RETAILING IN KERALA: FACTORS AFFECTING GROWING RETAIL MARKET IN THE STATE

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Abstract

Emergence of organized retailing is a hotly debated issue in the state for last few years. Unfortunately, there is dearth of detailed investigations regarding the scope and implications of organized retailing in the context of Kerala. Retailing industry is one of the most promising segments in the state. However, very large retail formats are at infancy stage. This paper attempts to identify major factors that determine growth of retail industry in the state. The study identifies economic growth, favorable demography, consumption pattern, urbanization and employment pattern as the key drivers of retail growth in the state. Based on a household survey conducted at Cochin, five factors attracting customers were extracted - Product Attributes, Reliability, Added Services, Value for Money and Customer Facilities, using factor analysis. Retails stores usually attracts consumers mainly due to three reasons – price, service and quality. This study observes that people are more concerned on quality and service factors than price while comparing organized retail shops with unorganized one.

INTRODUCTION

Retail industry is one of the growing segments in India. It has brought in phenomenal changes in the whole process of production, distribution and consumption of consumer goods all over the world. The strength of retail industry lies mainly in two factors – its ability to generate massive employment and very close relation with the majority of final consumers. The Indian retail market is

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estimated at $300 billion, but the share of the 'organized' segment is pegged only at 3-5 per cent. Too small when compared with the US market, which has the highest element of organized retailing (reportedly 85 per cent), though industry research forecasts talk of a quadrupling of the business, from the current $12 billion (in 2006) to $45 billion by 2010 (Business Line, March 27, 2008).

The Global Retail Development Index (2007), developed by AT Kearney ranks the top 30 emerging countries for retail development using 25 macro and retail specific variables, identifies India, Russia and China at the top of the index. The index is constructed based on four attributes, country risks, market attractiveness, market saturation and time pressure. India ranks top in the index for the last few years in the Global Retail Development Index.

Table1: Global Retail Development Index

2007 Rank	Country	Country Risk	Market Attractiveness	Market Saturation	Time Pressure	GDRI Score
		25	25	30	20	
1	India	67	42	80	74	92
2	Russia	62	52	53	90	89
3	China	75	46	46	84	86
4	Vietnam	57	34	76	59	74
5	Ukrain	41	43	44	88	69

Source: *AT Kearney 2007 Global Retail Development Index*

Different statistics are available with respect to the projected growth of retailing in India. India is one among those countries with largest number of retail outlets in the world. Of the 12 million retail outlets present in the country, nearly 5 million sell food related products as well as durables. However, organized retail accounts for only 4% of the total market, offering huge growth potential in this segment. Since the market is dominated by unorganized players, the entry of domestic and international organized players have great opportunity to reap the benefits of opening of the economy. According to a study by Deloitte Haskins and Sells, organized retail has increased its share from 5 per cent of total retail sales in 2006 to 8 per cent in 2007. The fastest growing segments have been the wholesale cash and carry stores (150 per cent) followed by supermarkets (100 per cent) and hypermarkets (75-80 per cent). Further, it estimated that the organized segment to account for 25 per cent of the total sales by 2011 (IBEF, 2008).

The huge growth of retailing in India is attributed mainly to the following reasons:

- **Economic Growth and Rapid Urbanisation** – The Indian economy showed a rapid economic growth for last few years. The average growth rate has increased from 5% -6 % in 1980s to more than 8.7 % in 2007-2008. Increased employment opportunities and higher per capita income dramatically changed the retail scene in India. Per capita income has grown from 2.2 in 2003-04 to 7.2 in 2007-08 and per capita consumption from 3% (2003-04) to 5.3 % (2007-08).[Economic Survey, 2008]

Table 2: India's Income Classes

Income Group	1994-95	1999-00	2005-06
RICH (Annual income > US$ 4,700) Benefit Maximisers: Own cars, PCs	1 million households	3 million households	6 million households
CONSUMING (US$ 1,000-4,700) Cost-benefit optimizers: Have bulk of branded consumer goods, 70% of two-wheelers, refrigerators, washing machines	29 million households	55 million households	75 million households
CLIMBERS (US$ 500-1,000) Cash-constrained benefit seekers: Have at least one major durable (mixer, sewing machine/television)	48 million households	66 million households	78 million households
ASPIRANTS (US$ 350-500) New entrants into consumption: Have bicycles, radios, fans	48 million households	32 million households	33 million households
DESTITUTES (Less than US$ 350) Hand-to-mouth existence: Not buying	35 million households	24 million households	17 million households

Source: *Ernst and Young: The Great Indian Retail Story, 2006*

- **Favourable Demography** – India is increasingly being acknowledged as young nation with a larger group in consumer age. As per 2008 data, 30% of the population is in below 14 year age-group, 64.9% in 15-64 years age group and 5.1% above 60. (Srivastava, R.K, 2008).

Organised retailing in India is heading towards higher level. The Great Indian Retail Story, published by Ernst and Young, observes that India will achieve its fourth phase in retail boom by 2011.
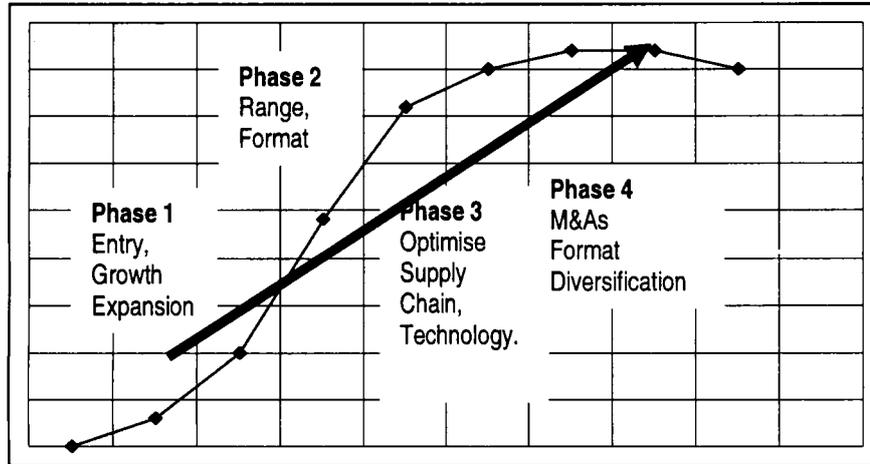
Fig1: Indian Retail Growth Cycle

Retailing includes all the activities involved in selling goods or services directly to final consumers for personal, non business use (Kotler et al, 2007). Marketers and economists consider retailers as the final point of supply chain before customers. Management of supply chain occupies an increasingly important role in retail marketing. Optimum supply chain will reduce the prices and make the demand of final consumers more affordable. Now, retailers are much deviated from their positioning as the last point in supply chain, rather they engage in strategic planning to face competition from the other players.

RETAILING IN KERALA

The state of Kerala owes a successful story of structured retailing through public distribution system throughout all the villages in the state, known as ration shops. They are mainly discount stores offering groceries and kerosene at a subsidised price. The biggest retailer in the state, Kerala State Civil Supplies Corporation is a statutory body established in 1974. It procures a wide range of consumer goods independently from the open market and distributes them through a network of retail outlets called Maveli Stores. However, the opening up of the economy and changed consumer preference reorganized such stores in the form of 'labham' (profit) supermarkets. The state also witnessed a long chain of margin free supermarkets all over the cities and small towns by the middle of 1990's. There are currently more than 300 franchisees of Margin Free Markets spread all over south India. These margin free markets are controlled by Consumer

Protection & Guidance Society, a registered charitable institution that started functioning in 1993. By the beginning of 21st century, a number of other retailing chains were established in the state. However, big organized retail formats, such as hypermarkets, supermarkets and department stores, are rare in Kerala. At present, the retailing in Kerala is experiencing an explosive modernization, with huge investments in this sector.

Traditional local shops and small scale retailing is still dominating in the retail scenario of the state providing enormous space for new comers. There is no authentic data available regarding the total value of unorganized or organized retailing in the state. But retailing channels have increased considerably in the state for last few years. A number of factors, from demand as well as supply side have contributed to the sharp growth of retailing in Kerala. The key growth drivers of retailing in Kerala are the following.

Rapid Economic Growth and Rising Per-Capita Income

For last few years, Kerala economy is growing at a fastest rate. The Gross State Domestic Product of the state in real terms increased by 8.1 percent in 2006-07. Growth rate of GSDP for last few years are given below.
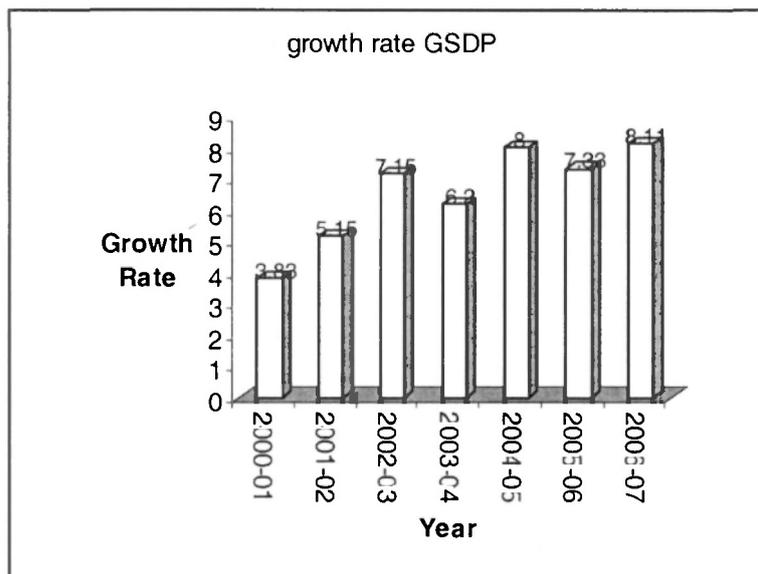
Source: *Economic Review, 2007-08*

Fig 2: Growth Rate GSDP

The per-capita state income at constant (1999-2000) prices also registered a growth rate of 6.3 percent in 2006-07. At current prices the per capita state income recorded a growth rate of 9.6 percent in 2006-07. The per capita state income is higher than the per capita national income (Economic Review, 2007-08).

Favorable Demography

The population of the state as per 2001 Census was 318.4 lakhs, against an average annual growth 0.91 per cent during 1991-2001. Kerala's Population consists of 82.96 lakhs (26.1%) in the age group 0-14, 201.82 lakhs (63.4%) in the age group 15-59 and 33.35 lakhs (10.5%) above the age of 60. Between 1991 and 2001, population in the 15-59 age group increased by 12.91%. As per 2001 census, 28.2 % percentage of the population comes in the 10-24 age-group. (Economic Review, 2007-08).

Consumption Pattern

Kerala is considered as a consumer state. A number of reasons, including external money inflow are attributed for this phenomenon. As per the 61st Round NSS Report, Monthly Pattern of Consumption Expenditure (MPCE) for rural sector of Kerala stands at 1013, against the all India average of 559. A state wise comparison reveals that Kerala had the highest MPCE. The all India average MPCE of urban sector is Rs.1052. As per this report the average urban MPCE for Kerala is 1291. Nagaland, Goa, Himachal Pradesh, Punjab and Delhi stand above Kerala in this respect. The average consumer expenditure in Kerala and all India were very close during the early 70's. However from the late 70's the average consumer expenditure of Kerala gradually surpassed the all India level both in urban and rural sectors. Rate of change in the rural sector was more pronounced than in the urban sector. The percentage variation in the urban sector stood at 8.4 percent compared to all India level and it was 29.5 % in rural sector in 1983-84. The rising trend continued and reached to 81.3% in rural sector and 22.7% in urban sector during 2004-05. (Economic Review, 2007-08).

Urbanization

The urban sector in Kerala comprises five Municipal Corporations and 53 Municipalities. 25.97% of the population lives in urban areas as per 2001 Census. It was 18.74 % of the total population in 1981; and 26.44 % in 1991and 25.97%

of the total population in 2001 and is spread over 159 census towns in the state. Unlike the other parts of the country, urbanization in Kerala is not limited to cities and towns. This is mainly because of the dispersed settlement pattern and high population density in the state. Development of IT industrial agglomerations in major cities will increase the pattern of urbanization and of course will boost up the retail industry in the state.

Employment Pattern and Growth of Service Sector

The sectoral distribution of work force in Kerala acts as a major driving factor for the growth of retailing in the state. Pushpangadan (2003) observed that the main source of acceleration in the state economy is due to the growth in tertiary sector. Contribution of primary sector to SGDP is 16.5 %, secondary sector is 22.2% and tertiary sector is 61.3% at 2006-07. Growth of service sector, especially in private, will increase the demand for retailing industry in the state.

RETAILING IN KERALA: AN EMPIRICAL ANALYSIS

In order to indentify major factors affecting retailing in the state, a survey was conducted among select 106 household heads in Cochin. The objective of the survey was to identify the preference factors towards retails shops in Cochin area.

Among the 106 surveyed, 81% do regular shopping at organized retail shops, 10 % at local shops and 9 % in both local and organized retail shops. Among the respondents 19 (17.9%) have monthly income less than Rs. 10,000 group; 38 (35.8%) are between Rs. 10000 – 20,000 group; 24 (22.6%) are in Rs. 20000-

*Table3: Frequency of shopping*Monthly Income cross tabulation*

	Monthly Income (in Rupees)				Total
	Less than 10,000	10000-20000	20000-30000	Greater than 30000	
Twice a week	0%	0%	25%	0%	5.7%
Every week	31.6%	34.2%	16.7%	92.0%	43.4%
Once in every two week	0%	50%	41.7%	8%	29.2%
Once in a month	68.4%	15.8%	16.7%	0%	21.7%
Total	100%	100%	100%	100%	100%

30000 group and 25 (23.6%) are above 30,000 group. Distribution of respondents by monthly income and frequency of shopping is given in the table below.

It is clear from the table that 92% of the higher income class does purchases every week, while 68.4% of the lower income class does purchases once in a month.

As part of the survey, the respondents were requested to rank their preference to various retail outlets in Cochin. Ranks of various shops in Cochin are given below.

Table 4: Ranking of selected retail shops in Cochin

Retailer	Rank
Varkeys	2
More	6
Reliance	5
Mithra Mega Mart	4
Nine Ten	8
Nilgiris	7
Margin Free Super Markets	1
Local Shops	3

Preferences of sample respondents towards various retailers are interesting. Keralites are not prone to new organized retailers in the state. 27 (25.5%) persons ranked margin free and 22 (20.08%) persons ranked Varkeys as number 1. While organized retailers spreading their wings in the state, Keralites depends on local shops except margin free super markets and Varkeys.

It is observed that around 47% of the people spend half an hour in a retail shop for shopping. 87.7% of the people spend less than one hour in the retail shops. Average time spend in retail shops is given in the table below.

Table 5: Time spent in retail stores

Time	Frequency	Percent
Half hour	50	47.2
One hour	43	40.6
Two hours	13	12.3
Total	106	100.0
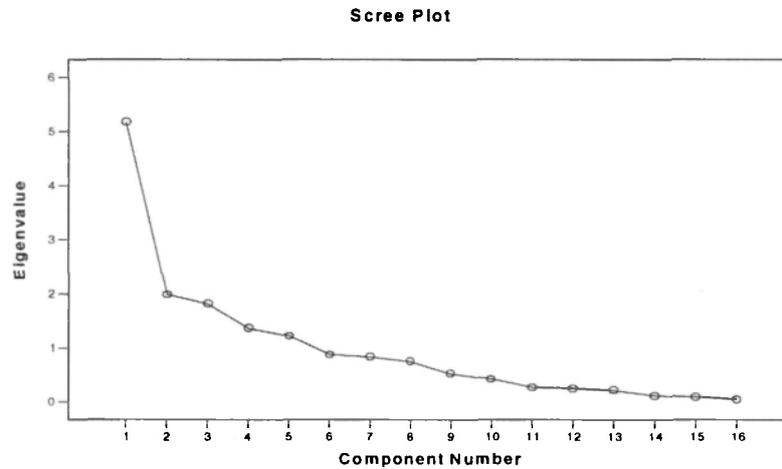
Scree Plot

Fig 3: Scree plot

Table 6: Rotated Component Matrix (a)

	Component				
	1	2	3	4	5
Quality	-.118	.787	-.051	-.084	-.056
Proximity	.250	.104	-.039	.744	-.058
Price	-.225	-.195	.084	.718	.370
Parking space	.214	.096	-.246	.188	.832
Freshness of product	.089	.861	.073	.186	.121
Range	.622	.433	.119	.063	.036
Convenience	.612	.291	.067	.356	.129
Single roof shopping	.818	.097	.135	-.030	.283
Store atmosphere	.775	-.190	-.140	.086	.277
Customer service	.324	.480	.035	.601	.037
Attractive Display	.890	-.184	.041	.113	.069
Acceptance of credit cards	.456	.021	.417	-.010	.644
Schemes and packages	.635	.118	.397	-.029	.124
Packaging	.688	.045	.121	.277	-.357
Exchange policy	.234	.079	.846	.219	-.084
Credit facility	-.010	-.040	.844	-.115	-.024

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

Factors that attract customers to retail shops vary from country to country and region to region. Tordjman (1993) (Quoted in R K Srivastava, 2008) mentions price, packaging, quality, innovation, and services as the prime factors attracting in Italy and France. In the context of Kerala, 16 important factors were identified and requested customers to mark their preferences in a five point scale – Very High Preference, High Preference, Moderate Preference, Low Preference and No Preference. SPSS based factor analysis extracted 5 factors whose Eigen values are more than one. The Scree Plot and rotated component matrix for the variables is given below:

Table 7: Factor Reduction

| Product Attributes	Reliability	Added Services	Value for Money	Customer Facilities
Range Convenience Single roof Store atmosphere Attractive Display Schemes and Packages Packing	Quality Freshness	Exchange Credit facility	Proximity Price Customer Services	Parking Acceptance of Credit-Cards
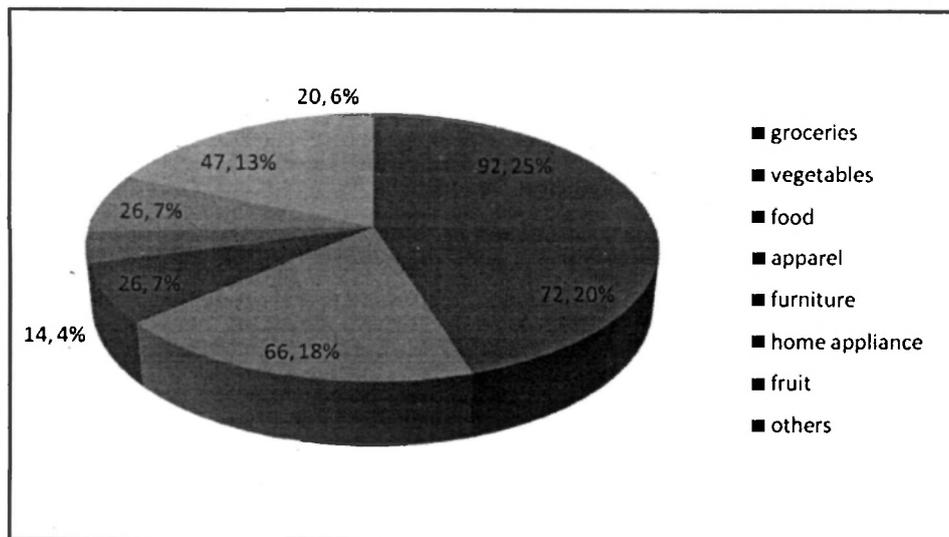
Fig 4: Preferred items from organized retail

Based on the factor analysis, the above 16 variables were reduced in to five. They are:

Product Attributes, Reliability, Added Services, Value for Money and Customer Facilities are the major factors attracting customers to retail shops in Cochin. It is observable that small and medium retailers are changing the environment by introducing good services and better infrastructure.

Organized retailers represent a very small portion of the total retailing industry in Kerala. Still majority of the respondents depend on organized retail stores for buying groceries, vegetables and food items.

Price, Service and Quality are the major three determinants of consumer preference. It is observed that price is not a sensitive factor determining consumer's preference towards organized retailers.

Table 8: Price difference in selected items

Item	Groceries (%)	Vegetables (%)	Food Items (%)	Fruits (%)
Low price	22.6	23.6	21.7	21.7
Higher price	40.6	51.9	41.5	51.9
No difference	36.8	24.5	36.8	26.4
Total	100.0	100.0	100.0	100.0

Majority of the people have the opinion that organized retailers charge higher prices in Groceries (40.6%), vegetables (51.9%), food (41.5 %) and fruit items (51.9 %). However, majority claims that organized retailers provide better services in case of all these products - Groceries (56.6%), vegetables (46.2%), food (53.8 %). In case of fruit items majority felt no difference (50.9 %).

Table 9: Service difference in selected items

	Groceries (%)	Vegetables (%)	Food Items (%)	Fruits (%)
Poor service	10.4	10.4	8.5	10.4
Better service	56.6	46.2	53.8	38.7
No difference	33.0	43.4	37.7	50.9
Total	100.0	100.0	100.0	100.0

Quality also shows same trend as price. Majority expressed better quality in case of groceries, vegetables and fruits, while in case of food items, majority felt no difference.

Table 10: Quality difference in selected items

	Groceries (%)	Vegetables (%)	Food Items (%)	Fruits (%)
Poor Quality	11.3	15.1	17.9	5.7
Better Quality	50.0	54.7	32.1	58.5
No difference	38.7	30.2	50.0	35.8
Total	100.0	100.0	100.0	100.0

In short, the survey reveals that the organized retailers in Kerala have not reached a position to reduce price by optimizing its supply chain. However, they are concerned about the product quality and services on the other side.

CONCLUSION

Retailing in Kerala is at nascent stage. Economic growth, favourable demography, consumption pattern, urbanization and employment pattern are the key drivers of retail growth in the state. Data in each of this segment supports high growth potential of retailing industry in the state. Apart from other states, government operated retail chain is very strong in the state. Other players are in budding stage. Also big retails formats and malls are yet to be introduced. From the consumer side, it is extracted that Product Attributes, Reliability, Added Services, Value for Money and Customer Facilities are the major factors attracting customers to retail shops. Organized retailers in the state have to move in this direction to fulfill customer needs. Consumers or organized retailers are not much sensitive compared to unorganized sector, but quality and service matters in this sector.

Kerala appears to be in the first phase of growth cycle. Entry, growth and expansion are the major drivers in the first phase and price may not be a crucial factor. However, as industry grows, in the second phase, formats and convenience become more important. From the third phase onwards, severe competition among same formats will emerge and managing supply chain and prices will matter. At the saturation phase, phase 5, existing format itself changes to new one. Since

Kerala is in the first phase of the growth curve and approaching second phase in 2010-12, there is immense scope exponential growth for retailing industry.

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