitment among the two formats
3. To understand if modern retail store today is an alternative that is attractive enough to get shoppers to shift?

4. Review of literature

The Indian food and grocery retail sector is in a transformation mode for various reasons like strong macro-economic fundamentals and the changing socio-economic scene. These factors are driving what were once traditional and small scale retail outlets into organized retail formats aimed at catering to the evolving tastes and needs of the discerning consumers. Economic development is frequently characterized by greater use of large, multi-line food retail outlets including supermarkets and hypermarkets (Veeck and Veeck, 2000).

A customer's satisfaction with his/her shopping experience may be an outcome of the value provided by the shopping experience. Carpenter and Fairhurst,(2005) showed that utilitarian shopping benefits and hedonic shopping benefits had a positive impact on satisfaction. Eroglu et al. (2005) looked at the relationship between perceived retail crowding, shopping value and satisfaction and found that perceived retail crowding had a negative effect on shopping value and, in turn, satisfaction. If the shopping experience provides qualities that are valued by the customer, satisfaction with the store is likely to result.

Individual customers have different motivations for shopping. These include diversion from daily routine, learning about new products or trends, or enjoyment of bargaining (Tauber, 1972). Some customers are more task-oriented while others are more activity-oriented (Babin et al., 1994). These differences mean that they will find value in and also gain satisfaction
from diverse aspects of the shopping experience. Retailers must understand these differences in order to create store formats and offer-related attributes that meet the needs of their target segment(s).

Burns & Neisner (2006) also reviewed the retail industry and found that expectations were not only set by marketing campaigns, but by reviews by friends and family and the physical design of the store.

Overall satisfaction with a store does not significantly influence customers’ loyalty to that store and shoppers’ intention to remain loyal to their ‘primary store’ is influenced by factors like frequent-buyer reward schemes, travel distance, preference for an in-store delicatessen, size of the average grocery bill, store signage and the level of sale assistance (Miranda et al., 2005).

However, given that grocery shopping patterns vary with culture, Indian grocery shoppers are required to be investigated separately to determine, which grocery store attributes contribute to store patronage (Shanon and Mandhachitara, 2005). Further numerous studies on grocery/food retailers have been conducted Doyle and Fenwick (1974-1975) there is a scarcity of research which draws comparisons between modern stores and conventional stores and food shopping behavior in the Indian context. Additionally, there is a lack of food industry research examining satisfaction and store attributes.

5. Research Methodology

5.1 Population and Sample

The scope of the study was to understand the consumer buying behavior in organized retail vs traditional retail.

The target population was defined as follows:

**Elements**: Male or female who are responsible for most of the shopping or equal amount of shopping related to food and grocery at both modern and traditional formats. While traditionally females were involved in the purchase of household items and fruits and vegetables, with the advent of modern retail male members in the household are also exercising their choice. Dholakia (1995) inferred in a study that males appear to be responsible for about 45 per cent of household grocery shopping, either as the primary or as a joint shopper.

Age groups were identified as follows in the questionnaire – 25 to 34 years, 35 to 44 years and 45 years and above. The sample constituted males and females in the proportion of 56% to 44% (Mumbai population estimate). No other variables were used for target audience selection.

**Extent**: Currently organized retailing is focused in metropolitan cities and is expected to extend to Tier II cities. Mumbai with 28 malls is second in India as compared to Delhi National Capital Region (60 malls) in the number of malls. Hence the scope of the study included consumers from Mumbai.
Sample Size: A minimum sample size of 400 respondents from Mumbai was proposed. The final sample size was 472.

5.2 Data Collection Procedures

The method used for the data collection was a face-to-face interview, using a structured questionnaire, with closed-ended questions, conducted at the residence of the respondents and directed to the person responsible for shopping in the household. The sample was probabilistic where area sampling was used. The sample was drawn from Mumbai and it represented consumers with different economical, social and geographical characteristics. A total of 550 questionnaires were sent in Mumbai of which 472 questionnaires were completed and validated (response rate of 90%).

6. Data Analysis

Hypothesis 1

H1: There is a difference in the frequency of visits/placing an order between traditional formats and modern formats.

The Wilcoxon Signed Ranks Test revealed a p value of 0.00. Since the p value (0.00) was less than level of significance (0.05) the null hypothesis of no difference in the frequency of visits/placing an order between traditional formats and modern formats was rejected. Consumers visited organized formats once in 15 days and visited traditional formats once a week or more often.

Inference: The sample revealed that 60% of the respondents visited/placed an order over phone with traditional formats at least once a week or more often as compared to only 19% for modern formats and these results were highly significant (p value of 0.00)

Hypothesis 2

H1: The monthly spends on food, grocery and household items is different for traditional formats and modern formats.

Consumers were asked to indicate the amount of money they spent on food, grocery and household items in the last one month for the two formats.

<table>
<thead>
<tr>
<th>Traditional Formats</th>
<th>Frequency</th>
<th>Percent (%)</th>
<th>Valid Percent (%)</th>
<th>Cumulative Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than Rs 500</td>
<td>81</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Rs 501-Rs 1000</td>
<td>93</td>
<td>23</td>
<td>23</td>
<td>44</td>
</tr>
<tr>
<td>Rs 1001-Rs 2500</td>
<td>114</td>
<td>29</td>
<td>29</td>
<td>73</td>
</tr>
<tr>
<td>Rs 2501-Rs 5000</td>
<td>77</td>
<td>19</td>
<td>19</td>
<td>92</td>
</tr>
<tr>
<td>&gt;Rs 5000</td>
<td>31</td>
<td>8</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>Missing</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
From the above table it was inferred that respondents spent more in modern formats as compared to traditional formats. (Close to 56% of the respondents spent Rs 1000 and above in traditional formats as compared to 73% of the respondents who spent Rs 1000 and above in modern formats). A test of hypothesis was conducted to confirm the findings of higher spend in modern formats as compared to traditional formats.

The Wilcoxon Signed Ranks Test was conducted since the data on amount of money spent in the two formats was ordinal. Here the same sample of respondents answered for both traditional and modern formats.

The Wilcoxon Signed Ranks Test revealed a p value of 0.00. Since the p value (0.00) was less than level of significance (0.05) the null hypothesis of no difference in monthly spends on food, grocery and household items among traditional formats and modern formats was rejected.

Inference: The sample revealed that 73% of the respondents had spent more than Rs 1000 in modern formats on food, grocery and household items in the last one month as compared to 56% in traditional formats and these results were highly significant (p value of 0.00).

Hypothesis 3: There is a relationship between types of food items purchased and choice of formats.

3a. H1: Consumers prefer to purchase processed foods from modern formats.
3b. H1: Consumers prefer to purchase fresh produce from traditional formats.

<table>
<thead>
<tr>
<th>Item</th>
<th>Traditional Only (%)</th>
<th>Modern Only (%)</th>
<th>Both are preferred (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staple foods (rice, wheat, pulses etc)</td>
<td>42</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Fruits</td>
<td>69</td>
<td>13</td>
<td>18</td>
</tr>
<tr>
<td>Vegetables</td>
<td>76</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>Milk</td>
<td>81</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Fresh milk products (paneer, curd)</td>
<td>59</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>Other milk products</td>
<td>32</td>
<td>39</td>
<td>29</td>
</tr>
<tr>
<td>Heat and serve/ready to eat food</td>
<td>16</td>
<td>59</td>
<td>26</td>
</tr>
<tr>
<td>Frozen vegetarian food (e.g Frozen Peas)</td>
<td>16</td>
<td>58</td>
<td>26</td>
</tr>
</tbody>
</table>
Respondents clearly preferred traditional formats over modern formats for perishable items like fruits, vegetables, milk and fresh milk products. These categories were also bought more often. The convenience factor, proximity to home and ease of making purchases as and when required are possible factors for preference of traditional formats over modern formats. People also preferred traditional formats for staple foods like rice, wheat, pulses to some extent. However almost one-third of the respondents preferred modern formats for staple foods. Modern formats like Big Bazaar and D Mart advertise the huge discounts for staple foods like rice, wheat and sugar at least once a week in the newspaper and through hoardings. It looks like the huge discounts on 10 kg wheat, 5 kg rice etc has acted as a pull factor.

Pre-processed foods, packaged goods and frozen food were preferred from modern formats. Modern formats have better cold storage and better range and variety of toiletries, cosmetics, fruit juices etc. In modern formats there are aisles for specific product categories and this makes it easier for consumers to have access to a variety of brands.

Consumers preferred to buy snacks, sweets and savories from both modern formats and traditional formats.

Hypothesis 4
H1: Overall satisfaction is different for traditional formats and modern formats.
A 5 point Satisfaction scale was used to determine consumer’s overall satisfaction with both traditional formats and modern formats.
1 = Very satisfied, 2 = Somewhat satisfied, 3 = Neither satisfied nor dissatisfied, 4 = Somewhat dissatisfied and 5 = Very dissatisfied

<table>
<thead>
<tr>
<th></th>
<th>Overall sat-Traditional</th>
<th>Overall sat-modern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>386</td>
<td>378</td>
</tr>
<tr>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>14</td>
<td>22</td>
</tr>
<tr>
<td>Mean</td>
<td>1.9067</td>
<td>1.8466</td>
</tr>
<tr>
<td>Median</td>
<td>2.0000</td>
<td>2.0000</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.80039</td>
<td>.81286</td>
</tr>
</tbody>
</table>

Table 3
Overall Inference:

- The null hypothesis that overall satisfaction with traditional formats and modern formats were the same was retained. The mean satisfaction with both the formats was in the range of 1.83 to 1.98 which indicated high satisfaction level.
- A closer look at the distribution of individual responses on the 5 point satisfaction scale indicated that a higher proportion of consumers from Mumbai were highly satisfied with modern formats.
- No significant difference was observed in the overall satisfaction level by age groups, monthly household income and number of family members.
- A significant difference was observed in Mumbai where females had given a higher satisfaction score for traditional formats as compared to males.

Hypothesis 5

H1: Satisfaction levels vary for the different attributes in traditional formats and modern formats
Here the objective was to identify which attributes were consumers most satisfied with and least satisfied with if any.

Figure 1 Satisfactory with various attributes for Traditional formats Mumbai
Consumers were highly satisfied with the location of traditional formats as well as the convenient store timings. Most neighborhood retail stores were known to be open till 11 pm. Further traditional formats offer free home delivery and take order over the phone. This was the reason why consumers preferred to purchase items that get over or were required as and when needed from traditional formats.

The next set of attributes that consumers were moderately satisfied with were the long relationship that they had with the traditional formats, quick billing, freshness of products stocked, availability of credit and error free sales and transaction.

Traditional formats had a lower score (neither satisfied nor dissatisfied) on parameters like ambience, loyalty program membership, attractive discounts and promotions, acceptance of all modes of payment and availability of international products. These attributes are differentiators for modern formats. Further the low satisfaction with the parameter attractive discounts and promotions reemphasizes the fact the people prefer modern formats for staple items like rice, wheat etc where there are huge discounts offered by Big Bazaar, Star Bazaar etc.

The median rank for the parameter availability of international products is 4 indicating that 50% of the consumers were highly dissatisfied with traditional formats.

**Inferences for modern formats**
Consumers were highly satisfied with the ambience, acceptance of all modes of payment, availability of international products and wide variety of brands.

For traditional formats, a high satisfaction was observed for four attributes (Mean satisfaction rating of 1) while for modern formats consumers were highly satisfied with 8 attributes (mean satisfaction rating of 1).

Freshness of products stocked had got a high satisfaction score. Thus this attribute was not a differentiator of traditional formats.

Traditional formats had got a higher rating for quick billing as compared to modern formats indicating that despite a number of counters for billing, consumers still viewed the billing process as slow in modern formats. This could be a deterrent when consumers have a few items to purchase.

Consumers were moderately satisfied with courteous and well trained staff and convenient store timings. Most of the modern formats are now open from 10.00 am to 10.00 pm. Hence convenient store timings is no longer a differentiator for traditional formats.

Proximity to residence was a parameter which consumers have a neutral response.

Free home delivery, availability of credit and order taken over phone were parameters that had got lower satisfaction ratings. The parameter order was taken over phone had a median ranking of 4 indicating 50% of the consumers were highly dissatisfied with this parameter. Thus traditional formats are able to differentiate themselves on the free home delivery, credit and ease of taking order over the phone. Traditional formats continue to be extremely convenient and hassle free for consumers.

7. Main Findings

1. Consumers made frequent lower expenditure trips in traditional formats while they made less frequent higher expenditure trips in modern formats for food and grocery. On an average consumers visited/placed an order atleast once a week from the traditional formats spending less than Rs 500 per visit while visits to the modern format took place once in 15 days or once a month spending more than Rs 1000 per visit. Thus the traditional formats will retain their hold in India even as organized retail evolves. Both will grow alongside, as has happened in China. The traditional formats will preserve their popularity and viability over organized retail.

2. There is a relationship between types of food items purchased and choice of formats with consumers preferring to purchase processed foods from modern formats and fresh produce from traditional formats. The street vendor and neighborhood store benefit from Indian’s habit of buying fresh food often and hence convenient location becomes an important parameter for consumers. Among the consumers who were dissatisfied with modern formats, the key reasons of dissonance were proximity to residence (modern formats were not close to their residence), hassle free exchange policy and freshness of products stocked. On the other hand proximity to residence was found to be a parameter where traditional formats score very highly. In order to build a large user base, modern formats will have to deliver on freshness of food especially fruits, vegetables and perishables. Traditional formats on the other hand should carry product categories that are perishable and goods that consumers need in a hurry.

3. Satisfaction levels vary for individual attributes however overall store satisfaction is the same for both modern and traditional formats. Traditional formats score on location, free home delivery and offering credit. These formats have long maintained accounts for households, waiving payments till the end of the month and sending goods to the door, at just a phoned in request. Modern formats have recognized this strength of traditional
formats and have made payment options like acceptance of all major credit cards and Sodexo coupons a convenient alternative. Further, modern formats offer great in store experience, with a variety of brands, access to international brands and ambience.

4. Modern formats need to work on improving in-store service. Consumers are dissatisfied with the exchange policy as well as the slow billing. The transaction process is found to be tedious at modern formats as compared with traditional formats. Further store service was found to be positively related to store satisfaction for both modern formats and traditional formats and the relationship between store service and satisfaction was stronger for traditional formats than for modern formats. If modern formats can improve on the factor smooth transaction and interaction then it is expected to lead to substantial conversions.

5. Advertising of discounts, promotions and special offerings are clearly working for the modern formats. Consumers stated that their first source of awareness was through advertising (newspaper/magazine) followed by TV advertising or hoardings. Advertising by stores like Big Bazaar, Star Bazaar in newspapers is mainly to announce new promotions, offers and discounts on the various items. The research indicated that attractive discounts, schemes and promotions were positively related to store satisfaction for both modern formats and traditional formats and the relationship between attractive discounts, schemes and promotions and satisfaction was stronger for modern formats than for traditional formats. Traditional formats enjoy lower operating costs and higher asset turns. However this cost advantage of traditional formats can diminish as organized retailers start to leverage their scales to negotiate better with their suppliers. Organized formats are able to pass the savings to consumers by offering huge discounts. Further consumers with large families tend to have higher spends at modern formats indicating that as their consumption rate is higher they prefer to shop at modern formats possibly for the discounts available. While modern formats are not easy to access, consumers are willing to travel more since they realize that there are substantial savings in their monthly grocery bill. Thus modern formats should focus on providing a broader assortment of products which constitute a market basket given that most consumers visit the outlets for their periodic grocery visit. Also consumers are willing to travel the extra distance to modern formats only if they see a significant net savings in their bill. Hence modern formats should continuously advertise their latest promotions, discounts and freebies in order to lure the consumers from traditional formats. Thus it can be inferred that the drivers of satisfaction are different for the two formats.

8. Scope for future research
As for future research, there exists a need to study the development of modern formats in greater detail. A lot of research has been carried out in the modern retail sector in Asia, such as in Thailand (Feeny et al. 1996), Hong Kong (Kawahara & Speece 1994), Vietnam (Venard 1996).

Studying the impact of modern retail on traditional retail and understanding the shopper needs for food and grocery in Tier II main cities like Surat, Kanpur, Indore, Jabalpur, Kozikode, Nagpur, Pune, Kolhapur, Nashik, Kochi, Vishakhapatnam, etc. should be pursued. Further it would be interesting to study the rural market and understand how retailers can aim their offerings to the rural market. It would be interesting to study in detail the way neighbourhood stores and local grocery stores are adapting themselves to the influx of modern retail giants like Big Bazaar, Reliance Fresh, etc.
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