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**Title of the Paper: A study of factors leading the customers to choose modern food & grocery retailers in India**

*Qazi Asif Zameer*

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**Abstract**

India is said to be a nation of shopkeepers with about 15 million retail outlets of all kinds. Out of these, the majority are small neighborhood grocery stores called “kirana stores”. Food & grocery constitutes the major portion of the private consumption and has the biggest potential for organized retail companies to tap. However the high proliferation of local kirana stores with their unbeatable advantage of proximity and customer familiarity has put a question mark on the success of organized retail in this category. Over the last few years, many corporate giants like Future group, RPG group, Reliance, Aditya Birla group have made their foray in organized retailing in food & grocery category. These ventures have met with varying degree of success. This study tried to find the responses and store-choice behavior of urban customers towards modern food & grocery retailers.

*Objective of the study* - To identify the relevant decision variables and their impact on influencing the customers’ store choice behavior towards newer retail formats in food & grocery.

There is a growing need to evaluate the true drivers of shopping behavior in the Indian context. The Indian retailing scenario seems to be driven more by euphoria. To a large section of customers the new formats are perceived to add insufficient additional value, except for novelty. The new expansions are adaptations of western formats fetching moderate to lukewarm success. Several successful chains are currently holding back new expansions. Store choice and patronage have been widely studied across the world. There is still vast scope for research and analysis as the retailing environment changes rapidly, leading to changed shopper expectations and realignment of the choice set of stores. This phenomenon gains greater significance in the Indian market, with the introduction of larger and more diverse retail formats by organized retailers. It is providing new experiences and options to shop for the consumer. A variety of formats are

being rolled out, with mixed success. Both retailers and shoppers are currently in an evaluation phase with no clear verdict as to what may drive the choice of stores in the longer term.

*Brief methodology* - Various literature and research papers were reviewed to understand the factors which affect the patronage of various retail formats, especially in food & grocery purchase. The relevant variables were included in a structured questionnaire. Systematic sampling and Mall-intercept method was used to conduct a survey and the respondents were asked to rate the variables on their importance on a 7-point Likert-like scale. Binomial test was applied to find the significance of each decision variable individually. Factor Analysis was used to reduce the decision variables people consider while choosing to buy food & grocery from Modern retailers.

*Results* - While choosing to buy food & grocery from modern retailers, the customers consider 5 factors, which were extracted using Principal Component Analysis. Factor 1 has three variables with high loading namely “product variety”, “quantity to be purchased” and ‘expected prices”. It was termed as – Product choice. Factor 2 showed high loading on variables such as “simple & easy signage (good visual merchandizing)”, “courtesy of the store staff”, “knowledge of the staff” (customer handling skills), “similar products at one place (efficient store-layout)” and “regular availability of stocks (good inventory management)”. All of these characteristics covered by factor 2 have been termed as – Store management. Factor 3 showed high loading on “phone order facility”, “home-delivery facility”, “credit-facility” and “bargaining facility”. This factor is the result of customers’ long standing experience with kirana shops and the modern retailers have been forced to adopt them in order to be competitive. The name given to this factor is – Value-added services. The variables under Factor 4 are “goods return facility” and “goods exchange facility”. These variables underline the post sales problems and the factor has been termed as – Dissonance reducing measures. Factor 5 showed high loading on two variables “sales-promotion schemes” and “loyalty-programmes”. This factor has been called as – CRM activities. Theory building was done and a new model was created to describe how consumers choose the modern retailers for buying food & grocery. The name given to this model is Retail Choice Evaluation Model (RCEM).

The study throws up interesting insight into what factors motivate customers to buy food & grocery from modern retailers in an emerging economy like India. There are relevant practical implications for organized retailers who wish to succeed in food & grocery category in India. They would do well to understand these factors and strengthen them in the retail-experience, which they are offering to their customers.

**Keywords:** Indian retail, food & grocery retailing, Modern retailers, decision variables, elements of retail experience, customers' perceptions

### **Introduction**

Retailing is the largest private industry in India and second largest employment sector after agriculture. It contributes about 10 percent to the GDP of India and generates 6-7 percent of employment. According to Images F&R Research (2007), India has the highest retail density in the world having over 15 million retail outlets. This sector witnessed significant developments in the past 10 years – from small, unorganized family-owned retail formats (commonly known as 'kirana stores') to organized retailing. Liberalization of the economy, rise in per capita income and growing consumerism have encouraged large business houses and manufacturers to set up retail formats; real estate companies (like Raheja Builders, DLF) and venture capitalists (like ICICI Ventures) are investing in retail infrastructure. Many foreign retailers like Metro, Wal-Mart, Marks & Spencers, have also entered in to the market through different routes such as wholesale cash-and-carry, local manufacturing, franchising, etc. In spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be one of the least evolved industries in India. Over a period of 10 years, the share of organized retailing in total retailing has grown from 10 percent to 40 percent in Brazil and 20 percent in China, while in India it is only about six percent (Images F&R Research, 2009). Within the organized retailing industry in India, the growth of food & grocery category has been particularly slow. The problem that has been taken up for this study was that why, even after almost 15 years of the growth of organized retailing in the country, food & grocery sector has not grown at the desired pace. It was decided to study the factors that lead the customers to choose modern retailers in food & grocery sector based on their perceptions.

In India, retail trade is primarily divided into two segments – organized retailing and unorganized / traditional retailing. These two segments of retailing can be understood as follows (ICRIER, 2005):

*Organized Retailing:* Any retail outlet chain (and not a one shop outlet) that is professionally managed (even if it is family run), can be termed as organized retailing in India if it has the following features - accounting transparency (with proper usage of MIS and accounting standards), organized supply chain management with centralized quality control and sourcing.

*Unorganized Retailing:* Any retail outlet that is run locally by the owner or the caretaker of the shop. Such outlets lack technical and accounting standardization. The supply chain and the sourcing are also done locally to meet the local needs.

- According to the Images F&R Research (2009) estimates, the Indian Retail market stood at Rs.13,300,000 million in 2007 with annual growth of about 10.8 percent. Of this, the share of organized retail in 2007 was estimated to be only 5.9 percent, valued at Rs.783,000 million (Annexure A1).
- By 2007, food & grocery enjoyed 59.5 percent share in the overall Retail pie (Images F&R Research, 2009). It was the most dominant category valued at Rs.7,920,000 million (Annexure A2).
- In the Organized retail pie, the picture is very different. Clothing & Fashion Accessories is the largest category with 38.1 percent of the market share, valued at Rs.298,000 million, followed by food & grocery accounting for 11.5 percent of the organized retail market at Rs.90,000 million (Annexure A3).
- ICRIER (2005) suggested that though there was going to be a shift from daily shopping from kiranas to weekly shopping behavior, there is a perception that organized retailers catered to high / higher-middle income group customers.
- According to Krishnan (2001), the small retail outlets have traditionally served the markets efficiently. They offer the seemingly unbeatable advantage of convenience of access – you are sure to find one less than half a kilometer from your house.
- Images F&R Research (2009) reported that though this organized market of food & grocery has grown but still is barely 1.1 percent of the total food & grocery retail market (Annexure

A4). Thus, almost 99 percent of food & grocery is sold through the traditional stores in India.

### **Objective of the study**

- To identify the relevant decision variables and their impact on influencing the customers' store choice behavior towards newer retail formats in food & grocery. This was based purely on the basis of customers' perceptions.

Apparently, food & grocery segment shows the most attractive potential for a modern retailer to enter into. With close to 50 percent of disposable income being spent by Indian consumers on this category where as only about 1.1 percent of total food & grocery sales moving through organized retail formats, the opportunity of selling food & grocery through organized retailing is huge. The underlying issue is – can organized retail in food and grocery compete with the mom-n-pop stores, which offer the unbeatable advantages of convenience of access and home delivery. While most observers have accepted the role of large format organized retail in clothing and lifestyle markets, there are still lingering doubts on how organized retail will perform in the food & grocery segment in India. The trademark of Indian retailing, the small kirana shop with a high level of personalized service, is making shoppers (customers) reluctant to depart from traditional ways of shopping. The country has already witnessed churning in the nascent modern food & grocery industry with companies closing down the operations, slowing down their stated expansion plans and consolidation by way of mergers and acquisitions. There is a need to evaluate the true drivers of store choice in the Indian context. The new expansions are adaptations of western formats fetching moderate to lukewarm success. Both retailers and shoppers are currently in an evaluation phase with no clear verdict as to what may drive the choice of stores in the longer term. The newly established stores are able to attract shoppers into stores due to its ambience, but they are finding conversions into purchases to be lower than expected and hence lower profitability for retailers. This study tried to identify the urban customer's store choice behavior while taking a decision to buy food & grocery from the modern (organized) retailers. Tuli and Mookerjee (2004), in their study of shop patronage behavior of Indian rural consumers, have also given further direction of research by stating that a study on the lines of their research could also be conducted on urban consumers' demographic profiles. Importantly, it is the understanding of the customer's perception of the relative merits of the

retail attributes present in any format, which is of critical importance to the marketer. The importance of perceptual attributes is significant since consumers link attributes to benefits of purchasing and consuming. These benefits or consequences lead to consumers to achieve certain end states or values that they wish (Aaker *et al.*, 1992; Belch and Belch, 1995; Mowen, 1993).

### **Literature Review**

Store choice and patronage have been widely studied across the world. Store choice is recognized as a cognitive process. It is an information processing behaviour akin to any other purchase decision. Store choice behaviour of shoppers has been found to share many similarities with brand choice. The only difference is the importance of the spatial dimension. While brand choice is devoid of any geography, the choice of a store is very much influenced by location (Fotheringham, 1988; Meyer and Eagle, 1982). Howard (1989) identified the three key dimensions of a retail store image: convenience of the store's location, the price of its products and the information it provides about its products. These dimensions were further exploded into seven attributes: food prices, quality of meat, quality of produce, selection of foods, personnel, check-out speed, and locational convenience in the study by Woodside & Trappey (1992). For brand and store choice, the major beliefs associated with the brand or store names, which are retrieved quickly and with little effort, have been referred as "hot buttons" (Tigert, 1983). He found that locational convenience is the most determinant attribute for retail food store-choice followed by low prices. Price competitiveness, courtesy of sales personnel, cleanliness, variety of stores, merchandise quality and product selection in stores are the primary shopping motives (Yavas, 2001). Also among the relatively more important motives are atmosphere, security, presence of new fashions, ease of access and parking facilities. Attributes identified by the consumers as determinant in store choice are location, assortment and low price (Arnold and Luthra, 2000). Well-located, large format retailer in a small community has an inherent advantage when compared to other retailers. Besides these factors, other inherent consumer benefits include an efficient, climatically-controlled, one-stop shopping experience with extended shopping hours. Store choice is dependent on the timing of shopping trips, as consumers may go to a smaller local store for short 'fill-in' trips and go to a larger store for regular shopping trips (Kahn and Schmittlein, 1989). In the academic environment, several factors have shown to affect the retail patronage decision such as location, service level, pricing

policies, and merchandize management (e.g., Craig, Ghosh, and McLafferty 1984; Morey, 1980; Schary and Christopher, 1979). Apart from the price of the products, the customer has to bear other costs for going to the store, shopping there and spending some time in the store. All of such costs have a bearing on customer's willingness to choose different format of store at different times and for different tasks. Zeithaml (1988) discussed the consumer perceptions of price, quality and value. He has argued that from the consumer's perspective, price is what is given or sacrificed to obtain a product. Full price models in economics (Becker, 1965) acknowledged that monetary price is not the only sacrifice consumers make to obtain products. Time costs, search costs, and psychic costs all enter either explicitly or implicitly into the consumer's perception of sacrifice. If consumers cannot find products on the shelf, or if they must travel distances to buy them, a sacrifice has to be made. The sacrifice components of perceived value include monetary prices and non-monetary prices (time, energy, effort). Until the benefit of shopping at a new format or location outweighs this sacrifice, the consumers will not be satisfied with the experience. To some consumers, the monetary sacrifice is pivotal; they will look at the best prices, bargain and promotions to choose the store. Less price-conscious consumers will find value in store proximity, ready-to-serve food products, and home delivery – because time and effort are perceived as more costly. Pricing is central to retail decision making: "Nothing is more important in business than getting the pricing strategy right," (Tang *et al.*, 2001). The best retailers create value for their customers in five interconnected ways (Berry, 2001). The key is to focus on total customer experience – superior solution to their needs, treat them with respect (store staff's courtesy & behavior), connect with them on emotional level, fair prices and ease of purchase (good layout, product placement, signage, fast checkout etc.). Great retailers reach beyond the model of rational consumer and strive to establish feelings of closeness, affection and trust. These can be established through extending services like goods return facility, goods exchange facility, and attractive store ambience. Department store image is usually considered to be an important factor influencing consumer patronage (Berry, 1969). The paper proposed a hypothesis that twelve components were crucial to the image of a given department store viz. price of merchandise, quality of merchandise, assortment of merchandise, fashion of merchandise, sales personnel, location convenience, other convenience factors, services, sales promotions, advertising, store atmosphere and reputation on adjustments. Hansen and Deutscher (1977-78) proposed a three-level scheme for image measurement, consisting of dimension,



component and attribute. They presented the ten most and five least important attributes used by shoppers to evaluate grocery stores. These are given below:

Top Ten attributes – dependable products, store is clean, easy to find items you want, fast check-out, high-quality products, high value for the money, fully stocked, helpful store personnel, easy to move through the store and adequate number of store personnel

Bottom Five attributes – easy to get home-delivery, lay-away available, easy to get credit, many friends shop there and store is liked by friends.

Store choice has also been found to be influenced by the ambience of the store. Kotler (1973) was the first author who proposed atmospherics as an important part of retail marketing strategy. Baker *et al.* (1992) studied the effects of two retail atmospheric factors: (1) ambient cues (lighting and music), and (2) social cues (number/friendliness of employees) on customers' pleasure, arousal and willingness to buy. In Indian context, Sinha and Uniyal (2007), found that the customers who patronized supermarkets did so primarily due to product variety and better prices. From the above given literature review, the decision variables relevant for identifying the factors motivating customers to purchase food & grocery from modern retailers, were gleaned.

### **Methodology**

To understand the factors influencing the customers choosing modern food & grocery retailers, twenty three decision variables or attributes were considered viz. convenience of location, parking facility, product variety, product quantity per trip, prices, phone order, home delivery, sales-promotion schemes, credit facility, bargaining facility, product quality, self service, time convenience, working hours convenience, goods return facility, goods exchange facility, loyalty programmes, atmospherics of the store, visual merchandizing, courtesy of store staff, product knowledge of store staff, store layout and regular availability of products.

The study was aimed to examine specific relationships, thus single cross-sectional design of sample were used. The study involved descriptive research design. A field survey was conducted across different stores in the National Capital Region of India (Delhi metro and the satellite towns of Noida, Gurgaon and Faridabad). The NCR comprises of the entire city of Delhi, eight districts of Haryana, one district of Rajasthan and five districts of Uttar Pradesh (IMRB, 2003). To overcome the problem of the demographic heterogeneity of this area, an equal number of

responses were taken from each cluster of the area viz. North Delhi, East Delhi, West Delhi, South Delhi, Gurgaon, Noida and Faridabad. The survey was conducted using an intercept technique (Sudman, 1980), at the modern retail outlets after the respondents had finished their shopping and were leaving the store. As advocated by Sinha and Banerjee (2004), it was felt that shop intercept (exit interviews) would capture the recency effect. There was a risk that an interview away from the shop might bring only visualized perceptions and not the real experience which would be still fresh in the memory. The researcher used systematic sampling technique wherein each tenth shopper was asked to complete a structured questionnaire as soon as he / she exited from the stores (Wulf and Waterschoot, 1999). To avoid any potential bias in the sampling, the intercept surveys were conducted over a seven day period, from Monday to Sunday and throughout the day and evening hours (technique used by Jin and Kim, 2003). A structured questionnaire was used during the survey. On a seven point Likert scale, the respondents were asked to indicate the level of importance they attached to each variable (7=most important, 6 = important, 5=slightly important, 4=not sure, 3=slightly unimportant, 2=unimportant, 1=least important).

Taking into consideration, both the qualitative and quantitative method of determining the sample size for the present study, the survey was conducted on 300 respondents. Out of the 300 questionnaires, 235 were available for data analysis and the remaining were not used as they had unusable responses. This means a 78.3 percent response rate, which is highly acceptable. According to Malhotra (2007), personal, in-home, mall-intercept and computer-assisted interviews yield the highest response rate (typically between 60-80 percent).

The questions in the survey tool were taken out of established and well-acknowledged research work done by past researchers. The scale variables used are also compiled from researches appearing in well-known marketing journals. Before the questionnaire was administered, the content validity was checked by way of taking experts' opinion.

A pilot study was done on a sample size of 50. As per the Reliability Test, a high scale reliability ( $\alpha=0.9110$ ) was obtained. Since the survey tool was found to be reliable, it was administered to rest of the samples without any changes.

The sex ratio of the sample came out to be 886:1000 in the present study while the same ratio in the population of NCR is 865:1000 (IMRB, 2003). More than 90 percent of the respondents had a monthly family income of more than Rs.10,000 (which is along the expected lines since the adoption of modern trade has been the maximum in upper / upper-middle class customers). About 75 percent of the respondents were either graduates or had even higher education. 45.3 percent of the sample owned a 4-wheeler and 52.7 percent owned a 2-wheeler (these are not mutually exclusive groups as there can be respondents having both 4-wheelers and 2-wheelers). The sample demographic values are very much comparable to the population characteristics of the NCR area and are consistent with the known phenomenon of adoption of new retail formats by the upper / upper-middle class segment of shoppers in India.

Descriptive analysis was conducted on the data and non-parametric methods like binomial tests were used. The data collection techniques were adopted from accepted research work and due care was taken to avoid any bias in sampling. Further factor analysis was used to derive meaningful answers from the study.

### **Findings and Discussions**

For each of the decision variables, responses have been taken on the seven-point scale. Since the distribution of the responses did not follow normal distribution, it was decided to use binomial test and categorize the responses into 'not important' (Group 1) and 'important' (Group 2) by keeping 5 (on the scale of 1 to 7) as the cut-off point. The logic behind this is that as per the researcher's perception, customers would rate variables which are very important to them either as 6 or 7 on a 7-point scale. For the Binomial test, a series of null hypotheses, H<sub>0</sub>, is considered that there is no significant difference between the number of respondents who consider a variable as important and those who do not consider it important. The statistical output of the binomial test done on each decision variable for choosing modern retail stores is shown at Appendix S1.

From the result of the binomial test, it was noted that out of the 23 variables under consideration, four variables viz. home-delivery facility, sales –promotion schemes, odd hours of shop being open, and goods exchange facility are the ones where there is no significant difference between the number of customers rating them as important and those who do rate them as not important. These four variables are given only moderate consideration by the customers while taking a decision to purchase food & grocery from a modern retail store. For rest of the variables, the two

groups are significantly different and our null hypothesis H<sub>0</sub> for each variable is rejected at 95 percent confidence level.

There are four variables, for which significantly larger market has rated not important as far as choosing to buy food & grocery from modern stores is concerned – phone order facility, credit facility, bargaining and availability of loyalty programmes.

There are fifteen variables where significantly more number of customers have given high importance - distance of the store, availability of parking facility, variety of products, quantity of products to be purchased in one trip, expected prices at the store, quality of products, self-service facility, short time taken for purchases, goods return facility (at 90% confidence level), looks of the store, simple signage, courtesy of the store staff, knowledge of the staff, arrangement of similar products at one place and regular availability of the products. These significant variables have been analyzed as follows.

- *Distance of the store from customer's house / workplace*

The proximity of the modern retail shop came out to be an important decision variable (mean rating score of responses is 5.44). With increasing congestion of roads plus the rising fuel prices, getting to the retail outlet by own vehicle adds a tacit component of cost of acquisition to the actual cost of goods. Most of the respondents want the convenience of location for modern food & grocery retailers.

- *Parking facility*

The importance that respondents have given to the parking facility (mean rating of 5.62) is clearly understandable. In NCR, parking is becoming an issue due to heavy increase in vehicle ownership with availability of limited parking spaces. The implication is that for modern retail stores, the availability of ample parking facility should be an important factor in their store location decision.

- *Variety of products at the store*

The modern retail stores try to work on the proposition of 'one-stop shop'. As the customers become increasingly pressed for time, they would like to make less number of shopping trips and buy more per trip. The mean response of 6.33 is an indicator of how important this variable is for the respondents while choosing a modern retail store. Its implications are that customers are

likely to favour larger modern formats like supermarkets and hypermarkets in future, where they can get huge variety and depth of assortment.

- *Quantity of products to be purchased in each trip*

This variable is also coming out to be an important decision variable for choosing a modern retail outlet (mean rating of 5.93). Organized retail stores attract people with better prices and bigger packs. Most of the modern stores are not close to the customers and hence involve a bigger effort on part of the customers and a higher cost of acquisition. This can be justified only when the customer buys in larger quantities. Hence such a high degree of importance is coming for this variable.

- *Prices of the products at the store*

The respondents have given a high importance to prices in the choice of modern retail store (mean rating score of 5.93). Since India is a very price sensitive market, most of the popular modern retail stores use price-based incentives to lure customers away from the traditional stores. An inference may be drawn that the modern retailers may have to keep using such price-lowering tactics to develop a large number of repeat customers.

- *Quality of the products at the store*

The respondents have given a very high importance to this variable (mean rating score of 6.07). This can be interpreted in two ways – one is that in food & grocery products people are very quality and freshness conscious (directly affecting the health) and second is that even if they compromise on the quality, such a question may suffer from respondents' bias (very few people will confess this in such a survey).

- *Availability of self-service facility at the store*

Self service makes the customer feel empowered by giving him / her power of touch-n-feel and choosing the right product (its importance can be seen by its mean rating score of 5.71). It is also known to foster impulse purchase behavior. Self-service formats require much bigger spaces. This format is readily adopted by modern retailers. The implications are that the customers also seem to be accepting self-service format easily and want to enjoy their freedom of choosing the products.

- *Short time taken for purchase*

Empirical evidence points out to the fact that customers in modern retail stores do not like to wait in queues for checking out (supported by the mean response to this variable being 5.66). Long time taken for billing and payment in the store is one of the major irritants for the customers. Respondents have given high importance to the time taken for purchase. The implications are that modern retailers will have to relook at their process to help customers check out fast in order to foster customer loyalty.

- *Goods return facility*

The importance attached by the respondents to this variable is understandable (mean of 5.37) because traditionally, this facility has been regularly offered by kirana stores. Many modern retailers extend this facility so that they can compete with the services provided by local kirana stores. However they need to give time-deadlines after any purchase in which they will accept returning of purchased goods.

- *Looks of the store*

A considerably high importance has been given by respondents to the looks of the store (mean of 5.37). The literature on retailing talks about impact of atmospherics on the customer perception. The result indicates that even in NCR, customers are likely to choose modern stores, which provide the right look and feel. Unlike kirana stores, for modern retailers it is necessary to utilize the science of atmospherics in order to drive footfalls and repeat visits to their stores.

- *Simple signage*

Another variable, which has gathered significant importance from the respondents, is simple signage (mean rating of 5.46). This attribute is a part of visual merchandizing, which is an essential tool of retail strategy. With larger stores and self-service formats in most of the modern retailers, people need to be directed towards various product categories, rest rooms, check-out points, exits etc. Apart from these, clear display of prices and the schemes help in putting the customer at ease. Modern retailers can do well to adopt good visual merchandizing practices to make the customer's shopping experience a pleasant one.

- *Courtesy and knowledge of sales staff*

These have been taken as two different variables but their responses are very similar (respective means of 5.65 and 5.62 respectively). The respondents believe these two aspects to be equally important in a modern retail outlet. Even in self-service formats, the customers in NCR many

times require assistance of the sales staff to find out the right product for them. This is a legacy of our traditional way of buying. Implications are that the modern retail stores should have a minimum number of sales staff to help customers and also give proper training to them in customer handling.

- *Similar products at one place*

This variable was included in the study to check the importance of store lay-out efficiencies. The respondents perceive the efficient store-layout to be a significant variable for deciding on a modern retail outlet (a high mean rating score of 5.72). Complimentary products stacked together not only help in customers to buy things in a convenient and fast way but also help to generate lot of impulse purchase. Modern retailers should utilize the power of adjacencies better.

- *Regular availability of the products*

The respondents have assigned very high importance to having regular availability of products at the store (mean rating score of 6.07). In the case of going to nearby kirana stores, the customer can make repeat visits in case the required product is not available the first time or immediately the customer can go to the other nearest kirana store. However in case of going to modern retail formats, the customer makes more infrequent visits and also invests much more effort and money for making one trip to the store. In such a situation, he expects to buy all the products / brands which he desires every time. The implications are for modern retailers to improve their supply chain performance in order to become the store of choice for the customers.

### Factor Analysis

Further, factor analysis was used to reduce the number of variables and to detect the structure in the relationship between variables so as to allow classification of variables. Factor analysis was done on the 23 decision variables for choosing modern retail outlets in food & grocery buying.

The following is the result of the KMO and Bartlett's Test

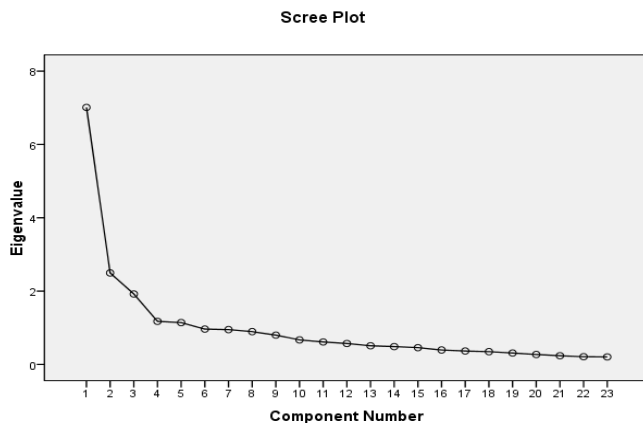
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.847
Bartlett's Test of Approx. Chi-Square	2310.824

Sphericity	Df	253.000
	Sig.	.000

The KMO measure is coming to be more than 0.8 which shows that the data is more than adequate to conduct the Factor analysis. Bartlett's Test is also coming out to be significant which shows that the nature of the data is also very appropriate for conducting Factor analysis.

Using Principal Component method, five factors were extracted with Eigen values of 1 or greater which are able to explain approximately 59.76% of total variance. This indicates that the variables considered in the study are not adequate to explain higher level of variance and some more research is required to be conducted in this direction. The same inference can be shown graphically through the scree plot given below.

Figure: Scree Plot for factors for modern food & grocery retail stores



The Rotated Component Matrix for modern retail stores is given at Appendix S2. From that, the Table 1 was generated, which shows the comparison of the factors generated for the retail format under the study.

Table 1: The factors with high loading values for kirana stores and modern retail stores

Variables	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
Distance - Convenience					



of location					
Parking facility					
Product variety	.770				
Product quantity to be purchased	.753				
Expected prices	.689				
Phone order facility		.779			
Home-delivery facility		.790			
Sales promotion schemes					.676
Credit facility		.562			
Bargaining facility		.717			
Product quality	.519				
Self-service facility	.474				
Goods return facility			.780		
Goods exchange facility			.801		
Loyalty programmes					.824
Looks of the store					
Simple & easy signage				.565	
Courtesy of store staff				.751	
Knowledge of store staff				.822	
Similar products adjacencies				.700	
Regular availability of products				.558	

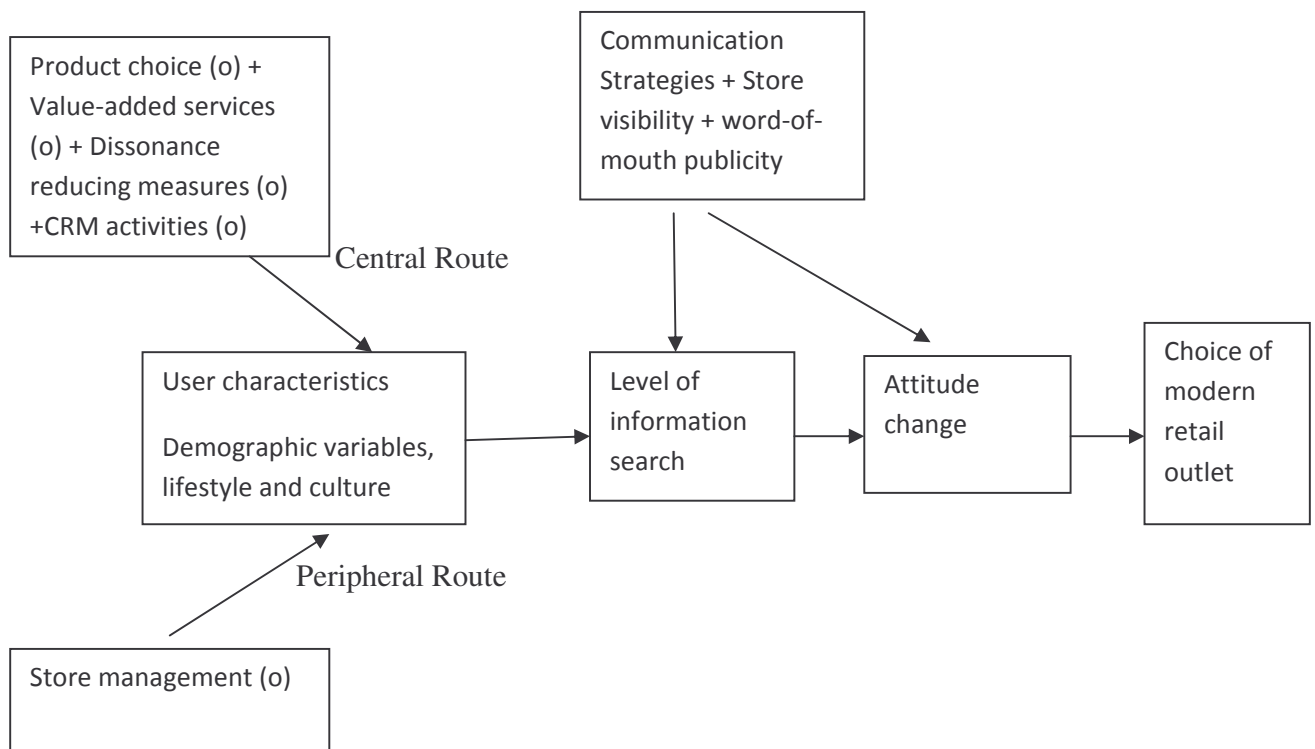
Factor 1 has five variables, product quantity, product variety, expected prices, product quality and self-service facility. Hence, it was termed as – Product choice (o). Factor 2 showed high loading on “phone order facility”, “home-delivery facility”, “credit-facility” and “bargaining facility”. This factor is the result of customers’ long standing experience with kirana shops and the modern retailers have been forced to adopt them in order to be competitive. The name given to this factor is – Value-added services (o). The variables under factor 3 are goods return facility

and goods exchange facility and hence, the factor has been termed as – Dissonance reducing measures (o). Factor 4 showed high loading on variables such as “simple & easy signage (good visual merchandizing)”, “courtesy of the store staff”, “knowledge of the staff” (customer handling skills), “similar products at one place (efficient store-layout)” and “regular availability of stocks (good inventory management)”. All of these characteristics covered by factor 4 have been termed as – Store management (o). Factor 5 showed high loading on two variables “sales-promotion schemes” and “loyalty-programmes”. This factor has been called as – Customer Relationship Management (CRM) activities (o). *Note:* (o) denotes organized retail stores

### **Retail Choice Evaluation Model**

From the factors generated above, it was decided to build a theoretical model which may predict how customers choose to buy food & grocery from modern retailers. The model was based on Elaboration Likelihood Model (ELM). The Elaboration Likelihood Model (ELM) was developed by Richard Petty and John Cacioppo (Petty and Cacioppo, 1981). It describes how consumers make evaluations in both low-involvement and high-involvement circumstances. The new model, described below, has been named as Retail Choice Evaluation Model (RCEM).

- **Retail Choice Evaluation Model (RCEM)**



There are two means of persuasion in the classical ELM model – the central route and the peripheral route. ELM states that consumers follow the central route of evaluating any brand only if they possess sufficient motivation, ability and opportunity. If any one of these three factors is missing, consumers will tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions.

Five major factors important to customers for choosing organized retail formats have already been identified earlier by the factor analysis. Out of these factors, four factors – product choice (o), value added services (o), dissonance reducing measures (o) and CRM activities (o), are more intrinsic factors which can be analyzed objectively by the customers. The remaining factor - store management (o) is more judgmental rather than very analytical. Hence this factor can be understood as an extrinsic cue.

### **Conclusions**

Based on the model RCEM, it can be concluded that the decision to purchase food & grocery from modern retailers is somewhat a high-involvement decision as the customers do a cost-benefit analysis and decide to patronize modern retailers only when the advantage in that particular shopping trip outweighs the extra cost and time of the shopping. Hence, the customers are more likely to take the central route on the basis of the four intrinsic factors to search for the information about a modern retailer. In case they do not have sufficient incentive to change their store patronage or lack the ability to do some kind of mental cost-benefit analysis, they are likely to use the extrinsic cue of store management factor and develop a positive, negative or an indifferent attitude towards that modern retailer.

To influence the customers for choosing their stores, the modern retailers can take either of the two routes for persuasion. If the retailer is effectively managing the factors included in the central route of persuasion, the desired attitude change can be achieved much faster. Else, the retailer may have to look at following the peripheral route by building on the store management factor and to use such extrinsic cues as part of its advertising / communication strategy. It may play upon the shopping experience and the store layout / ambience to create consumer pull for its stores. Both the central and peripheral routes will be influenced by the demographic and psychographic traits of the users, which need to be taken care of by the retailer. Since, organized

retailing is relatively new to India; the level of information search is likely to be higher. Hence, this model includes the additional role of awareness / image building activities (deviating from the original ELM process flow). The modern retailers should use the impact of communication media, store visibility and other promotion strategies which generate a positive word-of-mouth publicity for them. These strategies can be designed to achieve both the objectives – giving out information about the store and its various aspects to the target customers and also to develop a favourable attitude towards the store brand. Once the customer has been groomed to this stage, there is high likelihood of his / her choosing that particular modern retail outlet.

### **Limitations and scope for further research**

The model (RCEM) is a new contribution to the field of retailing in India from this study and needs to be validated and / or improved upon with further research by any researcher.

This study is limited to the NCR region in India, which is the most potent area for organized retail as the per capita income is higher than any other region in India. Due to this, the modern retailers have focused on expansion in this region. The adoption rate of modern retail stores has been very high in NCR and thus the results thrown up by this study might not reflect the situation in other parts of India. Further research along these lines can be carried in Tier-I and Tier-II towns of the country to see what strategies do modern retailers need to adopt in those towns to wean away people from kirana stores.

While conducting the study, no distinction was made between branded grocery, dry unprocessed grocery, and fresh (wet) grocery as defined by CII-McKinsey & Company (2005). The respondents have been surveyed on their purchase behavior for food & grocery as one category. It is possible for a future researcher to conduct a study for understanding patronage behavior for any of these subcomponents of grocery separately. This can be especially important in the case of wet grocery, which constitutes almost 40 percent of the total food & grocery spend by average Indian customer and in which the overwhelming patronage is shown by the customers towards local, traditional retailers like fruit & vegetable sellers and meat-shops.

The factors generated in the factor analysis were able to explain approximately 59.76 percent of total variance. This indicates that the variables considered in the study are not adequate to explain higher level of variance and some more research is required to be conducted in this direction.

### **Managerial Implications**

The modern retailers may have to relook at their strategies in the light of the important variables, which customers consider while choosing to buy food & grocery from them.

Customers are likely to favour larger modern formats like supermarkets and hypermarkets in future, where they can get huge variety and depth of assortment. Increasingly time-constrained customers would like one-stop shops to make bigger purchases per trip with less number of shopping trips required. A high degree of importance shown by the customers for expected prices at the store means that the modern retailers will have to resort to regular price-lowering tactics like sales-promotion, end-of the-season markdowns and loyalty bonuses to have large number of customers and foster repeat purchase behavior. In India, modern retailers would do well not to compromise on freshness & quality of food & grocery items. This point is significant in case where the modern retailer is having some private labels for packaged food & grocery or is selling unprocessed fruits & vegetables. The modern colonies, being developed in the suburbs around main cities, are on land banks away from the traditional city markets and for these customers, the proximity to unorganized retail stores is not a big factor in their store choice behavior. The organized retailers can look at targeting such customers. They can do well to map all such new out-of-town residential developments taking place in the country and include them for their store location strategy. For the modern retail stores, the availability of ample parking facility should be an important factor in their store location decision. That is why most of the major retailers like Big Bazaar have opted to open stores in Shopping Malls or Metro Stations, where parking facilities are readily available to the customers.

In general, the decision variables influencing the store choice behavior which have emerged from this study are quite different from the variables revealed by many of such studies in the west (Baker, 1992; Baker, 2002; Zeithaml, 1988). The utilitarian value factors (product choice, location convenience, customized services, dissonance reducing measures) influence the store choice in NCR much more than hedonistic factors and other values (like ambience, quality of service by the store staff, fast check-outs etc.) which were found in those researches. This is particularly more evident in the case of food & grocery purchase. However, these hedonistic factors are gradually assuming significance for creating the desired perceptions and the brand image of any modern retailer in NCR also.

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## Appendix

### S 1: Binomial Test done on decision variables for modern food & grocery stores

#### Binomial Test

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
beliefs while purchasing from modern retail shop - Distance	Group 1	<= 5	87	.37	.50	.000 <sup>a</sup>
	Group 2	> 5	148	.63		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - Parking	Group 1	<= 5	75	.32	.50	.000 <sup>a</sup>
	Group 2	> 5	160	.68		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - variety of products	Group 1	<= 5	33	.14	.50	.000 <sup>a</sup>
	Group 2	> 5	201	.86		
	Total		234	1.00		
beliefs while purchasing from modern retail shop - quantity of products	Group 1	<= 5	72	.31	.50	.000 <sup>a</sup>
	Group 2	> 5	163	.69		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - expected prices	Group 1	<= 5	66	.28	.50	.000 <sup>a</sup>
	Group 2	> 5	169	.72		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - phone order facility	Group 1	<= 5	159	.68	.50	.000 <sup>a</sup>
	Group 2	> 5	76	.32		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - home-delivery	Group 1	<= 5	123	.52	.50	.514 <sup>a</sup>
	Group 2	> 5	112	.48		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - sales promotion schemes	Group 1	<= 5	128	.54	.50	.192 <sup>a</sup>
	Group 2	> 5	107	.46		
	Total		235	1.00		

beliefs while purchasing from modern retail shop - credit facility	Group 1	<= 5	144	.61	.50	.001 <sup>a</sup>
	Group 2	> 5	91	.39		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - bargaining	Group 1	<= 5	171	.73	.50	.000 <sup>a</sup>
	Group 2	> 5	64	.27		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - quality of products	Group 1	<= 5	52	.22	.50	.000 <sup>a</sup>
	Group 2	> 5	183	.78		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - self-service	Group 1	<= 5	80	.34	.50	.000 <sup>a</sup>
	Group 2	> 5	155	.66		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - short time	Group 1	<= 5	93	.40	.50	.002 <sup>a</sup>
	Group 2	> 5	142	.60		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - odd hours of shop	Group 1	<= 5	109	.46	.50	.297 <sup>a</sup>
	Group 2	> 5	126	.54		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - goods return facility	Group 1	<= 5	102	.43	.50	.050 <sup>a</sup>
	Group 2	> 5	133	.57		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - goods exchange facility	Group 1	<= 5	107	.46	.50	.192 <sup>a</sup>
	Group 2	> 5	128	.54		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - loyalty programs	Group 1	<= 5	134	.57	.50	.037 <sup>a</sup>
	Group 2	> 5	101	.43		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - looks of the store	Group 1	<= 5	101	.43	.50	.037 <sup>a</sup>
	Group 2	> 5	134	.57		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - simple	Group 1	<= 5	93	.40	.50	.002 <sup>a</sup>
	Group 2	> 5	142	.60		
	Total		235	1.00		

signage	Total		235	1.00		
beliefs while purchasing from modern retail shop - courtesy of staff	Group 1	<= 5	81	.34	.50	.000 <sup>a</sup>
	Group 2	> 5	154	.66		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - knowledge of staff	Group 1	<= 5	85	.36	.50	.000 <sup>a</sup>
	Group 2	> 5	150	.64		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - similar products at one place	Group 1	<= 5	72	.31	.50	.000 <sup>a</sup>
	Group 2	> 5	163	.69		
	Total		235	1.00		
beliefs while purchasing from modern retail shop - regular availability	Group 1	<= 5	53	.23	.50	.000 <sup>a</sup>
	Group 2	> 5	182	.77		
	Total		235	1.00		

a. Based on Z Approximation.

## **S 2: Rotated Component Matrix for Factor Analysis done for modern food & grocery stores**

**Rotated Component Matrix<sup>a</sup>**

	Component				
	1	2	3	4	5
beliefs while purchasing from modern retail shop - Distance	.547	-.069	.155	.200	-.055
beliefs while purchasing from modern retail shop - Parking	.447	.035	-.089	.029	.437
beliefs while purchasing from modern retail shop - variety of products	.770	.135	-.008	-.077	.191
beliefs while purchasing from modern retail shop - quantity of products	.753	.173	.038	.006	.219
beliefs while purchasing from modern retail shop - expected prices	.689	.224	.227	.037	.044

beliefs while purchasing from modern retail shop - phone order facility	-0.034	.170	.779	.113	-0.063
beliefs while purchasing from modern retail shop - home-delivery	.138	.140	.790	.242	.044
beliefs while purchasing from modern retail shop - sales promotion schemes	.105	.239	.283	.003	.676
beliefs while purchasing from modern retail shop - credit facility	.240	-.032	.562	.229	.243
beliefs while purchasing from modern retail shop - bargaining	.182	.021	.717	.152	.057
beliefs while purchasing from modern retail shop - quality of products	.519	.147	.076	.169	.369
beliefs while purchasing from modern retail shop - self-service	.474	.101	.295	.391	.105
beliefs while purchasing from modern retail shop - short time	.565	.101	.155	.466	.036
beliefs while purchasing from modern retail shop - odd hours of shop	.496	.065	.191	.509	.031
beliefs while purchasing from modern retail shop - goods return facility	.080	.089	.315	.780	-.013
beliefs while purchasing from modern retail shop - goods exchange facility	.021	.123	.231	.801	.110
beliefs while purchasing from modern retail shop - loyalty programs	.064	.198	.009	-.007	.824
beliefs while purchasing from modern retail shop - looks of the store	.245	.342	-.008	.233	.540
beliefs while purchasing from modern retail shop - simple signage	.101	.565	-.062	.378	.305
beliefs while purchasing from modern retail shop - courtesy of staff	-.007	.751	.105	.023	.288
beliefs while purchasing from modern retail shop - knowledge of staff	.061	.822	.115	.065	.263

beliefs while purchasing from modern retail shop - similar products at one place	.464	.700	.176	-.039	.047
beliefs while purchasing from modern retail shop - regular availability	.419	.558	.097	.252	-.043

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

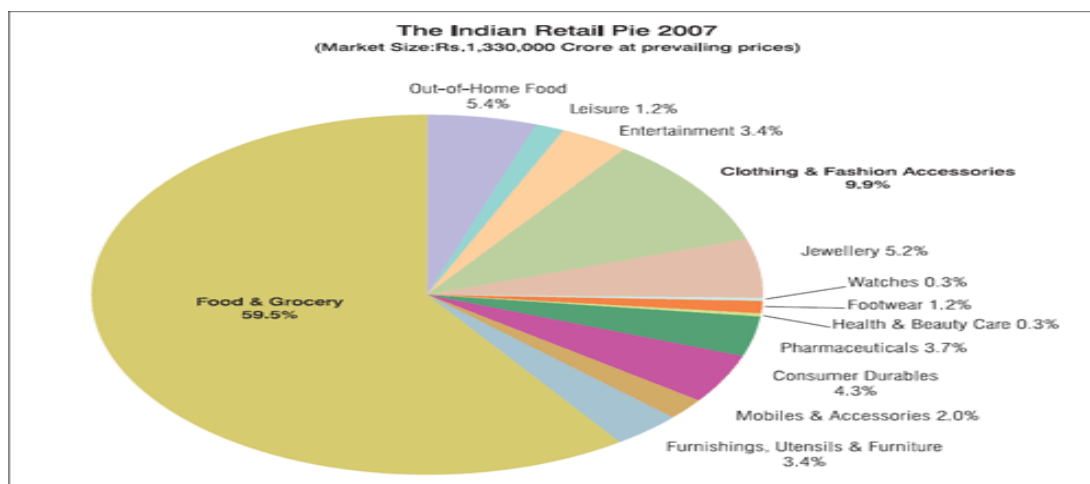
## Annexure

### A 1: Indian Retail Market figures

<b>INDIA RETAIL MARKET (at prevailing market prices)</b>						
Retail Segments	INDIAN RETAIL MARKET (Rs. Crore)			ORGANISED RETAIL (Rs. Crore)		
	2006	2007	Growth 2007 > 2006 (%)	2006	2007	Growth 2007 > 2006 (%)
Clothing, Textiles & Fashion Accessories	113,500	131,300	15.7	21,400	29,800	39.3
Jewellery	60,200	69,400	15.3	1,680	2,300	36.9
Watches	3,950	4,400	11.4	1,800	2,150	19.4
Footwear	13,750	16,000	16.4	5,200	7,750	49.0
Health & Beauty Care Services	3,800	4,600	21.1	400	660	65.0
Pharmaceuticals	42,200	48,800	15.6	1,100	1,540	40.0
Consumer Durables, Home Appliances/equipments	48,100	57,500	19.5	5,000	7,100	42.0
Mobile handsets, Accessories & Services	21,650	27,200	25.6	1,740	2,700	55.2
Furnishings, Utensils, Furniture-Home & Office	40,650	45,500	11.9	3,700	5,000	35.1
Food & Grocery	743,900	792,000	6.5	5,800	9,000	55.2
Out-of-Home Food (Catering) Services	57,000	71,300	25.1	3,940	5,700	44.7
Books, Music & Gifts	13,300	16,400	23.3	1,680	2,200	30.9
Entertainment	38,000	45,600	20.0	1,560	2,400	53.8
<b>TOTAL</b>	<b>1,200,000</b>	<b>1,330,000</b>	<b>10.8</b>	<b>55,000</b>	<b>78,300</b>	<b>42.4</b>

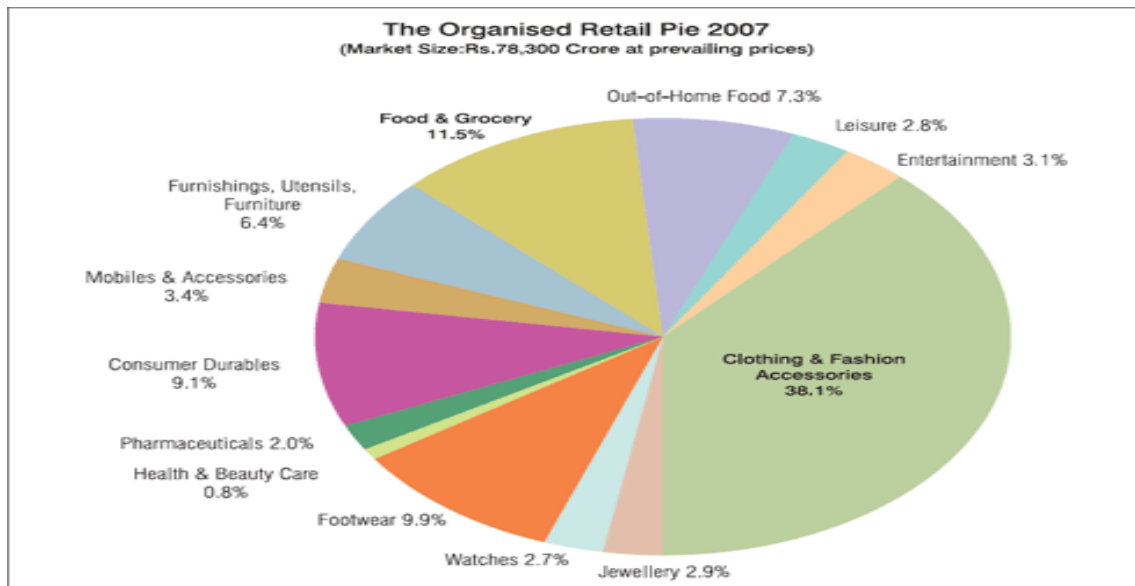
Source: Images F&R Research, 2009

### A 2: The overall Indian Retail Pie 2007



Source: Images F&R Research, 2009

### A 3: The Organized Indian Retail Pie 2007



Source: Images F&R Research, 2009

### A 4: Share of Organized retail in various categories to the Total market

SHARE OF ORGANISED RETAIL TO TOTAL MARKET				
Retail Segments	% Organised			
	2004	2005	2006	2007
Clothing, Textiles & Fashion Accessories	13.6%	15.8%	18.9%	22.7%
Jewellery	2.0%	2.3%	2.8%	3.3%
Watches	39.6%	43.5%	45.6%	48.9%
Footwear	25.0%	30.3%	37.8%	48.4%
Health & Beauty Care Services	6.0%	7.6%	10.6%	14.3%
Pharmaceuticals	1.8%	2.2%	2.6%	3.2%
Consumer Durables, Home Appliances/equipments	7.8%	8.8%	10.4%	12.3%
Mobile handsets, Accessories & Services	6.5%	7.0%	8.0%	9.9%
Furnishings, Utensils, Furniture-Home & Office	6.7%	7.6%	9.1%	11.0%
Food & Grocery	0.5%	0.6%	0.8%	1.1%
Out-of-Home Food (Catering) Services	5.7%	5.8%	6.9%	8.0%
Books, Music & Gifts	9.8%	11.7%	12.6%	13.4%
Entertainment	2.6%	3.3%	4.1%	5.3%
<b>TOTAL</b>	<b>3.0%</b>	<b>3.6%</b>	<b>4.6%</b>	<b>5.9%</b>

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Source: Images F&R Research, 2009

Note: 1 crore = 10 million