



An overview on Indian Consumers' retail buying behavior

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Abstract:

In the past few years the whole concept of shopping has been altered in terms of format and consumer buying behavior. The Indian customer is looking for an emotional connection, a sense of belonging. Hence, to be successful any retail outlet has to be localized. The customer should feel that it is a part of his culture, his perceived values, and does not try to impose alien values or concepts on him. Indian customer is not keen to buy something just because it is sold by an international company. Ultimately, it boils down to how much localization and adaptation the company is willing to do for India. Indian consumer is also witnessing some changes in its demographics with a large working population being under the age group of 24-35, there has been an increasing number of nuclear families, increase in working women population and emerging opportunities in the service sector during the past few years which has been the key growth driver of the organized retail sector in India.

Key words: Consumer, retail, modern retail formats

Introduction

In the past few years the whole concept of shopping has been altered in terms of format and consumer buying behavior. With the increasing urbanization, the Indian consumer is emerging as more trend-conscious. There has also been a shift from price considerations to designs and quality as there is a greater focus on looking and feeling good (apparel as well as fitness). At the same time, the Indian consumer is not beguiled by retail products which are high on price but commensurately low on value or functionality. However, it can be said that the Indian consumer is a paradox, where the discount shopper loyalty takes a backseat over price discounts.

Indians have grown richer and thus spending more on vehicles, phones and eating out in restaurants. The spending is focused more outside the homes, unlike

in other Asian countries where consumers have tended to spend more on personal items as they grow richer. Spending on luxury goods have increased twice as fast with 2/3 of India's population is under 35, consumer demand is clearly growing. The mall mania has brought in a whole new breed of modern retail formats across the country catering to every need of the value-seeking Indian consumer. An average Indian would see a mall as a perfect weekend getaway with family offering them entertainment, leisure, food, shopping at all in one roof.

Indian consumer and emergence of retailing

Indian consumer is also witnessing some changes in its demographics with a large working population being under the age group of 24-35, there has been an increasing



number of nuclear families, increase in working women population and emerging opportunities in the service sector during the past few years which has been the key growth driver of the organized retail sector in India. The emergence of a larger middle and upper middle classes and the substantial increase in their disposable income has changed the nature of shopping in India from need based to lifestyle dictated. The self-employed segment has replaced the employed salaried segment as the mainstream market, thus resulting in an increasing consumption of productivity goods, especially mobile phones and 2 - 4 wheeler vehicles.

There is also an easier acceptance of luxury and an increased willingness to experiment with the mainstream fashion, resulting in an increased willingness towards disposability and casting out from apparels to cars to mobile phones to consumer durables. Indians spend over \$ US 30,000 a year (in terms of Purchasing Power Parity) on conspicuous consumption that represents 2.8 percent of the entire population (which is approx 30 million people) making it the 4th largest economy in PPP terms next only to USA, Japan and China.

With reference to the map of India's income class, it can be noticed that the real driver of the Indian retail sector is the bottom 80 percent of the first layer and the upper half of the second layer of the income map. This segment of about 40 million households earns \$ US 4,000-10,000 per household and comprises salaried employees and self-employed professionals and is expected to grow to 65 million households by 2010. In addition to this, facilities like credit friendliness, availability of cheap

finance and a drop in interest rates have changed consumer markets. Capital expenditure (jewelry, homes, and cars) has shifted to becoming redefined as consumer revenue expenditure, in addition to consumer durables and loan credit purchases

Rural customer and Expansion of Rural markets:

A look at the demographics reveals that the highest income levels households in the rural areas are 1.6 million as compared to 2.3 million in urban areas. It has also been forecasted that the middle and the higher income households are expected to grow to 111 million by 2007 from the current levels of 80 million. Thus, it can be said that with 128 million households, the rural population is nearly three times the urban. This vast demand base and size offers a huge opportunity that MNCs cannot afford to ignore. The rural market account does to 70 percent of toilet-soap users. 38 percent of all two-wheelers are purchased by the rural consumers. The rural market is account for half the total market for TV sets, fans, pressure cookers, bicycles, washing soaps, blades, tea, and salt and tooth power. The market for FMGC product is growing much faster than urban counterpart.

In order to meet with this rapid growth in demand the government has shown its concern by providing an induction of Rs.140 billion and Rs. 300 billion in the rural sector through its development schemes in the Seventh and the Eight plan respectively. The large players like ITC, HLL, BPCL are realizing the potential of this sector and are seen experimenting with new ways to tap this segment.



ITC spent 3 years and Rs. 80 crore on R&D to come up with the concept of E-choupal and Choupal Sagar-rural hypermarkets. Through this, the farmers can access latest local and global information on weather and market prices, scientific farming techniques at the village itself through a web-portal - all in Hindi. E-Choupal also facilitates supply of high quality inputs as well as purchase of commodities at their doorstep. The hypermarket (Choupal Sagar) provides them with another platform to sell their produce and purchase necessary farm and household goods under one roof.

The HLL came up with Project Shakti in late 2000 to sell its products through women self-help groups who operate like a direct-to-home team of sales women in inaccessible areas where HLL's conventional sales system does not reach. Another step to tap the rural market was 'Operation Bharat' wherein low-priced sample packets of toothpastes, fairness creams, Clinic Plus shampoos and Ponds face creams to 20mn households. As a part of their rural strategy, BPCL introduced Rural Marketing Vehicles (RMVs) that move from village and village and filling cylinders on the spot for rural consumers keeping in mind the low-income of the rural population. The Company also introduced a smaller size cylinder to reduce both the initial deposit cost as well as the recurring refill cost.

Modern retailing has entered India in form of sprawling malls and huge complexes offering shopping, entertainment, leisure to the consumer as the retailers experiment with a variety of formats, from discount stores to supermarkets to hypermarkets to

specialty chains. However, kiranas still continue to score over modern formats primarily due to the convenience factor.

Traditionally, the small store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires minimum investments in terms of land, labour and capital. These stores are not affected by the modern retailing as it is still considered very convenient to shop. In order to keep pace with the modern formats, kiranas have now started providing more value-added services like stocking ready to cook vegetables and other fresh produce. They also provide services like credit, phone service, home delivery etc.

The organized retailing has helped in promoting several niche categories such as packaged fruit juices, hair creams, fabric bleaches, shower gels, depilatory products and convenience and health foods, which are generally not found in the local kirana stores. Looking at the vast opportunity in this sector, big players like Reliance and K. Rahejas has announced its plans to become the country's largest modern retailers by establishing a chain of stores across all major cities. Besides, Rural India consists of 720 million consumers a cross 627 village. 17 percent of these villages account for 50 percent of the rural population. 60 percent of the rural wealth reaches out to almost more than 10000 villages to address just 50 percent of this opportunity. In order for the market to grow in modern retail, it is necessary that steps are taken for rewriting laws, restructuring the tax regime, accessing and developing new skills and investing significantly in India.



The urban Indian consumer in both hurdle and an opportunity

As per one study, about 56 per cent of Indians ²⁶agreed that private labels are a good option in comparison with brands. Further, the study also concluded that majority of Indian consumers associate private labels with low cost, and are, therefore, apprehensive about compromising on quality. The target segment for organized retail in India is still predominantly urban, and in the context of private labels, it is more inclined towards 'upwardly mobile' urban consumers. This segment gives high priority to quality, and the 'budget label' perception does not help at all.

Further, Indian retailers have not been able to develop a bond with consumers. Consumer loyalty has been seen to provide impetus to private label growth in developed countries such as the United Kingdom. The lack of this bonding and loyalty could hamper private label penetration in coming years. At the same time, though, the Indian consumer's also provides an opportunity for retailers. The Indian urban consumer is price-conscious, but also expects high quality. Private label products could actually fit the bill perfectly. If Indian retailers are able to achieve high quality, while controlling costs, their private labels can successfully meet the demands of the Indian consumer.

Intense competition in Indian retail could provide impetus to private labels with the entrance of several corporate majors such as Reliance; there is intense store-level competition in the current Indian retail scenario. However, if Indian retailers were to follow the UK model, this could actually turn out to be a boon for private label growth. Major UK retailers such as Sainsbury and Tesco

have successfully used private labels to differentiate themselves. This scenario could be replicated in India in the near future.

Private labels likely to exhibit maximum penetration in 'food and groceries', 'clothing' and 'consumer durables' segments. All segments where percentage of organized retail is relatively high, and which are also exhibiting the highest overall growth rates, are most likely to show maximum private label penetration in the near future. The following figure illustrates the findings of a simple analytical model based on the above two assumptions. All segments where percentage of organized retail is relatively high, and which are also exhibiting the highest overall growth rates, are most likely to show maximum private label penetration in the near future. 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. Long intermediation chains would increase the costs by 15 percent.

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. Non-availability of government land and zonal restrictions has made it difficult to find a good real estate in terms of location and size. Also lack of clear ownership titles and high stamp duty has resulted in disorganized nature

Conclusion

It is said that the Indian customer is looking for an emotional connection, a sense of belonging. Hence, to be successful any retail outlet has to be localized. The customer should feel that it is a part of his culture, his perceived values, and does not try to impose alien values or concepts on him. Indian

customer is not keen to buy something just because it is sold by an international company. Ultimately, it boils down to how much localization and adaptation the company is willing to do for India. Other than tremendous money power, global companies have nothing extra or special that the Indian retail business does not have. Only two percent of India's retail market is organized. The future shows tremendous potential for growth in the retail sector. Almost all large companies worldwide are looking to establish a base or stake in the Indian market. In this scenario, the Indian retail sector itself must seize

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