WOOING THE INDIAN SHOPPER

Insights from a report on customer loyalty in the context of Indian Retail

By Prof Sandro Castaldo

Western retailers are increasingly facing pricing pressure, which is decreasing their margins: They therefore are looking for new ways of leveraging the relationship with their existing customers and are focusing on loyalty-based strategies.

In order to study the strategies in detail, we developed and tested a loyalty-based model across various countries. As a result, an award winning paper was published titled 'How Store Attributes Impact Shoppers' Loyalty: Do Different National Cultures Follow the Same Loyalty Building Process?' authored by Prof Monica Grosso and me.

Meanwhile, retailers are also looking at foreign countries for business expansion. At the beginning of 2017, India replaced China as the most promising retail market in the world (ATKearney report 2017), thanks to the relaxed FDI rules, the recent efforts to boot cashless payments, and the reform of their indirect taxation by introducing a nationwide goods and services tax. Therefore, it is not surprising that several Western retail players look at this market as a potential area of internationalizing their business.

With this thought in mind, Prof Monica Grosso and I connected with Dr Anjana Grewal who is in-charge of Center of Excellence - Retail & Luxury at MISB Bocconi to discuss the topic. We decided to collaborate and undertook a pan India research study for retail sector.

The result was an insightful research paper titled 'How store attributes impact shoppers' loyalty in emerging countries: An investigation in the Indian retail sector,' which was published in the January 2018 issue of Journal of Retailing and Consumer Services. It is authored by Prof Monica Grosso (emlyon Business School, France), Dr Anjana Grewal (MISB Bocconi, India) and me.

THE ATTRACTIVE INDIAN RETAIL SECTOR

The Indian Retail Sector is emerging as one of the largest sectors in the Indian economy. It accounts for 10% of India's GDP and 8% of employment (estimated by us at 55 million). As mentioned in several reports, India is the fifth largest global destination in the retail world.

We are currently seeing a significant retail transformation taking place in the country, with malls and supermarkets coming up across India at a pace not seen earlier. While malls have had mixed fortunes across the country for various reasons, the pace is expected to pick up. While we expect that it will take a few years to develop consistent footfall, the change is clearly happening.

The Indian Retail Market size is estimated at USD 600 billion with organized retail achieving 8% - USD 48

billion (IBEF estimates). Using a conversion rate of 66 Rs/$, this size is Rs 3,16,000 crore which is large. The IBEF projection for the retail market in India in 2020 is USD 1.3 trillion.

Market drivers influencing this acceleration are: Rapid urbanization, attitudinal shifts, a younger India, more working women and a higher consciousness towards brands.

BACKGROUND

Theory suggests that retailers that internationalise, attempt to transfer successful domestic strategies to a foreign environment but retail internationalisation into emerging countries does not always lead to success.

The objective of this paper was to develop a loyalty building model for the Indian retail sector with the purpose of providing a guidance / direction to those who wish to enter the very complex Indian market (and of course also to Indian retailers) to validate the goodness of a loyalty building strategy in this market by mediating between the application of a successful western strategy and the local adjustments necessary to avoid failure in a new market. Therefore, we adapted a retail loyalty building model to suit Indian market and various brands present in India.

APPROACH

The questionnaire was adapted to Indian brands and Indian shopping habits. Digital questionnaire was developed to ensure PAN India coverage with consistency in data collection.

Around 1651 samples were collected from across 8 major cities and 48+ towns by interviewing customers face-to-face and digitally recording the responses.

Samples covered eight categories under retail sector including apparel, groceries, pharma, luxury, consumer electronics, personal care and home décor. Data for various levers that drive customer loyalty was analysed with the help of a special two-stage model. The first stage focused on core variables like store loyalty, satisfaction and value for money whereas the second stage focused on the drivers of customer satisfaction and perceived value.

KEY FINDINGS

Our study shows that loyalty in Indian retail follows a path which to some extent is different to what previous studies have indicated for developed countries. Following are the key findings that are unique to India:

1. Product assortment does not impact customer satisfaction (while products are determinant in building the value for money perception of the store). This is interesting as the composition of the assortment is a key activity of the retail business.

2. The main driver of customer loyalty is satisfaction and, much less directly, value for money.

3. Customers derive satisfaction mainly from salespeople and from perceptions of value for money. The latter determiner of satisfaction therefore has an indirect impact on loyalty, by contributing to customers' satisfaction.

4. Surprisingly, in the Indian context promotions do not contribute to loyalty building, while product assortment does not contribute to customer satisfaction. These two variables are central in the strategies of retailers in developed countries.

5. The last driver of customer satisfaction we determined, is the store environment.

The main managerial implication of the study is that retailers who want to create a long term relationship with their customers in India should invest mainly in customer satisfaction. ☺

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