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A Comparative Study of Customer Preferences towards Fresh Groceries: Organized v/s Unorganized Retailers

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Abstract. The Indian retail industry is the fifth largest in the world. With a population of 108 billion and growing at 1.6% p. a, the retail sector in India has a huge growth potential to become one of the leading retail markets of the world. With a young demographic profile, increasing consumer aspirations and advent of dual income families, the retail landscape is undergoing a level of transformation. The sector which was initially dominated by highly decentralized unorganized retailers, with the demographic and psychographic changes, is becoming centralized and organized as well. Food dominates the shopping basket in India, accounting for almost 76% of the spending; while it is only 9.7% in the U.S and 15% in Japan and UK. Out of the total 76%, only 1% of this market is in the organized sector and the remaining is in the unorganized sector. This research study aims at finding out the customer preferences towards the organized and unorganized with special reference to fresh groceries. An attempt has been made to identify factors that influence customer preferences towards the organized and the unorganized retailers. A Z-test is used to test the preference, if any of the customer towards the organized sector. The findings of the study do note a change in customer preferences while shopping for fresh groceries between the unorganized or organized retail outlets on factors such as cleanliness, home delivery, credit facilities, display, etc. However, one of the interesting finding of this study is that the customer is indifferent on his preference between the two sectors on the level of prices. The findings of this study may provide useful insights to researchers for further research and to retailers of both the organized and unorganized sectors on how to overhaul their business in order to achieve coexistence.

Keywords: Customer Preferences, Organized, Unorganized, Food Retailing, Fresh Groceries.

1. Introduction

The retail scenario in India is unique comprising of both the organized and the unorganized sectors. The organized retailing refers to trading activities promoted by the corporate sector like the supermarkets, the hypermarkets, the departmental stores, malls and other privately owned retail chains. Whereas the unorganized retailing refers to the traditional formats like the local grocer 'the kirana' shops, the convenience stores, the vegetable markets 'sabzimandis' as well as the hawkers.

The unorganized retailing is by far the prevalent form of trade in India constituting 93% of total trade, while the organized trade accounts for the remaining. However the organized sector is projected to increase from 7% of the total market share to 14%-18% of the total retail market and reach US$450 billion by 2015. This is possible due to the favorable demographic patterns, the changing lifestyles and strong income growth. The increasing growth of the organized retail sector among segments such as apparel, food and grocery, jewellery etc. has led to a number of challenges to the unorganized sectors. Food and grocery account for the largest share of retail spend by the consumer at about 76%; only 1% of this market is in the organized sector. However, it has expected that this segment would multiply 5 times taking the share of organized market to 30% in the years to come.

A consumer is king here and he/she makes the choice to visit either a modern retailer or a sabji mandi or the passing-by hawker. The consumer shops in accordance to his/her convenience; wherever there are the best and the low price deals available, the maximum variety and choice and of course have a good consumer experience. The small retailers will remain in good business owing to the fact the modern retailers are located at distances unlike the unorganized retailer who is just around.

Large Indian players like the Birlas, the Ambanis, the K. Rahejas, the ITC and many others are making significant investments in this sector leading to the emergence of the big retailers. The organized retailers

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with proper farm-to-fork-infrastructure is expected to create better linkages between the demand and supply positions, translating into better prices for the farmers and lower prices for the consumers. They have the state-of- the-art cold storage chains available that will minimize wastage of fresh produce and possibly ease food inflation. Their efficient SCM (Supply Chain Management) would facilitate sourcing of a wide range of vegetables and fruits and assuring the customer the availability of fresh produce.

1.1 Review of Literature

The discussion on whether the unorganized retailers will be ousted by the organized retailers has been in public domain for the last few years. A number of studies have been carried out in this area. With the opening up of FDI in multi-brand retailing, there is a definite need to understand the status of the unorganized retailers over the organized retailers, especially when big foreign retailers like Wal-Mart, Tesco and Carrefour are waiting to enter the retail scene in India.

The organized and the unorganized retail would certainly coexist. The multiple needs and utility functions among the socio-economic classes would ensure both the organized and the unorganized to coexist primarily in the food sector [1]. However, another study states that organized and unorganized are bound not only to coexist but also achieve rapid and sustained growth in years to come [2]. The unorganized retailers do well on the location or the placement; however they suffer on the aspects such as cleanliness, quality of goods, offers made and of course helpful trustworthy sales personnel. The converse is true for the organized retailers [3]. The arrival of the big retailers has had an impact on small grocers, but the neighborhood stores still show growing sales, although at a much lower rate than the modern trade [4]. The traditional retailers need to work out a strategy to retain their customers by providing quality goods and services; and they should also go for collaborations at the regional level, then only they can survive to win in this globally competitive environment [5]. The organized retailers are developing deeper insights into customer needs and are developing innovative models that are more tailored and personalized experience for their customers, thus working towards customer- centric shopping experience. Greater the differentiation is among competitors, greater the success. [6]

1.2 Objectives

The objective of the study is to examine a shift, if any, in the customer preferences from the unorganized to the organized sector with special reference to fresh groceries i.e. fruits and vegetables only.

1.3 Data and Methodology

- The study was carried out with the help of a questionnaire. The questionnaire first aimed at creating a basic profile of the respondents- age, education, family size, monthly family income, frequency of purchase and average expenditure per purchase
- Further on, the respondents had to state whether they shop from the unorganized or the organized sector and rank their responses on a scale 1-5 (1-Highly Dissatisfied, 2- Dissatisfied, 3-Indifferent, 4- Satisfied, 5- Highly Satisfied).
- The respondents were required then to rank their responses on the following ten parameters- level of prices, quality of fresh groceries, quantity and availability, variety and choice, availability of exotic fruits and vegetables, display, location, cleanliness and hygiene, home delivery and credit facility provided.
- The questionnaire was first circulated via the internet. It was an unrestricted sample, to mean that anyone who wishes to answer the questionnaire could do so. However, the response was not very encouraging. Hence, the traditional method was adopted of conducting interviews with the help of the questionnaire. The random sampling method was followed.

1.4 Sample Size

With the help of the internet, a total of 53 responses were received. Besides Pune city, there were responses received from Mumbai (5), Chennai (2), Delhi and Calcutta (Nil) and (8) from other cities, however, these are not included in this study. The researcher, in addition, conducted a total of 208 interviews. A total of 261 responses have been considered for this study.

The 261 responses were segregated as respondents who shop from the unorganized sector and respondents who shop from the organized sector. There were 164 respondents who shopped from the unorganized sector and 97 who shopped from the organized sector.

1.5 Limitations of the Study

- The research is limited to the consumers in the city of Pune only.
- The internet survey did not give a very encouraging response.

2. Observations & Findings

- It was observed that 94% of the respondents were females.
- In the age classification, 41% and 33% of the sample were from the age bracket- 35-45 and 45 & above respectively.
- In the educational profile, it was observed that 40% and 29% of the sample were graduates and post graduates.
- It was observed that 54% of the sample comprised of family size of up to 4 members.
- 36% of the sample has a monthly family income between `25000 to `50000.
- 51% of the total sample stated that weekly purchases of fresh groceries were done.
- It is interesting to note that 67% of the sample shop for fresh fruits and groceries on a random basis and not with a proper shopping list.

An attempt was made to test for any correlation between factors such as age and income of the consumer, family size, frequency of purchase, etc. However, no such correlation was noted between the above factors.

2.1 Hypothesis Testing

The study aims at finding out whether there is any change seen in customer preferences in the light of the emergence of the organized retail outlets offering fresh vegetables and fruits. There is a lot of debate on the growth of the organized retail sector and the threat that it poses to the unorganized retail sector, hence, this study aims at looking at whether there is a shift in customer preferences towards organized retail.

H_0 - There is no change seen in customer preferences while shopping for fresh groceries between the unorganized or organized retail outlets.

The 261 responses were segregated as respondents who shop from the unorganized sector and from the organized sector. There were 164 respondents who shopped from the unorganized sector and 97 who shopped from the organized sector. A Z-test was conducted to test the hypothesis. The hypothesis is tested on the following ten parameters - level of prices, quality of fresh groceries, quantity and availability, variety and choice, availability of exotic fruits and vegetables, display, location, cleanliness and hygiene, home delivery and credit facility provided.

- **Level of prices.** The Z-test result was found to be insignificant when tested on the price offers made by the unorganized and the organized retail sector. There was no difference found in the two categories of respondents on the first parameter – the level of prices. This indicates that the customer do not show any preference and is indifferent while making the buying choices from the two sectors. This is an interesting finding as the organized retail sector often puts forth the argument that they offer the best price deals; they are able to do so as they buy in bulk and that they directly source it from farmers. Further on, the organized retail sector opines that they offer the best prices to the consumer as well as the farmer.
- **Quality of fresh groceries & Availability of exotic fruits and vegetables -** The next two parameters considered to measure any shift in customer preferences with references to the quality of fresh groceries as well as the availability of exotic fruits and vegetables. The Z-test result indicates that there is a shift seen in the customer preferences towards the organized retail sector due to the quality of fresh groceries and the availability of exotic fruits and vegetables. The results are found to be significant at 1% level.

	Quality of fresh groceries	Availability of exotic fruits and vegetables
Z-Value	-0.447	-3.72

The customer is one who has been accustomed to the services of the unorganized retailer; however when given a choice, the customer is showing his/her preferences to better quality of fresh fruits and vegetables available at the organized retail outlet/s. Secondly, the customer is also indicating of the preferences towards the organized retail outlet/s due to the availability of exotic vegetables and fruits. The urban consumer especially shows his/her liking for exotic fruits and vegetables and therefore drawn by the organized retailers. The unorganized retailer can easily capitalize on the above two factors without much difficulty or constraints on his capital or business.

- **Display & Cleanliness and Hygiene -** The next two parameters considered are of much significance. It is important to have an attractive display or the visual effects in business, more importantly when the business concerns fresh vegetables and fruits. At the same time, such fresh groceries have a basic requirement of cleanliness and hygiene.
- A Z-test result indicates that there is a shift noted in customer preferences towards the organized retail sector with regards to the two parameters - the display of fresh fruits and vegetables as well as the cleanliness and hygiene maintained by the retail outlets. The results are found to be significant at 1% level.

	Display	Cleanliness and Hygiene
Z-Value	-1.398	-4.387

The in-store experience created by the organized retailers is the vital differentiator. An effort is made to present the groceries segment, especially, the fresh fruits and vegetables segment in the most pleasing manner. The display, the placement as well as the organization of the fresh produce has been planned in the most aesthetic manner; this experience affects the customer physiologically and emotionally. Here half the battle is won. The unorganized retailers lag far behind in this aspect. Once again, the unorganized retailer need not fear losing out on this parameter; maintaining a high level of cleanliness and hygiene can help retain the customer preference on his side. The difficulty if at all will be the physical space constraints; the unorganized retailers are generally in cramped spaces posing the difficulty to provide for display.

- **Home Delivery & Credit Facility-** The facilities of home delivery and credit provided by the retail sector were also considered to measure a shift in customer preferences from the unorganized to the organized retail outlets. A Z- test result indicates that there is a shift in customer preferences towards the organized retailer due to the facility of home delivery and the possibility of availing credit. The results are found to be significant at 1% level.

	Home Delivery	Credit Facility
Z-Value	-1.257	-2.034

It is interesting to note that the customer preferences are inclined towards the organized sector with reference to the above two parameters- home delivery services and credit facilities available. It is not that the unorganized retail does not provide these facilities. The unorganized retailers are said to have an edge with prompt and quick home delivery services. At the same time, these retailers are known to provide credit facilities generally over a month to their customers. However, these services are not provided in the fresh groceries areas. However, the organized retailer is making a strong effort to please the customer with the home delivery option. The acceptability of credit/debit cards, loyalty points, other redemption options such as Sodexo coupons etc. support the factor-credit availability with the organized retail outlets. None of these options work with the unorganized retail outlets.

- However, the results are not found to be significant with regards to the remaining parameters - quantity and availability of fresh groceries, variety and choice and the location of the retail outlet. The customer is indifferent with regard to the quantity and availability of fresh groceries; at the same time, the customer also feels that there is ample variety and choice available at the unorganized retailer as well. Location of the outlet also does not matter as much. The unorganized retailer was already enjoying the advantage of location. But then, the organized retail outlets have made that effort to reach out and are present in almost every neighborhood.

3. Conclusion

To conclude, one does note a change in customer preferences while shopping for fresh groceries between the unorganized or organized retail outlets. The customer feels the difference between the two- unorganized and the organized retail- quality of fresh groceries, the availability of exotic fruits and vegetables, the display at the retail outlet, the cleanliness and hygiene maintained by the retail outlet, the home delivery option available and the wide option available under credit facilities. It is important to note that the customers are indifferent with regards to the level of prices in the two sectors- the organized retail and the unorganized retail.

Organized retailing is doing the right things to sustain, survive and grow. However, the organized sector should not take it for granted that the customer is traditional or one who does not make much of a choice. Moreover, the customer and his/her preferences are to be better understood in order to create a more customer-centric shopping experience. The organized sector cannot be complacent about the fact that they are already offering better facilities vis-à-vis the unorganized sector. There is more scope for innovations and deeper insights. The organized sector has to move ahead to create the differentiated experience for the existing as well as the potential customer. As highlighted in the above study, the organized as well as the unorganized retail sector is here to stay. India provides for a large population with unique demands and both the sectors can co-exists and flourish in this business

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