Journal of Retailing and Consumer Services 17 (2010) 251–258

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

# The competitive response of small, independent retailers to organized retail: Study in an emerging economy

K. Ramakrishnan

*Strategic Management Area, Indian Institute of Management, Lucknow, UP, India*

ARTICLE INFO

*Keywords:*
Small
Independent retail
Competitive behaviour
India
Emerging economy

ABSTRACT

This study aims to decipher the competitive response of small, independent retailers in an emerging economy – India – to the onset of competition from large, organized retailers. The competitive behaviour is comprehended in terms of patterns of retail functional and business strategies, in further classifying the retailers into strategic groups, and finally by assessing the performance of these clusters. The study is based on a primary field survey of 605 grocery shops in two cities in India. The findings of the research point towards the presence of distinct strategies, strategic groups, and the positive impact on small retail performance of adopting distinct retail functional and business strategies.



## 1. Introduction

The retail industry in India is the second largest employer after the farming sector. About 40 million people are employed in this sector, of which about half a million are in the organized sector (Kumar et al., 2008). Organized retail 'typically means large-scale chain stores which are corporatized, apply modern-management techniques and are very likely to be self-service in nature (Sengupta, 2008, p. 691).' Traditional food and grocery retailing in India dominated by small, privately owned shops, and hawkers and largely community-based is referred to as the unorganized sector (Kalhan, 2007). This sector essentially consists of *kirana* (mom-and-pop) stores that serve their neighbourhoods, are small in size (less than 500 square feet in area), are largely owner-managed with negligible hired help, and stock a very limited number of items. Such mom-and-pop stores, single stores, and sole-proprietorships, owned and run by individuals, and constituting the unorganized sector, are called small, independent retailers in this paper. The organized sector holds four percent share of the retail business and is expected to grow to 20 percent in about four years. Numerous modern, large-scale formats have been deployed by organized retailers. They include supermarkets, hypermarkets, departmental stores, specialty stores, discounters, chain stores, and factory outlets.

The food and grocery retail sectors in India, constituting 70 percent of the retail pie, have attracted the attention of most business groups. Corporates such as the Future Group (Big Bazaar and Food Bazaar), RPG Group (Spencer's Retail), Subhiksha, Aditya Birla Group (More), Mukesh Ambani's Reliance Group (Reliance Fresh and Reliance Hyper), and Bharti Wal-Mart among others, are expanding rapidly using various formats. Foreign direct investment is also set to increase in this sector (Kalhan and Franz, 2009; Srivastava, 2008).

This advent of the organized retailers in India has led to the voicing, in numerous quarters, of several concerns about the social, cultural, and most importantly, the economic repercussions that such a foray entails (see, for instance, www.indiafdiwatch.org). Traditionally, small-store retailing in India has provided a viable avenue for self-employment due to limited investments required in land, capital and labour in this line of business (Venkatesh, 2008). Gopalakrishnan and Sreenivasa (2009) claim that corporate (organized) retail in India would only lead to the exacerbation of the severe economic problems in the country. Agricultural crisis, a decline in land fertility and water availability, a collapse in both urban and rural employment, declining food security, price volatility in essential commodities, and resulting pauperisation and inequality are among the several problems cited by them (p. 54). There are concerted social and political movements aimed at arresting this trend of the spread of organized retail, since this phenomenon is regarded as adversely affecting the livelihoods of those employed in the unorganized retail sector, more specifically, the small, independent retailers. There have been widespread agitations against organized retail in many parts of India leading to the closure of chain retailers. Structural changes in the industry are expected to cause 'irreversible damage to local commodity supply chains and competition (Kalhan and Franz, 2009, p. 64).'

In the midst of these raging debates, it would be worthwhile to understand the competitive response of the small retailers, to put the issues in perspective. Are small, independent retailers in an emerging economy like India mere spectators who are victims of

*E-mail address:* ramki@iiml.ac.in

0969-6989/$ - see front matter © 2010 Elsevier Ltd. All rights reserved.
doi:10.1016/j.jretconser.2010.02.002

the ravages of market forces? Or are they crucial strategic actors who might also be demonstrating a role in the competitive dynamics at play? What action can be taken by these small retailers to develop and sustain any competitive advantages? For, we find that several small shopkeepers in India are operating their businesses successfully even when under attack by the organized retailers. This points towards their use of suitable strategies as also the development of appropriate capabilities (McGee and Petersen, 2000).

There is, as yet, no published research on the competitive behaviour of India's small retailers in the face of the onslaught of organized retail. This study attempts to fill this gap in knowledge as the findings may be representative of the situation in other emerging economies that are witness to a similar evolving retailing context. The results of this research might provide corporate retail practitioners valuable insights into the various strategic postures adopted by the ubiquitous small retailers. This, in turn, may assist them in formulating and implementing their strategies in a more informed manner since any such knowledge might go a long way in helping them to manipulate strategic decision variables under their control, unlike some of the unpredictable adverse external environmental factors mentioned earlier. Policy-makers may also benefit by these insights since it would form the basis to formulate more balanced policies that are not unjustly weighed down either by the shrill protests of stakeholders who reject organized retailing or by the skilful negotiations and influence peddling on the part of corporate retailers. This paper is organized as follows. The next section provides a brief overview of extant theoretical underpinnings and ends with the statement of the research objectives. This is succeeded by the section describing the methodology of the research. The fourth section highlights the research findings. The last section carries a discussion of the results, the managerial implications, limitations of the study, and pointers to further research.

## 2. Theoretical background

### 2.1. Retailing in India

The retail sector in India is expected to gross $427 billion by 2010 and $635 billion by 2015 (Moriarty et al., 2007, p. 9). It is slated to emerge as one of the largest industries, growing at a compounded annual growth rate of five percent. Organized retail constitutes less than six percent of the retail sector. The unorganized component of retail is highly fragmented and contributes ten percent of India's gross domestic product (Moriarty et al., 2007). The comparative penetration of organized retail in the US is over 85 percent, in western Europe over 70 percent, Taiwan (over 80 percent), Malaysia (55 percent), Thailand (40 percent), Indonesia (30 percent), and China (over 20 percent) (Srivastava, 2008). There are over 12 million retail outlets in India (Venkatesh, 2008) with probably the highest retail density in the world of one retail shop per hundred people (Kalhan and Franz, 2009). This density is higher in the cities. America and Singapore, in comparison, have a retail density of four shops per thousand population. The UK has a density of five outlets per thousand persons. More than 95 percent of these 12 million outlets are smaller than 500 square feet in area.

### 2.2. Strategy

Among several advantages possessed by small, independent retailers is the flexibility in devising strategy (Berman and Evans, 2007; Conant and White, 1999). They have a high degree of freedom in determining the elements of the marketing mix. They can adopt appropriate mechanisms to tailor-make their offer in line with the needs of their target segments. This indicates the importance of the strategic dimension in operating their businesses.

#### 2.2.1. Functional strategy

Functional strategies in retailing stem from an enunciation of the elements of the marketing-mix. According to Hambrick (1980), functional strategy research is useful because it permits a more precise study of a limited array of strategic variables that can later be incorporated into comprehensive theories and measures of business-level strategy. Among functional strategy variables are considered pricing, promotion, product, technology, service, and so on that help in putting into operation various broader business strategies conceived.

#### 2.2.2. Business strategy

Porter's (1980) conceptualization of the three generic business strategies of cost leadership, differentiation, and focus have been frequently applied in the domain of retailing (Dwyer and Oh, 1988; Helms et al., 1992; Wortzel, 1987). The cost-leadership strategy aims at achieving a low cost without harming quality and service. Cost minimization requires a high market share, broad product portfolio, and attention to pricing (Kean et al., 1996). Differentiation is based on offering unique products or services relying on parameters such as strong brands, product design, technology, and customer relationships. A focus strategy concentrates on serving a well-defined market segment. The product-market matrix typology propounded by Ansoff (1957) has also been extensively utilized in attempts to understand strategies in retailing (Doyle and Cook, 1980; Miller, 1981; Omura, 1986; Park and Mason, 1990; Walters and Knee, 1989), providing a different angle.

#### 2.2.3. Strategic groups

Research in retailing has also attempted to understand the existence of strategic groups. Strategic groups are sets of competing firms in an industry in which the classification into groups is on the basis of similarity of scope of activities and resources (Cool and Schendel, 1987; McGee and Thomas, 1986). Porter's (1979) statement that '...an industry can thus be viewed as composed of clusters or groups of firms following similar strategies in terms of the key decision variables (p. 215)' is also a basis of much of the research on strategic groups. Usually statistical clustering techniques are used to generate such groups (Flavian and Polo, 1999; Harrigan, 1985; Lewis and Thomas, 1990). Some scholars have also studied generic retail strategies by combining both business and functional retail strategies and then subjecting them to classificatory techniques. Hawes and Crittenden (1984) have carried out a trailblazing study of this kind in the US supermarket chains for generic brand grocery products and have arrived at taxonomy of competitive retailing strategies. They have also delved into the differences in performance of the strategic groups generated.

Comparative studies (Bode et al., 1986; Fam and Merrilees, 1998) have brought out the differences between the strategies of small and large firms. Among the early studies, Watkin (1986) has advocated the use of a focus strategy for small retailers to help capture market segments not fully addressed by larger firms. This approach involves being aware of and targeting various idiosyncratic customer purchase criteria. This view is similar to the one propounded by Covin and Covin (1990) according to which small