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India's Emerging Retail Systems: Coexistence of Tradition and Modernity

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India's Emerging Retail Systems: Coexistence of Tradition and Modernity

Abstract

India's retailing sector is expected to remain in a transition spiral for the foreseeable future. Because of India's unique context – in terms of history, regulation, institutions, demographics, geography, and traditions – there is limited applicability of the available theories of retail evolution to the retail situation in India. Drawing from the literature as well as from empirical research and practical experiences of over a decade, this paper presents a conceptual frame for understanding the retail sector of India and the likely future trajectory of this sector.

India's Emerging Retail Systems: Coexistence of Tradition and Modernity

Introduction

In developing Asian countries like India, China, Indonesia and the Philippines – and even in advanced nations like Japan, France, and South Korea – both the shopper and the retail systems are in transition. In India, even in the most advanced urban settings there are no “true modern shoppers”. Nor are there “true modern outlets” – even the western-style superstores generally have to allow some traditional elements inside stores. Both the consumer side and the retail side in India are in a transition spiral, and will remain so for the foreseeable future.

On the retailer or the supply side, there is a growing presence of self-service modern retailers, but the bulk of the grocery and branded consumables retailing in India is via the Small Traditional Store or STS (called “Kirana” store in India). Even the small segment of urban shoppers in, say, central Mumbai – who have easy access to modern self-service retail outlets – split their custom between modern and traditional stores, usually with the dominant share of the monthly shopping happening at the STS outlets. By 2009, for example, in China the share of modern stores as a percentage of total retail had crossed 65%. In comparison, despite ongoing growth rate of over 20% a year for modern retailing, the share of modern stores in 2009 had reached only 6.5% in India (NielsenWire 2010).¹

The bedrock of retail in India consists of Small Traditional Stores (STS), and this is easily evident in the retailing of food and fast-moving consumer goods (FMCG) – the typical branded items available in a western supermarket. Since the average Indian spends on limited product categories (only eight in 1991), food and beverage accounts for 74 percent of the total retail market (CII-ATK 2006). These stores are conveniently located in neighborhoods or clustered in

¹ *The pace of change in India, however, has been very fast. By mid-2011, the share of modern retail had already climbed to 10% according to estimates by major brand marketers (Singh and Sharma 2011).*

traditional markets where dry and wet goods stores facilitate the practice of daily food shopping, even by the most affluent segments of Indian consumers.

The sheer size of the STS retail in India – in terms of numerical size – puts India in a league by itself. The sector is so large that even the available estimates vary, depending on the source and year of data. Table 1 presents a compilation of key overall statistics on the total size of India’s retail sector. Since the overall number of retail outlets is declining even as modern retail segment grows at a fast clip, it can be inferred that there is a rapid decline in the number of STS outlets. Nonetheless, retail density in India remains at a very high level. The figures in Table 1 compare to just over 900,000 retail outlets each in USA and Japan – serving populations of 310 million and 120 million respectively. Among large countries, in terms of “retail density” measured as stores per 1000 people, India stands alone with a double-digit density of 11. The comparable figures for other countries are: USA (3), Japan (7), and China (0.4).² Among large economies, in per capita terms, Japan has maintained a retailer-to-population ratio closer to that of India than either USA or China.

Table 1: Key Statistics on Total Size of India’s Retail Sector

<i>Statistical Category (unit)</i>	<i>Value</i>	<i>Year</i>	<i>Source</i>
Total number of retail establishments (million)	14.95	2005	Government of India (2005)
Total number of retail establishments (million)	8-12	2011	Authors’ estimate from multiple sources
Urban retail establishments (million)	7.16	2005	Government of India (2005)
Number of retail establishments run by owner, with help from family members (million)	10.57	2005	Government of India (2005)
Size of retail sector in terms of revenue (USD billion)	320	2006	CII-ATK (2006)
Size of retail sector in terms of revenue (USD billion)	450	2011	Reuters-Factbox
Projected size of retail sector in terms of revenue (USD billion)	785	2015	Business Monitor International
Projected size of retail sector in terms of revenue (USD billion)	900	2014	PwC (2011)

² The retail density estimates are calculated from a variety of sources including NielsenWire (2010), Lu (2010)

This paper develops conceptual frames to describe, comprehend, and – to some extent – project into the future the dialectics of modern-traditional retail systems in India. The term retail system is used in this paper to encompass the economic aspects of structure, conduct, and performance of retail organizations; as well as sociocultural and behavioral elements from retail studies in the fields of sociology, anthropology and marketing.

The primary goal of this paper is to assess, build and refine a theoretical frame for the traditional-modern retail dynamics of India. This is done, however, not from a purely conceptual angle. The paper taps into an empirical knowledge base of multiple years of field studies and observational experience of India's retail sector. The narrative to follow is structured thus:

- Research Frame: Listing of the key research questions addressed in this work
- Theoretical and Empirical Base: Sources of theory, profiling the empirical knowledge base, and presenting a concise baseline view of India's retail system in 2010.
- Preliminary Conceptual Frame: Relying on general economic and social theories – particularly those in marketing and related applied fields – about retailing, and not on India-specific empirical insights, this section presents a conceptual framework for the evolution of India's retail sector.
- Themes Arising from Rapid Transition: Leaving theory aside for the moment, this section draws strongly from the empirical knowledge base to develop eight significant themes that characterize the state and evolutionary trajectory of India's retail sector.
- Refining the Conceptual Frame: Integrating theoretical sources and contemporaneous practical insights, a refined – hopefully stronger – theoretical frame is developed.
- Concluding Observations: In addition to summarizing and drawing of conclusions, this section identifies research priorities for understanding India's retail evolution.

Research Frame

It is well accepted that there are major transformations in retailing structures in periods of rapid economic development (Reardon and Berdegué 2002). The wheel of retailing and accordion theories (Brown 1987; Hollander 1960, 1966; Izraeli 1973) have been used to explain retail evolution in the advanced economies, particularly the United States. After reviewing such theories, Markin and Duncan (1981) concluded that an ecological-adaptive model is a better

representation (than wheel or accordion representations) of how retailing institutions adapt and transform. From the perspective of developing countries, some authors have argued that the wheel and accordion theories of retail evolution, anchored in the U.S. settings, have limited relevance in developing and emerging economies (Kaynak 1979). The main reason for the limited relevance of western retail theories to countries like India is that the western theories, in various ways, focus on competitive dynamics among modern retail formats (inter-type competition) while in India the unfolding process is of modern retail formats making inroads into a massive and established base of traditional and unorganized retailing.

Traditional retail stores, which dominate India's retail landscape, differ significantly from the modern outlets along many dimensions. Conceptualizing about retail evolution in India, therefore, requires examining of the impact of the modern sector on the traditional retail sector rather than focus on competition across different formats within the modern sector.

India is an exception in many respects. Until recently, food purchases dominated retail consumer behavior in India. With growing affluence, however, discretionary spending has expanded the number of categories which increasingly include products – and particularly new brands – that had not been available in the Indian market in the past. This has created a very different competitive landscape in India compared to the advanced economy of the U.S. as well as the emerging but state-guided emerging economy of China.

There are many reasons for India's "retail exceptionalism". First, public policy regarding retailing has attempted to protect Indian retailers – small and large – from foreign competition. Aware of the rapid retail changes in China and other countries – especially the specter of the so-called "Walmart effect" (Basker 2007; Franklin 2001; Goetz and Swaminathan 2006; Paruchiri, Baum and Porter 2009), the Indian government and the Indian private sector took proactive steps to shape the retail evolution. Table 2 summarizes these governmental and private initiatives, and their main implications. The main effects of these state and private actions have been the relative protection of small traditional retailers as well as relative freedom for Indian firms – in the modern sector – to establish modern chain stores before the entry of giant multinational retail chains such as Walmart, Carrefour and Tesco into India.

Table 2: Post-Liberalization Retail Oriented Government and Private Initiatives

<i>Topic or Category</i>	<i>Nature of Initiative, Action, or Law</i>	<i>Implication for Retail Sector, especially Foreign Retail Firms</i>
Reforms and Liberalization following Foreign Exchange Crisis of 1991	Import liberalization, Foreign investment liberalization, Deregulation, Privatization	Increase in availability of imported goods and foreign brands in traditional stores (but foreign retailers kept out)
Foreign Direct Investment (FDI) in Retail Sector allowed in 2006	India allows 51% FDI in single-brand retailing	Reebok, Cartier, Swarovski, Ermenegildo Zegna and many other single-brand retailers have opened shops, often in malls
	India allows 100% FDI in cash-and-carry stores that can only sell to other retailers and businesses	Metro AG of Germany took advantage of this and opened outlets in major cities of India. Till 2011, the need to have a business license was a requisite to shop at Metro
	Similar to Japan, entry of large multi-line, multi-brand foreign retailers is blocked	Up to 2011, giant retail multinationals such as Walmart and Carrefour were not been able to enter India
Foreign Investment in Back-end Supply Chains and Retail-related fields (2007-2008)	India allows foreign equity in back-end wholesale and logistics; and in real estate	Foreign players own and control the back-end operations or assets, and the front-end retail stores have 100% Indian equity. For example, Woolworth owns back-end supply chain for electronics, which are sold in Indian-owned Chroma chain's retail stores. Similarly, Walmart owns the back end supply chain and India's Bharti group runs BestPrice Modern Wholesale cash-and-carry stores

Source: Authors' research based on Joseph et al. (2008), Kannan and Prayag (2011), Kumar and Vishvas (2010), Reardon and Gulati (2008), and Srivastava (2008).

Second, in India a greater polarization of retail structures – with diversity in urban, particularly metro (India's term for the largest cities) areas, but not in rural areas – has emerged. This has occurred not due to public policy but as a consequence of modern retailers' attempts to cater to limited but fast-rising segments of affluent and upwardly mobile consumers (Singh and Sharma 2011). In selected markets, modern retail outlets – both chain and independent stores – in food and non-food categories can be found in neighborhood

locations as well as in agglomerations such as shopping malls. The nature of competition is varied – inter-type, inter-category as well as intra-type. Specifically, intra-type competition within the modern retail segment (one mall vs. another mall, one hypermarket vs. another) has increased due to this concentration as has inter-type competition (supermarket vs. STS). Intra-type competition has characterized the traditional sector for a long time, and resulted in historically unique practices that allow coexistence rather than competitiveness among STS. The retail practices of organized large retailers, however, differ substantially from the practices of STS and influence the responses of STS outlets to competitive threats from modern stores.

India is a large country, like U.S. and China, and there are ample opportunities for regional variations. Regional differences, particularly in the urban-rural and coastal-hinterland distinctions, are evident also in China (Sternquist and Chen 2006). The regional differences in India (and China) vary from the retail evolution which has occurred in the U.S. in the past. While the U.S. pattern has been uneven – with family-owned retail outlets concentrated in city centers and large, organized retail formats in the suburbs (Dawson 2001) – this difference has been consistent in all regions of the United States. In comparison, Japan, which is smaller geographically, has experienced greater regional variation in retail structure than in the United States (Takeuchi and Bucklin 1977).

Recent developments in Indian retailing exhibit increasing regional disparities. North India, for instance, accounts for 33 percent of the total Indian organized retail market while Eastern India accounts for only 9 percent (CII-ATK 2006). In contemporary India, the competitive threat from modern retail outlets is therefore concentrated in metropolitan cities (Singh and Sharma 2011), but more specifically in limited regions. This has created greater intra-type competition between modern retail outlets within a region while influencing traditional retail outlets to develop counter strategies in other regions. Competition is both local (immediate) as well as national (anticipatory).

Finally, the development of brands in India is at a very different stage than comparable changes in retail evolution in U.S., or Europe. In the U.S., packaged and branded goods and organized retail firms grew in parallel during the early part of the last century. By the early 1930s, A&P, for instance, had already established 10,000 of its 'economy stores' (Grocery

2011) and these self-service stores grew rapidly and expanded in size and product assortment as the number of branded product categories exploded after World War II. These retail outlets, easily reached by the rising numbers of automobile-owning consumers, became convenient channels of distribution for the consumer product companies.

While India's and China's growing and affluent populations have attracted the attention of global and domestic brands – product brands as well as retail firm brands – Indian public policy, however, has been less favorable to foreign brands. While China encouraged competition by allowing foreign brands and foreign retailers to enter the market, public policy in India has allowed only single brand retailers to enter the market. In China, there has been some decline in local supermarket firms while in India, there has been an increase in local and domestic supermarket firms (PwC 2011).

Furthermore, in India, single-brand foreign retailers (e.g., Swarovsky, Nike) in luxury and specialty categories are concentrated in modern agglomerations such as shopping malls while foreign branded *products* – in food, health and beauty aids, and appliances – are marketed through Indian-owned retail outlets, STS as well as increasingly Indian-owned modern retail chains. For instance, Chroma, an Indian-owned retail chain (similar to Best Buy in the U.S.) specializes in electronics and offers foreign brands from all over the world. Foreign multibrand electronic retailers such as Best Buy of U.S. or Dixons Retail of U.K., however, are not allowed entry into the Indian market. At the same time, Indian retailers have been able to respond to the growing affluence by developing and marketing their own retail brands in new product categories such as jewelry (e.g., Tanishq) and apparel (e.g., Pantaloons), and locating the outlets in varied retail environments – malls as well as street fronts.

In addition, private brands have also grown at a much earlier stage of the retail evolution. Protected by public policy, and attracted by the large size of the price and value conscious market segments, Indian retailers have introduced private labels in many product categories. Big Bazaar, for instance, has its own private brands in food as well as cleaning products, and some of these private brands are priced at the same level as national brands. Given that private brands earn higher retail margins, loyalty *to the retailer* is developed at a

much earlier stage in the retail evolution, even as modern outlets account for a very small share of total retailing in India.

Finally, many Indian retailing firms have been created by large, Indian conglomerates without any prior experience in retailing. This has not been the case with the development of retailing in the United States (Kacker 1988). Clarence Saunders, for instance, started the self-service concept with the Piggly Wiggly store in Memphis, Tennessee in 1916. He started his life as a grocer and had extensive experience in the grocery business at the retail and wholesale levels. After the Piggly Wiggly success, Saunders went on to found another retail chain (Time 1929). On the west coast, self-service was started in 1912 and extended to a wide variety of retail formats in food and non-food categories (Kacker 1988). In China, foreign firms, particularly from Asia are pioneering the retail format in luxury and specialty product categories (Goldman 2001) while state-owned and co-operative firms in food retailing are banding together to compete with foreign competitors (Sternquist and Chen 2006). In India, on the other hand, we have retail giants emerging from business houses such as Tata, Aditya Birla, Reliance, Bharti Telecom (that have asset-based as well as symbolic advantages in terms of their well known brand names as business house) but not the skill-based or transaction-based advantages developed from prior experience in retailing (see Alexander and Myers 2000)

With this unique retail setting that differs not only from the advanced American and European retail settings but also differs to some extent from other emerging economies such as China (Goldman 2001; Sternquist and Chen 2006), Brazil (Bianchi and Arnold 2004), and Chile (Bianchi and Arnold 2004), India poses some unique challenges in terms of conceptualizing retail evolution. For the purpose of this paper, the following key research questions are of interest:

1. What facilitates the resilience and competitive persistence of Small Traditional Stores (STS) despite lack of size and capital?
2. What hinders competitive dominance of modern stores in categories like grocery retailing despite assortment and capital advantages?
3. What factors may predict the future retail landscape of India?

Theoretical and Empirical Sources

Theoretical sources for understanding the evolution and workings of the retail sector come from a variety of disciplines: geography, economics, sociology, anthropology, and of course marketing. Empirical sources available for this paper are some primary sources (field research and notes) and a very fast growing body of secondary sources, often from research and consulting firms – international as well as Indian – focused on the retail sector of India.

Sources of Theory

Theoretical sources relevant to retailing are available from multiple base disciplines such as economics, sociology, anthropology, and geography; as well as from applied disciplines such as marketing, fashion merchandising, and service design. For the purposes of this paper, with its macromarketing orientation, the relevant sources of theory are those that have examined retail institutions from a marketing systems perspective (see, for example, Brown 1987; Hollander; Izraeli 1973; Kaynak 2009; Markin and Duncan 1981).

In their analysis of retail competition in a U.S. market area, Miller, Reardon and McCorkle (1999) distinguish three types of competition – inter-category, inter-type and intra-type. In India, the intra-type (one STS outlet vs. another, one hypermarket vs. another) is common; inter-type (STS outlets vs. large broad line specialist such as Big Bazaar) is growing; inter-category (small traditional vs. general merchandise supercenter) has not emerged yet. Using two theoretical perspectives – symbiosis (mutually beneficial) and Darwinism (survival of the fittest), the authors examine sporting goods retailing in the Denver SMSA and find support for symbiosis, albeit asymmetrical; while Darwinism characterized intra-type competitive outlets. In India, intra-type competitive retailing (STS vs. STS) appears to coexist peacefully for decades, survive, even flourish – perhaps because of caste/family ties (Speece 1990) and lack of capital resources to expand, but also because of embedded institutional practices in traditional bazaars that foster selective cooperation even while competing (Varman and Costa

2009). Processes akin to Darwinism are not much evident in STS vs. STS competition (Varman and Costa 2009), although this may change rapidly in the near future, especially in the cities – where some well-endowed STS outlets may start “breaking from the pack” by modernizing in limited ways.

On the other hand, intra-type competition within modern outlets is likely to follow the Darwinism predictions, particularly since these outlets are geographically concentrated. For the limited number of affluent consumers, with the mobility and resources to patronize the large format stores, convenient location in terms of proximity is less important than product assortment and other service related variables. A high-income consumer in Gurgaon (an affluent suburb of Delhi), for instance, is as likely to patronize DLF City Centre mall as the competing MGF Mega City mall, once a private automobile is used to navigate the city traffic. By 2010, just the Gurgaon suburb of Delhi had 16 malls, with 8 more under construction. In such a setting, it is relatively easy to foresee a Darwinian process unfolding in a few years. At the same time, the positive effects of symbiosis (i.e., STS outlets clustering around malls or hypermarkets, to take advantage of the traffic) are likely to be limited in the Indian context because traditional STS have deep roots in their established locations; and their constrained resources – managerial, technological as well as financial – limit their ability to change operating procedures and relocating closer to modern outlets and agglomerations.

Empirical Sources

This paper draws selectively from an empirical knowledge base that consists of comprehensive accumulation of secondary data on India’s retail sector, primary data from field research studies of retailing in India, case studies done by faculty and students at a leading business school in India, and experiential learning. Table 3 outlines and illustrates these empirical sources. This table is not exhaustive – it lists only the main sources that were drawn from. The rapidity of change in the retail sector of India is leading to comparably rapid

generation of data and case studies on this sector (see, for example, CII-ATK 2006, Joseph et al. 2008 and PwC 2011). For the purpose of this paper, the main focus is on the 1990-2010 period.

Table 3: Empirical and Experiential Sources on India’s Retailing Available as Background for this Paper

<i>Source Type</i>	<i>Period</i>	<i>Description/ Contexts/ Examples</i>
Entrepreneurial experience	1992 - 2000	Experiential learning from running several units of a franchised bakery store chain
Student Projects Supervision	2003 - 2010	Branding strategy for new mall, Retail market entry of foreign brand, Shopper behavior in supermarkets, Rural retail strategy for major branded manufacturer, POP promotion effectiveness, Retailer private-label branding, Cash-and-carry wholesalers and success of their customers
Consulting and Advising	2004- 2009	Retail channel selection, Feasibility of retail outlets, Store branding, Datamining of loyalty card usage, Franchise network expansion,
Research Studies	2001- 2010	Consumer perception of coffee shop chains, Shopper behavior in Small Traditional Stores (STS), Shopper behavior in wholesale outlets, Marketing strategies of franchise and non-franchise retailers
Secondary Sources	Various	Retailing sector statistics and reports available from Government of India; Indian research bodies and think tanks such as CRISIL, ICRIER and NCAER; Indian consulting firms such as Images Multimedia and Third Eyesight; and international consulting firms such as KPMG and A.T. Kearney

Source: Authors’ research and fieldnotes

Retailer Operations in India: A Baseline View

The traditional trading community in India – wholesale and retail – tends to be caste-specific. This was the case even in 2010. Of India’s retail establishments, 53 percent are owned by scheduled castes, schedule tribes or other backward classes. These social groups, however, own a lower (46) percent of retail establishments in urban areas and a higher (58) percent in rural areas.³ Over 93 percent of retail establishments finance their business from internal

³ See *Government of India (2005)*

sources. A survey of unorganized retailers reports that only 12 percent have access to institutional credit.⁴ Since credit is essential for retail operations, the small traditional stores (STS) rely on non-financial institutions such as moneylenders. Indeed, prior to the growth of the financial sector in India, even into the 1990s, to raise working capital some of the larger STS shop owners often acted as “informal banks”: accepting “deposits” from their customers who had savings, and offering these depositors interest rates much more attractive than banks. The caste and family relationships within retail establishments and between wholesale and retail establishments create a network of ties that affect business decisions regarding procurement and credit policies. In fact, such ethno-social ties are an enduring characteristic of retailing throughout the developing world (Speece 1990).

Since the average retail establishment employs very few paid employees, the hours worked are long. In 2005, more than 79 percent of retail establishments were operated by owners and family members that allowed them to develop long term relationships with their customers. The personalized relationships are supplemented by retailers’ willingness to provide credit and other services that are not provided by modern stores.

The typical STS retailer in India is likely to:

- Serve neighborhood residents as its primary customers
- Be small and provide limited visibility of products, with little emphasis on planograms
- Display only widely advertising packaged goods on a few visible display counters and shelves, with other items stored in the “back room” or nearby small storage spaces
- Use its own logic for organizing and displaying the products, a logic that is not easy to understand except perhaps by regular customers who visit the store frequently
- Employ family members or paid assistants/helpers to fetch products
- Sell at the printed Maximum Retail Price (MRP), and not manage margins strategically

⁴ See Joseph et al. (2008)

- Look for fast rotation of stocks
- Extend credit to regular customers, and even offer home delivery to such customers

Within urban areas, town size makes a big difference in retailer type and behaviors. The key difference is in retailer (STS) density: urban shoppers have greater choice of retailers and competition is greater. In large cities (population > 0.5 million), shop density is high and there is horizontal rivalry. In smaller cities (population < 0.5 million) – which incidentally are the growth points of India’s economy at this point – the shops are fewer, draw their customers from a larger area and wield more influence over their customers.

Modern retail institutions – supermarkets, department stores, hypermarkets (supercenters), specialty stores, malls, etc. – are appearing as new layers on top of the massive existing bedrock of STS retailing in India, placing demands on consumers to learn new “patronage behaviors” (Dholakia and Sinha 2004). Often, the new modern institutions choose new cities and new suburbs (often in spaces that were erstwhile farm areas), places that have no history of preexisting STS outlets – indeed no preexisting population. In such new cities and suburbs, modern institutions can build their brands and customer loyalty in ways not encumbered by legacy STS outlets. When modern stores open in existing urban areas (such as central business districts or old and well-established suburbs), they encounter entrenched STS competition – and competitive dynamics become more complicated.

Preliminary Conceptual Framework

Putting aside the ground reality of retail transformation in India, based on key theoretical concepts about retail evolution, one would expect the retail evolution in India to exhibit many of these characteristics:

- With rising incomes and fast-paced growth of the economy, all types of retail competition – intra-type, inter-type, and inter-category – would intensify.

- In terms of inter-type competition, the traditional retail sector would lose ground to the modern retail sector, and quite rapidly. In this sense, the process would be similar to the changes that happened in the retail history of western countries (Goldman, Ramaswami and Krider 2002; Humphrey 2007; Wilson and Oulton 1983).
- Intra-type competition within traditional as well as modern retailing, in various categories, would have Darwinian impacts – with only the “fittest and the best” surviving and prospering.
- The embedded cultural practices that often promoted cooperative “live and let live” behaviors in the traditional retail sector would become increasingly hard to sustain as competition intensifies.
- Inter-category competition would start in small ways and then build up fast – as “category killer” types of stores appear and become popular.
- When very successful, very large retail stores become entrenched, then there would be emergent instances of “symbiotic” clustering of small stores around these giant stores – in ways that are mutually sustaining and supportive.
- Adaptation – its speed and its political and cultural appropriateness – would become a key strategic factor in determining which types of retailers survive and succeed.

With this brief backdrop of what can be expected from extant theory, in the next section we turn again to the empirical reality of the unfolding retail processes in India.



Exploration of Contemporaneous Themes

The actuality of retail transformation in India is complex. It has been shaped, and would continue to be shaped, by the unique characteristics of India in terms of demography, urbanization patterns, business history, regulatory frameworks, cultural traditions, and consumer behaviors. The retail structure in India exhibits more diversity, especially in terms of store size, than any other major economy in the world – and this state of affairs is likely to continue for foreseeable decades.

This section presents empirically and experientially developed insights about the structure of retailing, relationships of retailers and wholesale suppliers, relationships of retailers with their shoppers, and the behaviors of Indian shoppers. In each of these areas – structures, relationships, behaviors – strong forces of change are in evidence, but also persistent are traditional patterns that are unchanging or capable of only slow, glacial change. While these themes are not in any specific order, the consumer/shopper oriented themes pertaining to Small Traditional Stores (STS) are presented first, and themes pertaining to modern large stores and modern-STS competition are presented next.

Shopping Patterns Favor Small Traditional Stores

Multiple factors in India cause shoppers to patronize their neighborhood Small Traditional Stores (STS). Most people in urban and semi-urban India earn daily wages and have no fixed monthly incomes. Their shopping trips therefore are mostly to acquire 'Daily Necessities/Meal for the Day'. STS outlets close to their homes or work places are thus best suited to meet their shopping needs. The frequency of store visit is as high as 11 times in a month and convenience in terms of store location plays an important role. For brand marketers, lower priced value packs and single-use sachets generate substantial sales, particularly in the STS outlets. Since STS outlets often extend credit to regular shoppers, the shopper loyalty to the STS is cemented further.

In a 2009 study using structured questionnaires as well as qualitative methods in two large (Mumbai, Kolkata) and two mid-sized (Aligarh, Vizag) cities in India, 20 percent of the shoppers interviewed reported visiting the store at least once daily. Location convenience was the most important reason for patronizing the store. One Kolkata shopper – after answering the questionnaire – engaged in a conversation with the interviewing researcher, and commented:

At this old age [referring to own age] it is not possible to remember everything all the time... and as a result I end up going to the market [i.e., the traditional retail street] a number of times in one single day.

(Observational fieldnotes, Kolkata, 2009)

Shoppers typically use two small stores to complete their household shopping. In cities where large modern stores are present, shoppers typically still use the two STS outlets for most of their shopping trips but may add one or two monthly trips to large, modern retailers to complete their household shopping. On average, even in large cities where there are major supermarket-style outlets, only one in five shopping trips is to the large store.

For non-food categories, similar shopping practices favor the small, unorganized retail stores. Traditional Indian clothing habits have been supported by tailors and dressmakers, rather than through the purchase of manufactured, ready-to-wear apparel. Similar patterns exist in purchase of jewelry. While both these categories – apparel and jewelry – are significant in the modern outlet sector; small stores, owner-operated with customer relationships that exist sometimes across generations, continue to survive and prosper.

Familiarity Breeds Comfort: STS Advantage

For stores selling groceries and daily use items, convenient, neighborhood location is a key to retail patronage. Location alone, however, is not the only advantage. The relationship with the customer is an important driver:

The owner of MH Department store [in Vizag, India] knows at least 200 of his regular shoppers by name. Credit is often extended based on personal relationships.

(Observational fieldnotes, Vizag, 2009)

STS outlets are able to cater to a wide spectrum of shoppers cutting across many socioeconomic classes. As the owner of a store in Kolkata noted:

...one can come dressed in only a towel [i.e., bare bodied with just a loin cloth] to shop at my store... A shopper has to dress up to go to a modern store...

(Retailer interview, Kolkata, 2009)

The majority of these STS retail outlets have regular customers who typically know what they will get from that store, where the product is located inside the store (even though there is usually no self-service access), and how much it costs. When a customer arrives and asks for a product, the storekeeper hands over an item: there is implicit and consensual understanding about the specific variant (the Stock Keeping Unit or SKU) that is transacted. Only rarely would the storekeeper ask the customer questions to determine which variant the customer intends to buy.

STS owners are able to capitalize on personal relationships and social networks within the community to maintain loyal customers and expand their potential sales despite the increasing presence of large, modern retail competitors in bigger cities. In specialized retail categories, STS outlets may offer very high levels of customization and flexible credit terms. Tailors and jewelers, for example, customize products and offer informal methods of extended payment options which are difficult to match by large modern retailers.

While the shoppers at these STS outlets frequent their local small stores regularly and often, these shoppers are not averse to buying from modern outlets, particularly if new products and brands are available. Shoppers occasionally buy packaged goods or ready-to-wear blouses and shirts from the modern, big stores. Very few shoppers, however, go to modern big stores regularly.

Identification-based Trust as a Source of STS Advantage

In the context of shopping at Small Traditional Stores (STS), the relationships between shopkeepers and shoppers appear to be of the identification-based trust type: they know each other. The 4-cities study of STS outlets conducted in 2009, and referred to earlier, found that:

- STS shopkeepers have close and long relationships with their shoppers, with the average duration of continuous store patronage being 9 years
- STS shop owners know more than 100 of their regular shoppers by name
- Credit is often extended based on personal relationships
- The reverse also happens: stores will hold money paid in advance in escrow
- Stores often charged less than Maximum Retail Price (MRP, printed on packages by law in India) to their preferred regular shoppers
- Stores accepted phone orders and provided home deliveries to regular shoppers
- Children are often offered treats (candy); and sometimes the store would “babysit” kids while parents run some quick errands

In this type of relationship, both parties come to closely identify with each other’s wants and needs, display empathy, and engage in personal and family-related conversations. Some of the relationships have been established over many years, as the following comments indicate:

Meanwhile the shopkeeper as well as his assistant kept on suggesting other items, not included in the list, to enable me to recollect any item that I might have missed out like tomato sauce [ketchup], coffee, pickle, orange squash and the newly arrived 5-in-1 grain biscuits of Britannia... all of which I asked to be included in the list...

(Shopper interview, Mumbai, 2009)

The shopkeeper is well acquainted with my husband. My husband visits this shop often... As the shopkeeper is an old man who, besides exchanging pleasantries with my husband, almost always offers him a chair to sit upon and take rest. When he saw me approaching he stepped forward to offer me a chair and inquired about my husband's health...

(Shopper interview, Kolkata, 2009)

When the shopper-store relationships are strong, the product information from the shopkeepers is perceived as highly credible. The shopkeeper is seen as looking out for the customer's interest. In such cases, in out-of-stock situations, shoppers usually accept the alternative brand suggested by trusted shopkeepers. In some cases, the shopkeepers cement the credibility further by offering a personal guarantee or additional services:

I inquire the shopkeeper about the validity and reliability of the advertised new product. A little conversation with the shopkeeper gives me knowledge about the particular brand. Being a regular shopper is an advantage over others in that the shopkeeper sometimes supports me with advice about buying the new product or not...

(Shopper interview, Aligarh, 2009)

I made the payment and was about to leave when he [shopkeeper] asked whether I wanted potatoes or onion[s]. I said I didn't, but added that I was going to buy 2kgs of green peas from the vegetable seller [a different, nearby shop]... which also his [the original shopkeeper's] assistant would have to carry home for me. He [the original shopkeeper] agreed...

(Shopper interview, Kolkata, 2009)

While the identification-based trust relationships typically take years to build, with fast-paced economic growth and the resulting geographical mobility of the professional class, the more sophisticated STS owners have developed rapid ways to size up the trustworthiness of even new customers. The following illustrates such rapid build-up of STS-shopper trust:

When we moved to this new cluster of high-rise apartments in Mumbai, I had to find out what the convenient stores were in this new and relatively unfamiliar area of Mumbai. I went to the nearby chemist [pharmacy] store. The owner noticed me and came over: "Sir, why are you here? Just tell us what you need and we will deliver it to your apartment."

The owner noted down my address and phone number, and gave me a card with a customer number. He said: "When you need anything, Sir, just call the store, mention your customer number, and tell us what you need... we will have it delivered, usually within half an hour or less.."

I tried their home delivery system a few times and it worked as promised... But I was not convinced how the store would react if I placed a really small order. One night I called and said I needed two aspirins - not two strips, just two tablets. Sure enough, in the next 15 minutes, the doorbell rang and the pharmacy delivery guy was there with my two tablets...

(Interview of high level executive, 62 years old, Mumbai)

Flexibility and Rapid Response of STS to Consumer Demand

Because the average STS outlet is small and has limited space, the retailer replenishes his stocks frequently, even daily. Limited working capital impels the retailer to seek rapid stock turnover. Manufacturers of fast-moving consumer goods – the so-called FMCG brands – as well as wholesalers are prepared to sell to STS outlets in smaller quantities and to extend credit. If stockouts occur, the STS retailers do not want to lose customers – and the STS shop owners are usually able to convince the shoppers to accept alternatives. If new products become available and customers become aware of these new products before the retailer, the retailer is able to respond rapidly to these demands. The retailer would often promise that a desired (but unavailable) new item would be in the store the very next day. In some cases, for preferred regular customers, the STS retailer would even send an “errand boy” to borrow and fetch the item desired by the customer from a nearby (competing) STS outlet – another instance of the inter-STS cooperative behavior observed by Varman and Costa (2009). The identification-based trust seems to work mutually between STS and shoppers; and also between STS and their suppliers (wholesalers and FMCG brand sales representatives):

We found that the wholesalers [whose outlets often look no different than STS] were highly responsive to the demands of retailers who bought from them. One wholesaler had a simple rule of thumb: “If 5 retailers ask me for an item that I do not carry, I will buy the item and have it available the next day.”

(Observational fieldnotes, Mumbai, 2011)

To reach the millions of STS retailers, and via them the billion-plus consumers of India, the leading FMCG companies – companies supplying Indian as well multinational brands – have developed a 1-to-17 wholesaler-to-retailer ratio. The result is a supply chain network that is vast, with deep reach even into rural areas, and yet quite responsive to desires and demands.

Since they are served by responsive and flexible wholesale supply chains, STS retailers generally extend such “responsiveness and flexibility” down the chain. If the retailer becomes aware of a new product and stocks it, and his knowledge of the customer’s shopping patterns makes him feel that this new product would be of interest, he actively brings the new product to the attention of the customer:

For the past one year the shopkeeper himself rings up [regular customers] to inform about any new offers on products available at the store. So he [the shopper] feels that for him this store is the best in this locality...

(Observational fieldnotes, Vizag, 2009)

Slow but Inexorable Modernization of STS Outlets

In STS shopping contexts, since there is almost no self-service access to merchandise, an overwhelming majority of shoppers specify the product category or brand, with nearly two-thirds of shoppers specifying brand-plus-SKU. Here is a relevant comment from a Mumbai shopper:

...However I specified the brands for each product... Maggie Tomato Sauce (500 grams), Nescafe Coffee (100 grams), Mother’s Recipe Pickle (350 grams), Kissan Orange Squash (750 ml).

(Shopper interview, Mumbai, 2009)

Given such specify-and-obtain transactions, it would appear that brand manufacturers have very little scope for influencing shopping behaviors at the Point-of-Purchase (POP) in STS settings. This is not the case, however. Even though brand specification is high, STS settings –

particularly at the more popular, busy stores – create “waiting time windows” when shoppers have specified what they want, and are waiting for the merchandise to be brought forth. During such “waiting time windows”, there is considerable visual scanning of POP material and of visible display items. Such scanning leads to additional purchases. It is therefore in the interest of brand marketers as well as STS shop owners to do some modernization of their shelf displays and POP promotional spaces. Such in-store signs and displays perform several valuable roles and shoppers’ comments from various Indian cities indicate that they are very conscious of these functions and actively seek them out:

After I had finished dictating the list [to the shop assistant] I ran my eyes over all the shelves in the shop to see if I had missed out anything and to check out any new [product] arrivals...

(Shopper interview, Mumbai, 2009)

Although I try to carry a list of things most of the time, the goods displayed on the shelves also serve to remind me of things to buy sometimes...

(Shopper interview, Kolkata, 2009)

There is gradual but inexorable modernization of the STS outlets in terms of displays and other POP aspects. As a response to competitive pressures as well as changing consumer demands, the average STS has been adopting newer methods of merchandising to increase the store’s appeal as well as stock an increasing size and assortment of branded and packaged goods. Retailers, for instance, are cleaning, washing and packing fresh produce to make purchase and carrying of ‘wet’ goods easier and more convenient. Improvements in infrastructure – air-conditioning, refrigeration – have meant stocking of new products such as ice cream, soft drinks, butter, and cheese: items that increase impulse purchases and revenues. Clutter is being organized and merchandise displays are changing to allow direct consumer access to products on the shelves:

I am purchasing my monthly supplies from the same shop for the last 13 years after experimenting with all leading shops of the area... and I came to the conclusion that at this shop you get not only the variety but also the quality... and also you are well attended [to]... and there is lots of space in the shop so you can stand easily...

(Shopper interview, Aligarh, 2009)

Good Luck Stores used to be like any other Kirana store in this Mumbai neighborhood. In the most recent visit [by the research team], after a gap of several months, we noticed dramatic changes. The store had installed glass shop windows and an automated door, cleaned up and organized the interior, and was now air conditioned. The cluttered storage inside had been replaced by organized shelves and a couple of aisles. Outside the store, there was parked a motorized three-wheeler, used for fast home delivery of merchandise to neighboring homes.

(Observational fieldnotes, Mumbai, 2011)

Brand marketers are also helping retailers organize and display their merchandise in more visually attractive ways. As competition between brands increase, retailers are becoming aware of opportunities to increase their revenues from sponsored spaces and these promotional materials at point-of-purchase are used to draw attention to products and promotional programs. The 'waiting time' at the store – the time spent by the shopper waiting for the ordered item to be retrieved from the shelves – offers the shopper an opportunity to inspect display cases and promotional material.



The dynamics of the interactions between the STS shopkeepers and their suppliers – be they multi-line and independent wholesale suppliers or authorized and exclusive distributors of major FMCG brand marketers – have become crucial in determining how far, how fast, and how effectively the STS outlets in India modernize. Under some conditions, the supplier is able to emerge as an influential adviser to STS shop owners.

STS outlets in India – especially those with a modicum of capital and educated, forward-thinking owners – find it relatively easy to keep their customers, but controlling operating costs and maintaining profitability levels have become major challenges. In terms of inter-type competition, the leading STS outlets have won the battles for the hearts and minds of shoppers through flexible, adaptive, and personalized services. Winning a share of the pocket books of shoppers, however, is the next challenge STS outlets face – especially as cost-efficient mega-retailers such as Walmart, Tesco and Metro from the West and India’s own Future Group (Big Bazaar, Food Bazaar) and Spencer’s increase their footprints.

Paradoxes Arising from the Growth of Modern Retailing

The growth of modern retail has brought with it a rapid expansion in shopping center square-footage. While the extraordinary growth of shopping centers has provided more space for brands and modern retailers to grow their business, much of the growth has been concentrated in the biggest metropolitan areas. Till 2010, almost half the shopping center space had come up in India's biggest cities like Mumbai and Delhi. Indeed, there are emerging concerns that such overbuilding of modern shopping spaces could potentially lead to the failure of a significant number of these malls.





Growth of modern retailing in India is riddled with paradoxes:

- In the biggest cities, there is proliferation of malls, but real estate rental costs have remained high for retailers and brands – adversely affecting their competitiveness. Some single-brand retailers have signed on high-rent shops with the aim of maintaining a foothold in key visible markets, even though they fully expect these shops not to make money in the foreseeable future.
- The intensive development of malls, without adequate zoning and planning of support infrastructure – such as water, sewage, power, roads, public transit, and parking – is stressing not just the city, but the malls themselves.
- The overall result is often a “reversal of convenience”: the convenience of one-stop shopping under one roof is totally undermined by the inconvenience of spending an inordinate amount of time in traffic jams or in hunt for parking spaces.
- While very large cities have a potential overbuild of modern retail spaces, smaller cities and exurban and rural spaces have very limited or often no availability of modern retail formats.

The emergent retail structure thus is lop-sided: sophisticated and modern in a few of the largest, most affluent urban enclaves; mostly STS-based (with occasional sprinkling of malls and supermarkets) in the less affluent parts of large cities and in smaller cities; and nearly totally STS-based in small towns and rural areas. Even when large format stores dominate, the problems of traffic and parking often force large stores to emulate STS services such as home delivery or push-cart vending (such as “Reliance Thanda” push-carts by the Reliance Fresh supermarket chain).

While modern retailing faces all such challenges, it is nonetheless expanding at a dramatic pace. Share of modern retailing has climbed from 5 to 10 percent in the first decade of

the 21st century, and could double again well before the second decade ends (Singh and Sharma 2011, McKinsey 2008, PwC 2011).

In terms of the competitive framework, despite difficulties, the inter-type competition is ultimately favoring modern retail formats in India. Such stores are gradually winning a bigger share of the retail pie. In some categories – especially the non-food, non-FMCG categories – the ascent of modern formats would be quite rapid, especially in the cities. Within a category, intra-type competition amongst large retailers is intensifying. Not all modern retailers would be able to compete with equal ease. Up to the point that foreign multibrand retailers are kept at bay, the best-of-class Indian large format retailers have a chance to out-compete those peers that fall behind in terms of assortment or services.

Modern Innovation to Counter Traditional Resilience

In many traditional contexts, the insertion of modern retail formats creates various patterns of resistance and reaction. In China, Walmart super stores attempted to sell nicely filleted, shrink-wrapped fish displayed neatly on ice; but the Chinese consumers refused such pre-packaged fish with the refrain “We do not buy dead fish”. Walmart had to relent and had to create large fish tanks in its stores with live fish.

In India, the injection of western and modern retail formats is triggering resistance and reactions from not just STS outlets but also from modern outlets that have more adaptive strategic styles. The Big Bazaar chain of the Future Group – a new retail empire created by entrepreneur Kishore Biyani – for example, has come up with many innovations that hark back to traditional Indian styles of merchandising and buying:

- Dosa [savory crepe] batter freshly prepared in Big Bazaar
- On-premise tailor to customize ready-to-wear apparel

Faced with the rapid and flexible adaptability of the leading STS outlets, other malls and modern retail stores in India started trying innovations that would entice customers, encourage

repeat visits, and build story loyalty. Some examples of such innovative tactics are the following (Kannan and Prayag 2011):

- Bangalore’s Total Mall offered free pick-up and drop-off services to customers, obviating the need to drive (or take public transport) to the mall and to hunt for parking spaces.
- The bookstore chain Crosswords (similar to Borders, Barnes & Noble) started accepting phone orders and making home delivery of ordered items.
- Max Retail, a fashion clothing chain from Dubai-based Landmark Group, hired students from the National Institute of Fashion Technology to act as consultants to shoppers on matters of colors and wardrobe choices.
- Madura Fashion and Lifestyle offered the “All India One Stock” service — wherein if a customer could not find a garment in a particular size in a store, the chain would source it from another store in the country, and deliver it to the customer’s home for free.
- Ishania Mall in Pune introduced a loyalty card program for shoppers at that mall.

Refining the Conceptual Framework

There are many reasons why the on-the-ground retail transformation in India is laced with multiple complexities. Chief among these reasons are the following:

- The sheer size of the retail sector, composed until 1990 of primarily STS outlets, dwarfing the retail sectors of every other country in numerical terms.
- The particularistic “lags” of India – in terms of urbanization, modernization, westernization, incomes (levels as well as distribution). India not only does not look like the advanced West, it does not look much like the advanced East (e.g., Japan) either.
- The political economic makeup of the country – with layers of feudalism, colonialism, socialism, and capitalism – that make governance (and infrastructure development) extremely challenging.

As Table 4 indicates, in terms of urbanization, the profile of India of 1990 – the time when economic liberalization and reforms began in earnest, resembles the urban-rural demographic of the United States of 1880. In fact, by about 1885, the urbanization percentage of the United States had surpassed the urbanization of India in 2010 – two decades after the start of India’s economic liberalization.

Table 4: Comparing Contemporary India and Historical USA in terms of Urbanization

<i>Year</i>	<i>% Urban</i>	<i>% Rural</i>	<i>% Urban</i>	<i>% Rural</i>	<i>Year</i>
1990	75	25	INDIA		
1930	56	44			
1890	35	65	31	69	2010
1880	28	72	27	73	2000
UNITES STATES			26	74	1990

Source: Based on authors’ research of historical economic databases

The challenge of interpreting retailing transformations in India lies in the historical lag (evident in Table 4) conflating with the real-time, media-linked process of contemporary globalization. At one level India is like the U.S. of the 1890s and, at another level, India coexists on the same temporal plane as the U.S. of 2010. This is especially the case in terms of the rapidity with which retail trends and consumption styles circulate globally. Indeed, in the contemporary context, the U.S. is as likely to borrow retail or consumption trends from India, as India is likely to emulate trends from the U.S.

What, then, are the theoretical insights, extensions, and refinements that can be gained from the on-the-ground experience of retailing in India? The following points provide an adaptive reprise of the theoretical statements presented earlier:

- **Intensification of Competition:** As expected there is intensification of all types of competition – intra-type, inter-type, and inter-category – but not at a pace that makes it impossible to adapt.
- **Inter-type Competition:** As in the advanced as well as other developing countries, the traditional retail sector in India is losing ground to the modern retail sector, but at a pace far slower than that in comparably sized countries. This provides a window of

opportunity to many traditional retailers to adapt – and thereby to decelerate the erosion of the traditional sector to an even slower pace.

- **Adaptation:** For the traditional stores, the cultural appropriateness of adaptation has become a key. In many cases, traditional stores are able to design a service mix that is unbeatable by even large and well-capitalized modern stores. Such traditional stores – who would of course no longer be seen as “archaically traditional” but rather be perceived as “progressively traditional” – would be survivors of the retail transformation process.
- **Darwinism:** Neither the traditional nor the modern retail sectors had experienced “adapt-or-die” levels of Darwinism in the 1990-2010 period, but this would change in selective geographies and categories in the foreseeable future. In both traditional and modern retail sectors, in some parts of India and in some retail categories, intense forms of Darwinism can be expected. Given India’s diversity, these trends are unlikely to be massive and national.
- **Culturally Embedded Cooperation:** As competition intensifies, such behaviors would be under pressure – but they would not disintegrate. Japan provides an affluent exemplar – a nation where public policy and private actions have maintained many patterns of culturally embedded cooperation.
- **Inter-category Competition:** Such competition would start in small ways but would not build up to a major crescendo. In the west, particularly the United States, “category killer” mega-stores reached a zenith and then retreated to some extent. Since the U.S. experience is available as a case study, countries like India are unlikely to commit to “category killer” type mega-retailing in the same way that the U.S. did.
- **Symbiotic Clustering:** The experience of retail transformation in India up to this juncture provides no clues as to whether a clustering of small and symbiotically related stores around successful mega-stores would happen or not. Most of India’s retailing is *in situ* – geographically and historically anchored. There is hardly any experience of small stores making conscious location decisions with reference to large mega-stores.

Concluding Observations

To conclude this paper, it is useful to revert to the three guiding issues posed at the start: (a) the reasons for the persistence of STS in India, (b) the barriers to quick dominance by modern stores in categories like grocery retailing, and (c) the factors that may shape the retail landscape of India in the foreseeable future.

With respect to the persistence of STS, some of the factors that supported such retailing are changing – particularly in big cities and in newly created affluent suburbs. In established cities, towns and villages, the factors supporting the persistence of STS remain mostly unchanged. Furthermore, leading-edge STS outlets are exhibiting adaptive patterns that are able to woo and retain customers through personalized services. The STS sector would shrink, but it would not disappear, or turn into a very minor part of the retail landscape.

The dominance of modern retailing would happen but only in selective geo-demographic settings: affluent enclaves, newly created suburbs, new and planned cities. Such settings do not have entrenched legacies of STS, and modern stores would be able to create new patterns of customer loyalty. In other settings, we can expect a long drawn out tussle between modern and STS formats.

Among the factors that would shape the future retail landscape of India, physical infrastructure and adaptive strategies of retailers are likely to be the most important. It is unlikely that, in the foreseeable future, India would develop a physical infrastructure comparable to advanced parts of Europe or of Asia. Neither the automobile-based retail culture of USA nor the train-based retail culture of Japan and some European cities provide models for India. The infrastructure development pattern of India would be a patchwork. The adaptive strategies of retailers – modern as well as STS – would play increasingly important roles in shaping India's retail landscape. Multiple examples of such adaptive approaches – delivery services, tailoring and customization services, and more – are already emerging. Retail manager and researchers need to watch these with care and deep interest.

Like other emerging and fast growing markets, India is experiencing major transformations in its retailing sector. India, however, is also home to the largest number of Small Traditional Stores (STS) in the world. Even as modern retailing makes rapid inroads in India, most STS outlets are resilient in terms of their service mix and remain competitive. Shoppers, even in large metro cities, are still loyal to neighborhood STS outlets. Based on the research themes outlined, a mixed retail system comprising of large modern stores and STS outlets can be expected to continue in India for the foreseeable future.

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