

Closing in "Needs-Offer Gaps"- Retailers' Strategy

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Abstract: *The financial crisis that originated in the United States a year ago has become a global financial crisis unprecedented since the Great Depression. The objective of this paper is to study the impact of global economic slowdown on Retail market in the Indian organized sector. The financial crisis has created an opportunity for questioning the retailing paradigm that has been dominant for a very short span in India and replacing it with a more progressive and democratic alternative. This paper focuses on the impact of the global economic crisis on retailing in India. It is suggested, the retailers in India must constantly work to identify and close their needs-offer gaps to win as much as they can. In the discussion, some of the specific targets will be commented on.*

Key Words: *Kirana stores, Organized Retailing, Financial Crisis, Great Depression, Consumer Behaviour.*

Executive Summary:

The recent financial crisis in America has transformed into global financial crisis. And it reminds of the Great Depression of 1930s. The capitalist world has been focusing on enhancing the manufacturing capacities all over the world, subsequently resulting in low profit margins. The commodity boom also is slowing down due to the recent crisis, which is definitely advantageous for the commodities importing nations and a huge set back for the commodities -export nations. The low per-capita income countries are still far from in the comfort zone, when it comes to the prices of food items is concerned. The objective of this paper is to study the influence on the organized retailing sector in India due to the international economic crisis.

The test for the organized retail sector in India is basically the changed behavior of the Indian consumer. For instance the incomes have increased, the western influence, increased number of working women, the increase in demand for luxury products. The modern day consumer wants to shop, eat and get the recreation under one roof.

The economic slowdown has hit the luxury segment the most. The consumers are delaying the purchases of durables, mobile phones, apparel etc. This has forced the retailers to attract more and more footfalls by giving huge discounts and push the growth of value store formats for the future challenges. The organized retailing has a long way to go, still not making profits, closing down stores all around. Even the big retailers are finding

difficulty in stocking the wide variety. Where as the traditional Kirana stores are into routine business, unaffected by the economic slowdown. Organized retailer stores with plush interiors and air conditioning had a soothing experience for the most middle and lower-middle class people for a very short period if time. Subsequently, consumers began comparing the benefits offered by kirana and organized stores. Consequently, the appeal of organized retail subsided and disappeared among the consumers as they find nearest kirana stores and street hawkers offering better deals and free home delivery services as well.

The big retailers such as Reliance Fresh, More, India Bulls, Spencers and Subhiksha are forced to close some of the outlets and slowed their expansion plans due losses from grocery formats. Nevertheless the global financial crisis has provided an opportunity to analyse the retail trend in India and also to develop better alternatives in the given conditions. This paper suggests the retailers in India to identify the alternatives and come close to the needs of consumers and provide rational offers to gain as much as possible.

Introduction:

The financial crisis that originated in the United States a year ago has become a global financial crisis unprecedented since the Great Depression. The recent crisis has also signaled the end of the commodity boom, which is a disadvantage for those developing countries dominantly reliant on commodity exports, and advantage for commodity-importing developing countries. And while world prices of important food items have also declined in the recent past, they are still too high for many developing countries with low per capita incomes.

By convention Indian retailing can be sketched to the incidence of the locality grocery stores, catering to the suitability of the consumers. Since 1980s retailing started changing slowly as Indian economy began its reforms.

The retail chain concept for the first time emerged in the textile sector. The companies first to introduce this concept were Bombay Dyeing, Raymond's, S Kumar's and Grasim. Subsequently Titan established a chain of showrooms for its premium watches and became the pioneer in organized retailing in India.

The end of the 1990s witnessed a new trend of competitors with a swing from Makers to Wholesome Retailers, like the Subhikshas, the Food Worlds, and Nilgiris in food and FMCGs; Crossword and Fountainhead in books, Planet M and Music World in music; The Hyper and Super markets emerged and provided the customer with 3 Vs - Value, Variety and Volume. The Sachet revolution - helped the sellers in reaching to the lowest segment of the market.

A T Kearney and C I I in their recent survey have estimated the Indian retail sector to be \$320 billion (Rs 14, 40,000 crore), of which organised retail accounts for a little 6 per cent (Rs 86,400 crore or Rs 864 billion).

The shopping basket has the major share in the Food Retail Industry in India. The Mobile phone Retail Business is growing at over 20 per cent per year.

The investment bank Goldman Sachs, praises India with the potential to bring the fastest growth over the next 50years with a regular rate of more than five per cent a year for the whole period.

India has the advantage of having the largest young population in the world - over 890 million people and that too below 45 years of age, which makes indeed a huge market. In fact India has more English speaking people than in the whole of Europe.

With the above backdrop, it is evident that the Indian Retailers need to give priority to the 300 million middle class. Their needs have to be identified and catered to. Since the corporate \ organized retail is in the infancy stage in India, the retailers get carried away by the tempting bottom-line. And in the process forget their customers' needs and instead offer them which they do not require or demand.

With the economic slowdown consumers have been increasingly putting off purchases of luxury products and lifestyle items like durables, apparel, mobiles and accessories in recent times. Consequently the retailers are trying to encourage footfalls, by cutting prices and offering attractive discounts. This has led to many retail groups pushing the expansion of value store formats as they prepare for the challenging times ahead. Losses from grocery formats hit the bottom-line of retailers such as Reliance Fresh, More, India Bulls, Spencers and More, forcing them to shut down not so viable stores and go slow on expansions.

The current financial crisis has created a genuine opportunity for not only questioning the retailing paradigm that has been dominant for a very short span in India, but also replacing it with a more progressive and democratic alternative.

The objective of this paper is to study the impact of global economic slowdown on Retail market in the Indian Organized sector. This paper will focus on the impact of the global economic crisis on retailing in India. It

is emphasized on how the retailers in India must work to identify and close their needs-offer gaps to win as much as they can. In the discussion, some of the specific targets will be commented on. This paper analyses the possible influence of the entry of MNCs into the Indian retailing industry. It also identifies the challenges to be confronted by the industry future.

Big-Box Retailing..... Need ?

It's imperative to know what exactly the needs of the customer are. The turbulent times, particularly recession has given an opportunity for present retailers in India to explore the reasons of customers' dissatisfaction. The recent crisis has shaken the markets and questions are raised about the appropriateness of the present big-box retailing.

The organized retailers with their huge size have the advantage and benefit from well-established supply chains. Resultantly they can deliver a variety of choice at best prices to the consumers.

However, the meager infrastructure, land disputes, the redtapism predominant in the bureaucracy and labor problems prove to be the major hurdles in the growth of the organized retailing. The charm of organized retail seems to be fading among the consumers as they find kirana stores and street vendors offering better deals in terms of credit as well as free home delivery services, thus saving on time and petrol used for travel. Organised retailers with an air conditioned store were like a new experience for most middle and lower-middle class people. After the initial exclusivity, people have started comparing the benefits offered by kirana and organized stores.

In India, approximately 95 percent "traditional retailing" still runs through the "kirana" stores. The Asian countries like China, Thailand and South Korea are much ahead of India in the organized retail sector. They have a greater percentage share of organized retail of their total business. The organized retailing in India confront many limitations, like the small amount of operations, low-cost format, limited access to capital, labor and suitable real estate decisions. And the frequent under reporting of business transactions resulting in tax avoidance. It is observed that the Micro enterprise is the most flexible retail unit in India. Maybe with the rise of modern retail outlets, the nature of shopping is likely to change.

Seeing is believing Jo dikhtahai, wohi sach hai

Previously the Retail marketing approach was straightforward: construct the shelves in such a way that the product is visible - and the appropriate usage of mass media advertising - resultantly the product will sell by itself. But now the times have changed, the modern retail has evolved. The focus has shifted to atmospherics that is in-store displays and ambience. The in-store promotions - also have gain prominence.

Paradigm Change

India's consumers are in a metamorphosis. The Indian consumer is earning more now, influenced by west, women working force is increasing, desires for luxury items and better quality. All these have lead the Indian organized retail sector to give more in order to satisfy the Indian customer. The shopping revolution in India is steered by the concept and idea of shopping, that it has undergone an attention drawing change in terms of format

and consumer buying behavior. This has led to retail explosion in terms of: consumer brands, retail formats and shopping centers.

"Needs-Offer Gaps" - Needs of the consumers ...?

Anticipate Customer Needs

Several factors important to a consumption explosion:

- Encouraging trends in population
- Increased buying capacity of consumers.
- Consumers with high aspirations

Selling a hope, an aspiration has become more prevalent and the key drivers of growth in retail among the Food, apparel and FMCG companies; rather than selling a product or a service, and above all an experience that a consumer would like to repeat.

Its interesting to note Barry Schwartz's list in his 2004 bestseller, *The Paradox of Choice: Why Less is More*, based on a visit to his local supermarket in the

US: 95 different snacks, 360 shampoo types, 40 choices for toothpaste, 275 varieties of breakfast cereal, 175 types of teabags, 285 types of cookies (21 options in chocolate chip alone).

India had a fairly smooth run until now - since the average kirana store is 150-200 sqft and has space for less than 1,000 SKUs, there wasn't a need to create endless product variations and extensions of the same brands.

Multiple drivers leading to a consumption boom:

- Favorable demographics
- Growth in income

With the aforesaid example the apprehension is whether the Indian consumer needs this much of extravagant choice in the Indian stores.

Customer Needs:

- The ease in locating the products;
- Offering estimated delivery time, showing in-stock availability for items
- Quality and detail of images: from multiple angles?
- Price points (inclusive of tax, shipping and handling);
- Offering multiple payment options (e.g., pay-by-check, etc.)
- Ease and simplicity of checkout (e.g., how much time taken to check out?)
- Retailer's ability to address the shopper's concerns (e.g., return policies, guarantees, third-party seals and security assurances)
- Shopper's gift buying needs (e.g., did the retailer offer gift wrapping, messaging or gift certificates?)
- The efficacy of the brand in conveying confidence;
- The impact of overall design on credibility and sales;
- The entire customer experience from search to purchase fulfillment.

Offers of the retailers.....?

- Discounts,, Discounts..and ... Discounts.

Tailoring Strategy to match consumer segments

An attempt has been made to assess the

retailers' Strategy to match consumer segments so as to close in the " Needs-Offer Gaps". (Refer Exhibit-I)

The simile is drawn with the Bollywood title to express the circumstances, situation, occasions and timing in which the same customer behaves very differently. _The authors draw inspiration with the film *Roti Kapda Aur Makan*, where the Indian Democracy raced through the secondary school, the decade in which the Indian economy faced a different situation; to the present post reforms era-where films like *Baazigar*, *Kal Ho Na Ho*, *Kabhi Khushi Kabhi Gham*, the era in which the Indian economy graduated. The decade in which the audiences not only graduated intellectually, financially and knowledge -wise also touched a new peak. The common man questioned the dogmas and stigmas in the society in general. The time in Indian history, when the Indian Consumer seriously took note of his own needs and the long deprivation ended.

The modern consumer not only heeded his needs and wants but also traveled an extra mile to achieve the satisfaction level even in purchasing. When the audiences accepted the reformed Indian economy, the big budgeted films, the high paid cast, the plush sets and scenic beauties, all announced the arrival of new India. Thus the modern day consumer represents the globalized economy. The comfortably well-off and live-for-today segments may carry on as usual, the slam-on-the-brakes and the pained -but- patient segments. By and large, the majority of consumers may well retain the consumption habits they've learned.

Conclusion:

The retail sector world-wide has a huge role in enhancing productivity of consumer goods and services. In India Retailing is the second largest industry, after agriculture- in terms of employment. Many of the developing nations are very much dependent on their retail sector

as an engine of growth. The need of the hour is to sensitize all the stakeholders to the transformation that modern retail can bring into the economy. Retailers need to focus on the consumer needs. They need to identify the more basic needs rather than offering goods which are affordable but may prove to be a burden on the consumers' pockets.

Exhibit-I

Tailoring Strategy to match consumer segments

LowHigh \ High.

Risk of Sales Downturn Behavior Change	Essentials Roti Kapda Aur Makaan	Treats Kal kis Ne dekha	Postponables Armaan	Expendables Dewane
Slam-On-The-Brakes* Ghulam,	Price Offer smaller pack & Promote low-cost products. Introduce fighter brand.	Shrink sizes Hold prices down Advt as a “you deserve it” – Treat yourself	Provide low-cost financing Promote exceptional deals.	Offer do-it-yourself alternatives Awareness Advt. for vacations.
Pained But Patient* Kabhie Khushi Kabhie Gum	Offer a lower-priced option. Emphasize dependability of branded product/service.	Reward loyal consumers, offer frequent patron points. Advt.e products as affordables alternatives to luxuries.	Offer simpler models ,low price- Promote lower operation-cost models& repair services.	Continuous awareness Advt.Invest in core product investments
Comfortably .. Well Off* Baazigar	Continue awareness Advert.	Emphasize High quality Advt. you are successful, Product you deserve -	Promote savings Advt. advice customers they’re “missing out” by postponing.	Enable discreet purchasing Advt. benefits of impressing wealthy friends.
Live-For-Today* Kal Ho Na Ho	Continue Awareness Advt. Remind consumers ,”you cant live without it”	Offer convenient automatic credit card billing. Promote as opportunity to seize the moment.	Offer monthly payment plans Promote Quality-of- life benefits of buying now.	Offer exciting new products and promote as “must have” Advt.as buy products when income grows.

* Refer - Appendix

Suggestions:

- Indian retailers need to take advantage of the growth and expansion and instead of introducing new formats, try and give a face-lift to the present formats.
- To counter cutthroat pressure, Indian retailers have to identify the worth of building their own store as brand. Communicate superiority as well as value for money.
- Maintain the competitive advantage. Transform the core values by combining products, image and position into a steady retail brand strategy.
- Ensure a positive shopping experience.
- Understanding customer service fundamentals is an asset.

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Appendix-I

1. Essentials: Roti Kapda Aur Makaan is necessary for survival or perceived as central to well-being.
2. Treats: Kal kis Ne dekha are indulgences whose immediate purchase is considered justifiable.
3. Postponables: Armaan are needed or desired items whose purchase can be reasonably put-off.
4. Expendables: Dewane, are perceived as unnecessary or unjustifiable.
5. Slam-on – the – brakes: Ghulam, This segment feels most vulnerable and hardest hit financially.
6. Pained-but Patient: Kabhie Khushi Kabhie Gum- consumers tend to be resilient and optimistic about the long term but not in short term. They constitute the largest segment.
7. Comfortably Well-off: Baazigar- Consumers feel secure about their ability to ride out current and future bumps in the economy. This segment is 5% of the top income bracket.
8. The Live-for-Today: Kal Ho Na Ho -segment carries on as usual and for the most part remains unconcerned about savings. This segment makes major purchases in recession. They rent than own. Unless unemployed they do not change purchase behaviour.

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QUOTES

For the past 33 years, I have looked in the mirror every morning and asked myself: 'If today were the last day of my life, would I want to do what I am about to do today?' And whenever the answer has been 'No' for too many days in a row, I know I need to change something.

Steve Jobs

For you to sleep well at night, the aesthetic, the quality, has to be carried all the way through.

Steve Jobs