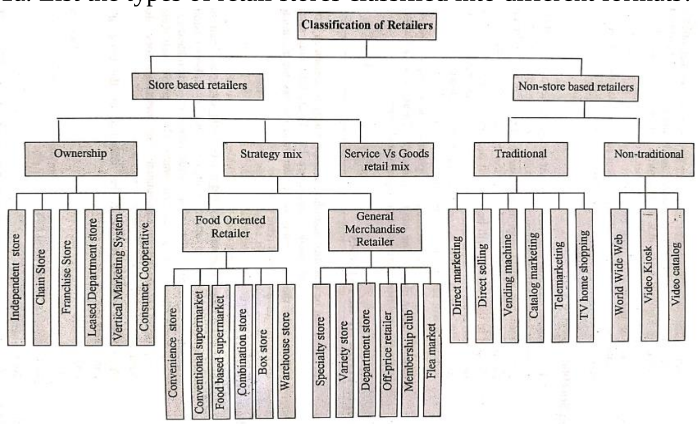
CMR Institute of Technology
Department of Management Studies and Research Centre

Answer key
1st Internal Assessment Test (IAT-1) – III Semester MBA (2018-20 Batch)

Subject: Consumer Behaviour **Sub Code:** 18MBAMM301 **Date:** 06-09-2019
Time: 10.00-11.30 am **Duration:** 90 mins

Part A - Answer Any Two Full Questions (15*02=30 Marks)

1a. List the types of retail stores classified into different formats?



1b. Explain various reasons for the growth organized retail in India.

The major factors responsible for the growth of organised retailing in India are as follows:

Organised retailing is a recent development. It is the outcome of socioeconomic factors. India is standing on the threshold of retail revolution.

1. Growth of middle class consumers:

In India the number of middle class consumer is growing rapidly. With rising consumer demand and greater disposable income has given opportunity of retail industry to grow and prosper.

They expect quality products at decent prices. Modern retailers offer a wide range of products and value added services to the customers. Hence this has resulted into growth of organised retailing in India.

Growing consumerism would be a key driver for organized retail in India. Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence (meeting) of consumer tastes.

2. Increase in the number of working women:

Today the urban women are literate and qualified. They have to maintain a balance between home and work. The purchasing habit of the working women is different from the home maker.

They do not have sufficient time for leisure and they expect everything under one roof. They prefer one-stop shopping Modern retail outlets therefore offers one store retailing.

3. Value for money:

Oganised retail deals in high volume and are able to enjoy economies of large scale production and distribution. They eliminate intermediaries in distribution channel.

Organised retailers offer quality products at reasonable prices. Example: Big Bazaar and Subhiksha. Opportunity for profit attracts more and more new business groups for entering in to this sector.

4. Emerging rural market:

Today the rural market in India is facing stiff competition in retail sector also. The rural market in India is fast emerging as the rural consumers are becoming quality conscious.

hus due to huge potential in rural retailing organised retailers are developing new products and strategies to satisfy and serve rural customers. In India, Retail industry is proving the country's largest source of employment after agriculture, which has the deepest penetration into rural India.

5. Entry of corporate sector:
As the corporate – the Piramals, the Tatas, the Rahejas, ITC, S.Kumar's, RPG Enterprises, and mega retailers- Crosswords, Shopper's Stop, and Pantaloons race to revolutionize the retailing sector.

6. Other Factors
Entry of foreign retailers
Technological impact
Rise in income
Media explosion
Rise of consumerism

1c. Apply the Wheel of Retailing theory to analyze the transformation of retail institutions in India.
Apply the below theory:
The wheel of retailing concept was introduced by McNair from Harvard University and it is considered to be more an observation than a theory. No matter from which point of view we look at this concept, the idea itself intends to describe how the retail institutions transform during their evolutionary life cycles.

Step 1 of the Wheel of retailing – Establishing and penetrating in the market
The theory pays attention to the new retailers which often enter the market place with low prices as well as low profit margins and sometimes low status. The low prices are usually the result of some innovative cost-cutting procedures. Sooner than later, these innovative cost-cutting procedures will most probably attract competitors if the entry barriers are not high enough.
Example – When book stores like Barnes and nobles started, they started by a unique model of bringing all the books under one roof with amazing discounts. This was the first stage for them in the wheel of retailing.

Step 2 of the Wheel of retailing – Expanding in the market
During the time and while they gain more experience of the market, these retailer businesses strive to enlarge their customer base with the purpose of increasing sales, gaining a higher profit margin as well as acquiring a significant market share. They can attempt to increase their customer base through different mechanisms, most of the times by attempting to target a different segment of customers. Since these retailers initially enter the market with low prices, their main target is represented by low income population.
Example – Barnes and nobles then started expanding the market with more and more stores so that they increased their sale, their brand value and ultimately, their margins started increasing as well.

Step 3 of the Wheel of retailing – Stabilized business model attracting margins.
In this stage of the Wheel of retailing, the company is already in an established position and hence the rates are enough to get a decent margin. Because of the margin it is getting, the company keeps expanding moderately and increases its reach to attract as well as retain more customers. This is the most profitable stage for any retailing organization. However, when there is more demand than supply, it always opens up a niche. And generally, at this stage itself, other competitors start preparing or analyzing the market and think on how to penetrate this market.
Example – Once Barnes and nobles established itself strongly, the margins grew and it created more and more showrooms. The result was that a lot of small shops closed down and most people flocked in Barnes and nobles. The margins were high and the going was good.

Stage 4 of Wheel of retailing – The entry by another retail competitor who challenges, and then brings down the original.
By adding higher qualitative products to the market or by providing additional services, or by simply moving to a better market location the retail businesses then target another segment. Therefore, their operations and facilities increase and become more expensive, as they might require extra labor, extra expertise, extra warehouse, etc. Ultimately, these retail businesses might emerge as a high cost price service retailer.
This is done in order to recover its fixed costs quickly and have an early breakeven so that it can start generating some profit. Overall, in this stage, the cost is high for the original retailer. And hence its prices are higher. Therefore, this presents an opportunity for another retailer who can then enter in the market again in stage 1, with an objective to penetrate the market. New retail businesses then enter in the market and attempt to follow the same steps as the previous one before.
Example – When Barnes and nobles established itself strongly, people still had to visit the store. Thus, Amazon entered the market with its own unique retail offering. People could now browse books and order them from their home and get it home delivered. Thus, the overall sales of Barnes and nobles dropped overnight and only the really brand loyal customers still visited the store. Due a unique insight, another retail chain was introduced in the picture.
Based on this, the wheel of retailing concept is seen as a cycle and an evolutionary theory and it represents one of the theories of structural change in retailing. As the theory involves the beginning represented by one state and return to the

same state after some time in the future, the theory is perceived as being cyclical.

2a. Discuss multi-channel retailing concept.
A retailer that sells merchandise or service through more than one channel.
By using a combination of channels, retailers can exploit the unique benefits provided by each channel

2b. Summarize the theory of Retail Accordian.
Retail development is linked to human habitation. It expands or contracts in line with the geographical expansion of the society. When a new area or location is developed and customers start living in that area, the early stores deal in almost all products needed by these customers. Few stores that come up match the offerings of these early retailers. Most of them attract customers due to convince, as the travel and search costs from other localities are more. In most cases, these stores deal with consumer non-durable products and several emergency or infrequently purchased products such as hardware and electrical products. However, as the locality evolves. A set of stores starts and offers merchandise that does not necessarily overlap with that of the existing retailers. These stores also specialize in a particular category. In most cases, these are consumer durable and household appliances. Petrol pumps, restaurants, shops selling gifts and other lifestyle products, and beauty salons are some of the retailers that emerge. This trend continues till the trading area witnesses a good growth. As the growth tapers, the retailers turn their attention from acquiring more customers to maximizing the value per customer. This starts a phenomenon where retailers start adding unrelated merchandise to their offering and slowly a large number of them become ‘general’ merchants. The cycle continues, and after sometime, specialist retailers emerge, which add significant value to one category of merchandise and attract clientele on the basis of either range or value added products. Some of them become price players and some emerge as category killers.

2c. Interpret the reasons behind Walmart a store-based retailer acquiring Flipkart, an online retailer while Amazon, an online retailer acquiring majority stake in More, a store-based retailer.
Discuss the above in the light of multichannel retail

3a. Discuss the benefits of retailing.
Improved customer perception. ...
Increased sales. ...
Better data collection. ...
Enhanced productivity. ...
Best practices. ...
Be consistent. ...
Security.There is a fine line between being helpful and being intrusive, and it's a line that is easily crossed. ...
Be committed.Multi-channel **retailing** requires an investment in time and money.

3b. Explain the Polarization theory.
This theory suggests that, in a longer term, the industry consists of mostly large and small-sized retailers. The medium-sized becomes unviable. This is called polarization. The large-sized retailers take advantage of large and direct purchases from the manufactures and offer a large range at very competitive prices. This phenomenon has led to an increase in the size of retailers and reaction in their numbers. Larger stores offer one-stop shopping. The smaller retailers in their offer a limited range of products, but add value to their offers with other services, or tend to specialize. It is found that firm tend to be more profitable when they are either smaller in size or they are big. The mid-size firms fall into the Bermuda triangle. The Bermuda Triangle effect refers to the phenomenon where the performance of mid-sized firms suffers if big mid-sized firms continue to ‘act small’, or small mid-sized firms set up costly big-firm practices. Informally organized firms have low-fixed costs. Small firms that are informally organized have low operating costs, but as size increases, the need for coordination within the organization increases, and informal organization often leads to errors and confusion. Thus, the cost of operating informally increases as a convex function of scale. Conversely, formal organizations incur fixed costs such as the cost of running an information system. For a small firm, this fixed cost is distributed over a small output, so that the cost per unit of revenue is high. However, as the firm increases in size, the fixed cost is distributed over a large volume, thus lowering operating cost as a fraction of revenue. Ideally, small organizations should be managed informally and large organizations should be managed formally. As a firm grows in size, it should have a transition at the cost cross-over point from informal to formal management. However, organizations do not have a transition at the

optimal point. Some move from informal to formal too early, other wait too long before making the transition. The result is that mid-sized firms face higher costs and lower profitability. This leads to the Bermuda Triangle of management- many firms enter it, not all get out of it from the other end. There is plenty of evidence to suggest that small independent retailers have been affected by large retailers. However, it is expected that specialized stores would grow to and fill the mid-size segment.

3c. Discriminate between organized retailing and unorganized retailing in Indian context.

Indian Retail Market Size has been super lucrative for brands across the globe. At $700 billion the India retail market is under penetrated by a lot of products and services. Unlike developed markets, the Indian retail market size is dominated with unorganised Mom and Pop stores serving the nation at large. Of late, eCommerce companies have made major investments in the country to cater to various categories. With Walmart buying a controlling stake in India’s leading etailer, Flipkart, the India retail market size should expect a boom and consumers should soon see products from various categories delivered at their doorstep.
The focus of Flipkart, Amazon and PayTm now moves to categories including the fast moving Groceries, Lifestyle etc. However, this game needs to be played differently all together. The competition to eCommerce is not the organised trade players but the unorganised *kirana* shops which offer unmatched convenience, credit and delivery basis a lasting relationship.

Indian Retail Market Size 2018 – Organised Vs Unorganised

Below is how the India Retail Market Size stack up in numbers.

Indian Retail Market Size – Organised Vs Unorganised (In $ Billion)

Market Type	2014	2015	2016	2017	2018*
Total	501.69	556.76	619.39	694	777.14
Organised	39.26	46.82	55.84	66.6	79.43
Unorganised	462.43	509.94	563.55	627.4	697.71

India Retail Market Size 2018 – Growth in Percentage

The unorganised market dominates and is also growing at a decent pace. The 2018 numbers are estimates, however, still, the unorganised market has been clocking in higher growth all these years. This is despite global giants pumping in money from the last 5 years.

India Retail Market Size – Organised Vs Unorganised (Year on Year Growth)

	Market Type	2015	2016	2017	2018
Year on Year Growth	Organised	19%	19%	19%	19%
	Unorganised	10%	11%	11%	11%

*2018 numbers are estimates. Source: Technopak

Many retailers, both global and homegrown, have tried their hands at the country but have failed miserably. Few examples – France’s Carrefour has come and gone, Germany’s Metro has only 25 stores, Reliance, Tatas have entered retail but haven’t been able to make a significant difference in the dominance of Mom and Pop stores.
Summarising the numbers below:

India's Retail Market Size - Organized Vs Unorganized (In $ Billion)					
Market Type	2014	2015	2016	2017	2018
Total	501.69	556.76	619.39	694	777.14
Organized	39.26	46.82	55.84	66.6	79.43
Unorganized	462.43	509.94	563.55	627.4	697.71

India's Retail Market Size - Organized Vs Unorganized (In $ Billion) - In Percentage					
	2014	2015	2016	2017	2018
Organized	8%	8%	9%	10%	10%
Unorganized	92%	92%	91%	90%	90%
Total	100%	100%	100%	100%	100%

India's Retail Market Size - Organized Vs Unorganized (In $ Billion) - Year On Year Growth					
Year on Year Growth	Market Type	2015	2016	2017	2018
	Organized	19%	19%	19%	19%
	Unorganized	10%	11%	11%	11%

Part B - Compulsory (01*20=20 marks)

In a bid to further liberalize the existing foreign direct investment ("**FDI**") regime in India, on August 28, 2019, the union cabinet approved several amendments to the existing FDI policy of the country (the "**Extant FDI Policy**").

This move comes amidst increasing concerns of an impending global economic slump and declining market confidence in India, and is the latest amongst a series of steps taken by the central government towards making India a more attractive foreign investment destination.

Perhaps the most significant amendments to the Extant FDI Policy pertain to foreign investment in single brand retail trading ("**SBRT**"). SBRT in India has seen rapidly growing foreign interest over the past few years, with the SBRT sector having received total foreign investment of approximately USD 1,636.24 million in the period between April, 2006, and April, 2019. The present amendment is preceded by, and is aligned with, the recent liberalization of SBRT FDI norms, as announced on January 23, 2018 (the "**2018 Amendment**"). The 2018 Amendment scrapped the requirement for government approval for investment over 49% in SBRT Entities and permitted 100% FDI under the automatic route in SBRT Entities.The newly announced amendments to the Extant FDI Policy include the easing of local sourcing norms for SBRT and granting of permission to entities undertaking SBRT (each, a "**SBRT Entity**") to conduct retail trading through e-commerce, prior to establishment of brick and mortar stores.

While the corresponding amendments to the Extant FDI Policy and the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017 (the "**FDI Regulations**") are still awaited, a detailed analysis of the amendments to the Extant FDI Policy applicable to the SBRT sector, as announced by the Government of India on August 28, 2019 is set out below.

A. Easing of Local Sourcing Norms. Under the Extant FDI Policy, SBRT Entities with FDI of over 51%, are required to source 30% of the value of goods purchased by them from India, and that too, preferably from MSMEs, village and cottage industries, artisans and craftsmen (the "Local Sourcing Requirement"). Further, the Local Sourcing Requirement has to be met by the SBRT Entity: (i) during the initial 5 (five) years of the SBRT Entities' operations (beginning April 1st of the year in which business commences, i.e., its first store opens), as an average of the total value of the goods purchased during this period; and (ii) thereafter, on an annual basis. Additionally, during the initial 5 (five) years of the SBRT Entities' operations, '*incremental sourcing*' of goods from India for global operations of the SBRT Entity is counted towards the Local Sourcing Requirement.

In this regard, the following amendments have been approved:

(i) All procurements made from India by the SBRT Entity for its single brand, <u>at any time</u>, will now be counted towards the Local Sourcing Requirement, irrespective of whether the goods procured are sold in India or exported. This is a change from the Extant FDI Policy, under which, after completion of the initial 5 (five) years of the SBRT Entities' operations, the Local Sourcing Requirement is not permitted to be met through exports.

(ii) The entire sourcing from India for global operations of the SBRT Entity, and not just the '*incremental sourcing*' (i.e., the value of such sourcing in a financial year which is over and above that of the preceding financial year) for global operations, will now be considered towards fulfilling the Local Sourcing Requirement. The Extant FDI Policy provides that only '*incremental sourcing*' of goods from India for global operations of a SBRT Entity, and not the entire sourcing, will be counted towards the Local Sourcing Requirement.

(iii) Procurement of goods from India for global operations may now be done by a SBRT Entity through a third-party, under a legally tenable agreement. As per the Extant FDI Policy, procurement for global operations may only be undertaken by a SBRT Entity either directly, or through its group companies. This amendment is in line with existing business practice, since prevalent business models involve not only sourcing by SBRT Entities and their group companies, but also sourcing through unrelated third-parties.

B. Permitting e-commerce without brick and mortar stores. Retail trading of its brand through e-commerce may now be undertaken by a SBRT Entity, even before such SBRT Entity opens a brick and mortar store. However, this permission is subject to the condition that such SBRT Entity opens a brick and mortar store within 2 (two) years from the start of such electronic retail. The Extant FDI Policy requires that SBRT Entities operate through brick and mortar stores prior to starting retail trading of their brand through e-commerce.

Expected Impact

Given that the Local Sourcing Requirements applicable to SBRT Entities have historically been a significant impediment in securing foreign investment in the SBRT sector, the relaxation of the Local Sourcing Requirements is a significant move, which may prove to be a game-changer for easing operations of SBRT Entities and for attracting increased foreign investment in this sector.

The move has already been hailed as a welcome policy decision by global retail giants like IKEA and H&M. Additionally, the relaxation from Local Sourcing Requirements is also welcome news to tech giants like Apple, Xiaomi and LeEco, that have previously sought, but failed to receive, exemption from these requirements. In fact, following the announcement of the new government policy, Apple has also reportedly praised the new government policy, and has indicated that the company is looking at setting up India's first Apple retail store soon. The entry of a greater number of multinational retailers into the Indian markets will serve to benefit Indian consumers by allowing them access to a larger variety of purchasing options and by increasing market competitiveness. Additionally, Indian manufacturers will also have to raise product quality and compete on price points with such foreign players or risk losing market share to them.

Moreover, removal of the restriction on undertaking electronic trading by a SBRT Entity without establishing brick and mortar stores can be expected to boost e-commerce activity in the country, and will allow Indian customers to access goods of international SBRT Entities, before such retailers actually establish their physical stores in the country. Increased e-commerce activity will also directly result in a larger number of digital payments and higher tax revenues for the government.

Further, while Local Sourcing Requirements have been relaxed and made less onerous for retailers, the government has chosen not to completely do away with these requirements. This policy decision to preserve Indian manufacturing interests comes at a time when several multinationals are looking to move their manufacturing processes out of China, to avoid a swiftly escalating US-China trade war.

It is also worth noting that, while the newly announced amendments to the Extant FDI Policy seem, on the whole, to be positive for foreign investment in SBRT in India, additional conditionalities in relation to the approved amendments may be forthcoming in the corresponding amendments to the Extant FDI Policy and the FDI Regulations. As such, the impact of such conditionalities on the sector may need to be further evaluated.