Consumer experience across traditional and modern retail formats in Asia: The future of Indian retailing

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Introduction

Increased demand for products and services in emerging markets owing to rising middle classes and affluence has been a key trigger for retail development in these markets, and may also contribute to future economic development. As consumer awareness of new products and services increases, the desire to earn more money thus promotes further economic growth. This in turn has led to a wider choice of products which, alongside rapid changes in socio-demographics, changing lifestyles and the increasingly “24/7” culture has dramatically altered consumer expectations (Mukherjee et al, 2014).

A Nielsen report in 2012 observed that the dramatic shifts in Asia’s retail landscape have created an unprecedented view of what the future shape of consumption in Asia will look like. Driven by a surge in the number of Asian shoppers experimenting with new formats, organized retailing has firmly taken its place in the Asian marketplace alongside traditional retail stores. Importantly, Nielsen’s comparison of the density of traditional stores vis a vis modern retail stores suggests that there is still a lot of potential for growth for modern retail stores in Asian markets.

Figure 1: Projected share of packaged FMCG sales into 2020

Source: AC Nielsen, 2015
Consumer shopping preferences across traditional and modern retail stores

Market research carried out by Nielsen in 2015 suggests that traditional trade retail channels account for almost half of all grocery sales in Asia. In 2014, 47.9\% of all retail sales were made through traditional trade channels, compared to 17.2\% for supermarkets, which accounts for the second-largest proportion of sales. The majority of consumers shop at traditional trade stores for daily meals, snack foods and beverages for immediate consumption, while they are less important for top-up or main shopping trips.

Figure 2: Share of retail channels in Asia

While shoppers clearly tend to view the traditional trade store as an extension of their kitchen pantry, sales of homecare and personal care lines are also common purchases in these stores. The Nielsen (2015) report found that the ‘warung’ in Indonesia, the ‘sari-sari’ in the Philippines, Malaysia’s ‘kedai runcit’, Vietnam’s ‘cửa hàng tạp hóa’ and India’s ‘kiranas’ (cultural equivalents of the convenience store) are used by consumers in similar ways. Laundry items, shampoos, make-up, vitamins, baby-care lines and general household products are the most frequently purchased items at grocery stores in Indonesia, the Philippines and Vietnam.

By comparison, Nielsen’s research on Indian consumers in 2012 revealed a more prominent Indian shift towards the super or hyper-market. Indeed, BCG India (2015) projected that modern trade in India would show a 3-fold growth from about $60 billion in 2015 to over $180 billion by 2020. Traditional stores, on the other hand, were projected to grow at 10\% per annum.
A comparison of long term trends and a study of shopper behaviour reveals that the actual number of shoppers who visited organized retailers on a regular basis, had doubled over the five year period between 2007-2012 (Nielsen, 2015). Moreover, consumers had progressed from just walking around air-conditioned aisles to actually making purchases from these stores.

By 2012, over a fifth of Indian shoppers claimed that they had spent more in modern stores than traditional stores compared to just 12% in 2007. PWC’s (2015) report highlighted that by end of 2014, 32% of Indian consumers were shopping in modern retail stores every month. According to Nielsen India executives, the Indian consumer was clearly enjoying the modern trade shopping experience and was increasingly shopping there. This they argued was a strong indicator of the growth potential of the modern trade format. According to the report by Nielsen, while the modern trade stores witnessed good sales growth, traditional kirana stores also remained popular due to factors such as convenience of access, credit, availability of home delivery and trusted relationships between shoppers and the local grocers. A review of these recent market research reports highlighted that consumers would continue to shop across various retail formats resulting in more cut-throat competition between these formats.

The significance of consumer experience

Looking ahead, the continued existence of traditional and modern retail stores in India will clearly depend on the ability of each format to maintain a competitive advantage. Providing a superior customer experience is likely to be one crucial element in doing so (Pullman and Gross, 2004; Schmitt, 1999). According to Mascarenhas et al (2006), “understanding and delivering total customer experience in order to sustain lasting customer loyalty is increasingly important given the pressures of commoditization, globalisation and market saturation”. Total customer experience requires the provider to be customer focused from the initial product search through to product detection, purchase and consumption. And it is not sufficient to stop there. Marketers must continue to engage with their customers even post consumption by way of customer feedback and customer reviews of their product and service experience. Everyone within a retail organisation needs to be charged with the responsibility for understanding customers and contributing to the development and delivery of value for them.

A review of the publicly available market research reports in this space and an analysis of the product categories purchased across traditional and modern retail stores suggests that consumers are more likely to associate an utilitarian customer experience with traditional stores (using them to purchase essential everyday items) and a hedonic experience with modern retail formats which offer a variety of entertainments over and above the pleasure of walking around stores that offer a wide range of different products and services (Nielsen, 2015).

To establish whether this was indeed the case in India, a research study was conducted by myself together with a market research company the author in the city of Kolkata to compare consumer experience across traditional and modern retail stores. The results of this study, together with projected trends for the future of Indian retailing, were then analysed to gain a better picture of the future of Indian retailing.
Our research study in India

In order to develop insights into consumer experience across traditional and modern stores in India and assess the future competitive dynamics between these formats, the research team comprising the author and four other researchers from a local market research agency (the company preferred to remain anonymous) carried out a study to compare consumer experience across traditional and modern retail formats in the city of Kolkata. The research was conducted across three different locations across the city and in each location the surveys were conducted in a traditional and a modern retail store. Prior to this, exploratory focus group interviews were conducted with 10 Indian consumers aged 25-30 year in each retail format to identify the key themes and inform the quantitative study. The results of this preliminary qualitative study suggested Indian consumers sought fulfillment of hedonic goals in modern organized retailers and utilitarian goals in traditional retailers. To determine if these findings generalised to the wider population, the final ‘researcher administered survey’ was conducted in Kolkata in late 2015.

A total of 262 randomly selected participants in either an independent retailer or a large organized retailer agreed to participate in the study. Participants were approached by the research team as they were leaving the store and were asked to participate in the survey.

The survey comprised of a series of questions measuring consumer perception of product price at each retail format using validated scales developed by Estelami, Grewal, & Roggeveen, (2007), the importance of hedonic versus utilitarian attributes in product choice, as well as a measure of the hedonic experience within the retail outlet where they had just completed their shopping using the validated scales developed by Spangenberg et al 2007, Babin et al (1994.).

The data were analysed using independent t-tests. Results suggest that there are significant differences in consumers’ experiences between traditional and organized retail stores. Traditional stores do indeed offer a more basic, utilitarian experience by providing consumers with the relevant products and services. More importantly, traditional stores provide consistency of experience and elicit strong consumer trust and loyalty that stems from the routine purchase and consumption of products in a familiar setting. The localized consumer experience gives these retailers a unique advantage that is closely tied in with the culture and lifestyle of the average Indian.

On the other hand, modern retail stores were found to provide a more hedonic experience by engaging and entertaining consumers in innovative ways. They provoke a more potent emotional response in their customers – a sense of adventure, spontaneity, excitement and even momentary happiness. In these modern stores, the retail experience is not just limited to shopping. Instead they provide considerable entertainment value from window shopping, going to the cinema or dining in the food courts, and a distinctive experience not easily replicable by traditional retailers.
The future of Indian retailing

According to Knight Frank (2015), the share of modern retail in India is estimated to increase from 19% to 24% by 2019. Non modern retailers share in total retail spending is estimated to fall from 81% to 76% during this period while e-tailing is expected to jump by more than five times from 2% in 2014 to 11% in 2019. Knight Frank’s projections into 2019 highlight that online shopping will pose a greater threat to both traditional and modern retailers and alter the competitive dynamics of the Indian retail sector. Figure 4 from PWC’s (2015) market research report (below) cites a number of factors contributing to the preference for online channels compared to shopping in-store, most of which pertain to the convenience of shopping online compared to physical stores.

Figure 3: Future consumer spending across different retail formats

Source: Knight Frank 2015
The graph overleaf highlights that, with the advent of internet shopping, the scope for delivering unique consumer experiences has sky-rocketed. Internet shopping enables consumers to receive an integrated shopping experience with the e-retailer providing convenience, value for money and a wider choice of products through one platform and in the future, traditional and modern retailers will have to compete with these integrated technological platforms to remain relevant to consumers.

**Figure 4: Consumer preference for buying online over in store**

![Graph showing reasons for buying online](image)

The proliferation of digital retailing combined with rapidly changing consumer behavior has triggered a wave of innovations and consolidation in the retail sector. Retailers are experimenting with innovative marketing and promotion campaigns, especially through mobile phones, to take advantage of increasing digitalization in India (PWC, 2015). These include the launch of shopping apps, SMS alerts during sales, and communication of discount codes or coupons. Validating this strategy, 79% of respondents in PWCs (2015) research admitted that they would be happy to receive offers or coupons via mobile phones.

More recently, two of Indian’s largest retailers, Future Group and Bharti Retail, announced their merger which has resulted in Future-Bharti owning 571 retail stores across 243 cities and commanding 18.5 million square feet in retail space in India (Raghunathan, 2015). The combined strength of these two retailers will improve their Pan Indian retail footprint significantly and spruce up the back end infrastructure to improve supply chain operations in India. In September 2015, the head of Futures Group also revealed his ambitious plans to have 4,000 smaller format stores over the next six years in India. This intention also signaled the entry of modern large store formats into the small store sector.

More importantly, retailers in the organized sector and the digital sector are increasingly seeking to partner with the traditional ‘kirana’ retailers to take advantage of the latter’s local know-how.
and last mile connection to consumers in the vast rural regions of the country. In April 2015, Amazon India started running pilot studies using kirana stores as entrepreneur partners across the city of Bengaluru to serve as its delivery points. The project labeled the ‘Kirana Now’ service represents a unique hybrid format in which kiranas work closely with Amazon as their last mile delivery partners and ensure packages reach the customer’s home.

The Future Group has also been wooing kiranas and in April 2015 they had 700 – 800 kirana stores as partners. Future Group’s strategy in kirana stores has been to offer them franchises in their grocery business. In order to facilitate this transition, Future Group also invested in the training of kirana owners in strategies that would help scale up their businesses. The consolidation and restructuring of the Indian retail sector has therefore created new opportunities for traditional kirana stores (Raghunathan, 2015).

Implications of Indian retail sector restructuring on customer experience in the future

Analysis of recent developments in the Indian retail sector suggest that consolidation of the retail sector and the inevitable permeation of digital retailing (mobile and internet) into the modern and traditional kirana formats will pave the way for a new type of omni-channel retail eco system offering a combination of hedonic and utilitarian consumer experiences in the future.

This is depicted in Figure 5 below. The three circles represent areas of collaboration between the different retailers.

Figure 5: The future eco-system of Indian retailing
The area depicted by the small red circle in the centre highlights a future in which kirana stores, in collaboration with the modern retail chains and online retailers, upgrade their business model to that of convenience store to provide the assortment of a hypermarket in a small store format.

Most of the products (80% plus), both food and non-food, will be ordered online or through mobile devices and be delivered to the store in advance for customers to pick up at their convenience. Consumers would experience the utilitarian benefits of the neighbourhood store with the added convenience of ordering online and flexibility of collecting in their own time, over and above topping up with impulse purchases while shopping in store.

The yellow circle depicts a future in which kirana stores collaborate only with the larger retailers. The newly upgraded stores would exude a level of professionalism, quality control and cleanliness, unlike the traditional kiranas, thereby offering consumers the added utilitarian benefit of shopping in comfort in their local neighbourhood store. Unlike before, the modernized kirana stores would provide an element of hedonism for consumers who opt for spending time walking the aisles of these newly upgraded stores in comfort, exploring the variety of products the stores have to offer.

The purple circle depicts a future in which kirana stores collaborate only with e-tailers and become delivery points for consumers across urban and rural settings. Over and above the utilitarian benefits of ordering products online or through mobile devices and collection via the neighbourhood kirana store, consumers would have access to a wider range of products and services ordered online and available to collect in kiranas. The opportunity to browse the wider range of online products and services would include an element of hedonism not previously associated with kirana stores.

The green circle depicts the existing collaborations between modern retailers and e-tailers. Store-based retailers provide consumers with the utilitarian benefits of online shopping and also the hedonic benefits of shopping in-store in departmental store formats and malls. Moreover, by using mobile devices to send customized in-store promotional offers, store-based retailers have the opportunity to provide value for money products and services to customers.

Alongside these hybrid retail formats, the retail sector in India is likely to continue to witness the growth of luxury malls and department stores offering a hedonic shopping experience and allowing consumers to be entertained in a luxurious environment. Stand alone kiranas operating the original business model of neighbourhood ‘hole in the wall’ convenience stores would also capitalize on their local appeal to offer the everyday utilitarian experience.

Conclusion

Contrary to the expectation of the inevitable demise of traditional retailing in the face of retail modernization, the India retail sector is well poised for a multi-faceted, collaborative eco-system founded upon the relative strengths of traditional kiranas, e-tailers and store based retailers. The unique advantage which the kiranas possess and based on knowledge of the local geography, culture and lifestyle of their consumers will continue to make them important stakeholders in any
future Indian retail ecosystem. E-tailers will enhance the convenience offered by kiranas by providing a plethora of choices to consumers shopping online and magnify the utilitarian experience by offering a localized delivery facility through the kiranas.

Store based retailers seeking to upgrade the business model of local kiranas will inevitably deliver a more hedonic experience for customers shopping in these outlets. In the hybrid retail landscape there promises to be increased opportunities for retailers to provide a combination of utilitarian and hedonic experiences across an integrated platform offering features of convenience, comfort, flexibility, professionalism, customization and entertainment.

References:


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Dr Malobi Mukherjee is an ACI Research Fellow and Fellow in the Oxford Institute of Retail Management (OXIRM) at Saïd Business School. Her chief research interest is in international retailing, particularly the development of scenarios for retail development in India. Malobi’s research into Indian retail scenarios has been the subject of several public policy forums and has been covered by leading national newspapers in India (the Times of India and Indian Express) as well as in the Retail Images Report 2013 for Indian retail practitioners.