

UNORGANISED RETAILERS': CREATING VALUE THROUGH SERVICE INNOVATION

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ABSTRACT

Retailing in India is highly fragmented, and is dominated by independent owner-managed outlets commonly known as 'mom & pop stores' or 'kirana stores'. These stores number nearly 12 million and more than eighty percent are small family businesses utilizing household labor. Fifty percent of these retail outlets specialize in the food & grocery. Store-based retailing is anticipated to grow by forty four percent, with food and grocery retail constituting a major part of the total retail market. Retail in India has witnessed a radical transformation after the entry of organised retail. Organised retailers have attracted customers' by offering them a wide product assortment, ambience, discounts, offers and have created a new shopping experience for them.

The entry of organised retailers has thus caused a threat to the survival and growth of unorganised retailers. To meet the competition from organised retailers, unorganised retailers have realized the need to redesign their business model and introduce new innovative services focusing to increase customer satisfaction resulting in creating value for customers.

This paper is based on primary data collected by administering questionnaires to unorganised food and grocery retailers in Bangalore. Information from organised retailers has been collected by using an interview schedule. The paper emphasizes on unorganised retailers creating value for their customers' through service innovation which has resulted in achieving a competitive advantage over organised retailers.

Key words: Unorganised retailers, Organised retailers, Service innovation, Customer value, Competitive advantage

1. INTRODUCTION:

Retailing in India is highly fragmented, and is dominated by independent owner-managed outlets commonly known as 'mom & pop stores' or 'kiranastores'. These stores number nearly 12 million, and more than eighty percent are small family businesses utilizing household labor. Fifty percent of these retail outlets specialize in the food & grocery (Retail report)(2014). Store-based retailing is anticipated to grow by forty four percent, with food and grocery retail constituting a

major part of the total retail market. Retail in India has witnessed a radical transformation after the entry of organised retail. Organised retailers have attracted customers' by offering them a wide product assortment, ambience, discounts, offers and have created a new shopping experience for them.

1.1 Service Innovation:

Innovation plays a very crucial role in the profitability and growth of any enterprise. Innovation is the exploitation of any idea which is beneficial to the firm and customers. Innovation should be customer centered and it should ultimately lead to creating customer value. The concept of service innovation was first emphasized by Miles (1993). Service innovation is defined as an activity where known products, services or process are combined or created in a new way, to generate a positive net present value from a market. The innovation is to combine known solutions or create new services, processes, business models, sell these on a market, or employ them for internal increased value. Service innovation is a business model innovation that gives the users or customers a better experience or higher value. P den Hertog's (2010) identified four dimensions of service innovation-the service concept, client interface, service delivery system and technological options. Research scholar Furseth (2010) in his article has stated that there are various kinds of service innovations:

- Innovation in the service aspect of products
- Innovation in services already available or incremental innovation
- The creation of new services

In this article service innovation refers to introduction of new services and the changes adopted by the unorganised retailers in the existing services they offer to their customers.

1.2 Customer Value:

In the present retail scenario retailers' have shifted their focus from attracting new customers to retaining existing customers. Customer value is the difference between value the customer gains from owning and using a product and the cost of obtaining the product. Attracting new customers is an integral part of any marketing strategy but retailers have realized maintaining and building long term relationship with existing customers is essential for survival and growth of retailers (Elmarie 2011). Johnson (2000) in his article has also emphasized the need for building good customer relations as it leads to creation of customer value and satisfaction.

2. REVIEW OF LITERATURE:

An in depth study about organised and unorganised retailers has been conducted by studying various Retail Reports, Doctoral Dissertations and Journal articles.

2.1 Retail Reports:

The Great Indian Bazaar-Organised retail comes of age in India, Report by McKinsey (2008): Share of Organised retail is just to 5% and is expected to expand between 14-18% by 2015. It is expected that around 65 million households will patronize organised retail amounting to over 300 million shoppers.

The Indian Kaleidoscope-Emerging trends in retail, Report by PWC (2012): The Indian retail sector accounts for 20% of the country are Gross Domestic Product and contribute 8% to total employment. India's large aspiring middle class of 75 million households want products that are value driven.

Successful innovations in Indian Retail, Report by Retailers Association of India and Booz & Co (2013): Indian retail industry grew 8% during 2007-11 with organised retail growing at more than three times the pace of unorganised retail. Penetration of super/hypermarkets is low contrary to trends seen in developed and other developing markets. Organised retailers in India face motile economic and regulatory challenges that threaten their profitable growth.

2.2 Doctoral Thesis:

Elmarie Strydom, A Multidimensional customer value model for the high fashion retail industry', Doctoral thesis (2011). The researcher has highlighted the focus on providing value to their customers, which in turn will lead to increase in customer satisfaction and repurchase intention which will also contribute to future profitability.

2.3 Journal Articles:

Jeffrey McGee, Leonard Love, Michael Rubach (1999), 'Sources of competitive advantage for small independent retailers: Lessons from the neighborhood drugstore,. The authors have stated that those retailers who focus on developing distinctive competencies are able to perform better. Prahalad. C.K and Venkat Ramaswamy(2000). The researchers have specified that DART- Dialogue, Access, Risk management and Transparency are the basic building blocks of value co-creation.

Magretta J.(2002).The research scholar states that a good business model is essential whether it is new organisation or an already established organisation. Business models basically specify how the company works.

Raphael Amit and ChrisitophZott(2004). The research scholars have stated that vean innovative business model can either create a new market or can help organisations to create and exploit new opportunities in existing markets.

Emilia Papulova, Zuzana Papulova (2006), 'Competitive strategy and competitive advantages of small and midsized manufacturing enterprises in Slovakia. The researchers have stated that real competitive advantage is achieved when companies are able to satisfy customer needs more effectively than their competitors.

Johnson Mark, Christensen Clayton and Kagermann(2008). The authors state that a Business Model consists of four interlocking elements which are: Customer Value Proposition, Profit Formula, Key Resources and Key Processes.

Mathew Joseph (2008). Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers. The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum.

David Teece (2010).The author states that all businesses employ a particular business model to meet the customers' needs and in the process create value for its customers and entice customers to pay for the value and convert those payments to profit.

AlinaSorescu, Rudd Frambach, Jagdip Singh, ArvindRangsawamy, Cheryl Bridges(2011) The researchers have proposed six major ways: Operational Efficiency, Operational effectiveness, Customer Lock-in, Customer efficiency, customer effectiveness and Customer engagement through which retailers could innovate their business models to enhance value creation.

Thomas Eisenmann(2012) The author states that the business model should state how it can create value for its customers and also earn sustainable profits. This can be achieved when business activities can be grouped under the following four categories- (a) Customer Value Proposition (b) Technology and Operations Management (c) Go-to-market plan (d) Profit Formula.

3. NEED FOR THE STUDY:

Retail in India has been traditionally dominated by unorganised retailers who control around 92 percent of the total retail market. It is estimated that there are 12-15 million retail outlets which are operated by these unorganised retailers (KPMG 2014). Unorganised retailers are conveniently located in residential areas, function in convenient operating hours, offer credit facility, home delivery, wide variety of products etc. The entry of organised retailers has changed the retail scene in the country. Organised retailers are trying to attract customers to their stores by offering them a wide product assortment, good quality of branded and local products, better ambience and have created a new shopping experience for customers'. This has been a cause of concern and worry to unorganised retailers.

Retail reports and research scholars in their research articles have stated that there has been a steady increase in retail market share controlled by organised retailers. But there has been no study stating the business practices adopted by unorganised retailers before and after the entry of organised retailers. Further no studies have been conducted to study the innovated services adopted by unorganised which can lead to creating value for their customers'. Hence, the entry of organised retail is considered a threat to the survival and growth of unorganised retailers. To meet this competition from organised retailers, unorganised retailers have to adopt innovative business practices to attract and retain customers which will help them achieve increase their profit and grow their enterprise. The paper thus focuses on how unorganised retailers have created value for their customers through service innovation.

4. OBJECTIVES:

- To study the profile of unorganised retailers in Bangalore city.
- To study the business practices adopted by unorganised retailers before the entry of organised retailers.
- To evaluate service innovation, creating value to unorganised retailers' business.
- To offer suggestions on the basis of findings of the study.

5. OPERATIONAL DEFINITIONS:

Unorganised/Small retailer: It refers to food and grocery retailers who are operating their business in store size of less than 500 square feet.

Organised/Large retailer: It refers to trading activities undertaken by licensed retailers, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Service Innovation: It refers to introduction of new services and the changes adopted by the unorganised retailers in the existing services they offer to their customers.

Customer Value: It refers to the difference between value, the customer gains from owning and using a product and the cost of obtaining the product.

Competitive advantage: It refers to an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

6. METHODOLOGY:

For the purpose of the study data has been collected from primary and secondary sources. This paper is based on data collected by administering questionnaires to 50 small Food and Grocery unorganised retailers in Bangalore. Information from large organised retailers has been collected by adopting the interview schedule method. Random sampling method was used for data collection for the purpose of the study. Secondary data was collected from Retail Reports, Doctoral dissertations, Journals, Newspapers and websites. The collected data was analysed using suitable statistical tools. The Hypothesis framed for this study is:

1. H_O: There is no significant change in the customer services offered by unorganised retailers after the entry of the organised retailers.
H_A: There is a significant change in the customer services offered by unorganised retailers after the entry of the organised retailers.
2. H_O: There is no significant change in the adoption of technology by unorganised retailers after the entry of the organised retailers.
H_A: There is a significant change in the usage of technology by unorganised retailers after the entry of the organised retailers.
3. H_O: There is no significant change in the human resource practices adopted by unorganised retailers after the entry of the organised retailers.

H_A: There is a significant change in the human resource practices adopted by unorganised retailers after the entry of the organised retailers.

7. FINDINGS AND DISCUSSIONS

7.1 Profile and Business Status of Unorganised Retailers

7.1.1 Profile of unorganised retailers: Majority (92%) of unorganised retailers are males and only small percent (8%) are females. Majority (44%) of unorganised retailers are above 46 years of age. Majority (64%) of unorganised retailers have studied below 12th standard.

Business status of unorganised retailers is studied on the basis of –Store, Finance, Customer and Revenue details.

7.1.2 Store details of Unorganised Retailers:

56% of the small stores have been established between the years 1991-2000.48% of the small retail stores have been established by the retailer themselves.66% of the unorganised retailers own the store. 84% of unorganised retailers are located in residential areas.76% of unorganised retailers operate in a store size between 100-300 square feet, 76% of the unorganised retailers have registered the store.62% of unorganised retailers have employed less than 2 employees. All (100%) unorganised retailers offer staples, soaps and detergents, 90% unorganised retailers also offer packaged food, 85% offer vegetables to customers.

7.1.3 Financial details of Unorganised Retailers:

76% of unorganised retailers have invested capital less than 5lakhs.52% of the unorganised retailers have a bank account in the name of the store.66% of unorganised retailers have not taken a loan.47% of unorganised retailers have taken a loan from the bank.47% of unorganised retailers have taken a loan to start the business.60% of unorganised retailers have not insured their store.

7.1.4 Customer profile of Unorganised Retailers:

86% of unorganised retailers have stated that men and women equally visit their store.40% of unorganised retailers' have stated that majority of customers who visit their stores belong to the age group 30-40 years.78% of unorganised retailers offer credit to customers.64% of unorganised retailers offer credit to select customers.

7.1.5 Revenue details of Unorganised Retailers:

50% of unorganised retailers have reported their annual sales between Rs. 5,00,000 to 45,00,000 p. a.44% unorganised retailers earn profits between 10-15% p.a. The data for Return on Investment has been collected from the years 2007 to 2013.The findings for each year is as follows-during the years 2007-2010, 48% unorganised retailers earned between 5-10% p.a. During the years 2011- 2013, 48% unorganised retailers earned between 10-15% p.a.

7.2 Business Practices Adopted by Unorganised Retailers before the Entry of Organised Retailers.

The study revealed that, unorganised retailers adopted various business practices to operate their store. The purpose of adopting various business practices was to facilitate the retailer to establish, operate and grow his enterprise. The emphasis by performing these practices was to create value for their customers and at the same time for the enterprise to earn profit. Majority of the unorganised retailers are conveniently located and they have been operating during convenient operating hours and hence were easily accessible to customers'. Their product assortments included: staples, soaps and detergents, cosmetics, fruits and vegetables and packaged foods. They were offering services like : credit facility to regular customers, home delivery, cordial relations with customers and telephonic order delivery. All these business practices adopted by unorganised retailers have helped them to attract and retain customers. This has led to them to operate , generate revenue, earn profits and enhance their business status.

7.3 Evaluation of Service Innovation, Creating Value to Unorganised Retailers' Business.

The business practices adopted by unorganised retailers before and after the entry of organised retailers were studied to understand whether any changes were introduced by them. The percentage change has been calculated to understand extent of change implemented by the unorganised retailer. Convenient operating hours of the store, credit facility offered to customers', offering home delivery of goods, maintaining good relations with customers, accepting telephonic orders are some of the innovative services offered by unorganised retailers to customers. The business practices adopted by unorganised retailers have been studied under the following heads- Customer services, adoption of technology and human resource practices.

7.3.1 Customer Services:

The extent of change in customer services adopted by unorganised retailers on entry of organised retailers was calculated and it was observed that the percentage change was in the range between 2.25% to 35.75 %. The highest change has been observed for convenient operating hours of the store (35.75%) followed by credit facility offered to customers(28.99%), home delivery (26.58%), maintain good relations with customers(10.91%) accept vouchers/coupons (6.87%),accept telephonic orders (6.06%),attractive display of products (5.67%),offer local products (5.17%) reasonable prices (4.90%), offer variety of products (4.66%), replace damaged goods (3.94%), provide self service (3.57%),offer branded products (3.56%),convenient store layout (2.25%).

A significant improvement is clearly seen in services such as convenient operating hours of the store, credit facility offered and home delivery of goods to customers. Unorganised retailers believe that a better level of customer service is a distinctive competence in them. This acts as a competitive advantage for the unorganised retailers to meet the impact on their business due to the entry of organised retailers .The unorganised retailers by offering these innovative services are creating value for their customers. The usage of almost all the customer service business practices of respondents have grown after the entry of organised retail chains. The only parameter which has remained at its previous position is the location of the store (which cannot be changed easily). In related details, for all the parameters (except the above related to store

location), the change in these customer service business practices has been found to be significant at 5% level. This implies that the adoption of innovative customer services has been helpful to the small retailers in creating value for their customers

The t test values and the sig values show that the changes are significant (sig value <0,05), Thus the null hypothesis is rejected. Therefore, there is a significant change in the adoption of customer services used by unorganised retailers after the entry of the organised retailers.

Thus, we can conclude that the change in the customer service business practices has been found to be significant at 5% level, hence the Alternate Hypothesis is accepted and the Null Hypothesis is rejected.

7.3.2 Adoption of Technology:

The extent of change in technology adopted by unorganised retailers on entry of organised retailers was found in the range between 25.62% to 42.33 %. The highest change has been observed for accepting debit/credit cards (42.33%) followed by use of electronic weighing machines(41.62%), mechanised billing (35.75%), computerized recording of cash and credit sales on regular basis (33.74%) use of accounting software (26.58%), install inventory control software (25.62%).

The t test values and the sig values show that the changes are significant (sig value <0.05), Thus the null hypothesis is rejected. Therefore, there is a significant change in the adoption of technology used by unorganised retailers after the entry of the organised retailers.

The analysis related to change in use of technology after the entry of the large retailers, also follows the outcome of the changes in the customer services business practices. The usage of technology has grown after the entry of organised retailers. Stiff competition from organised retailers, changing demographics and shifting consumer patterns have forced unorganised retailers to alter the ways they have traditionally conducted their business. However the velocity of these changes is threatening the survival of these unorganised retailers in many instances. Thus, unorganised retailers have taken steps to improve their business practices which will lead to improved business performance which ultimately will help them to meet the competition from organised retailers. Unorganised retailers have realized the importance and necessity of adopting new techniques of business practices, such as the use of technology. Thus, with help of technology unorganised retailers have adopted innovative services through which they have been able to create value for their customers. This implies that the adoption of these innovative practices in the use of technology has been helpful to the small retailers in creating value for their customers.

Thus, from the analysis we can conclude that the change in the technology has been found to be significant at 5% level, hence the Alternate Hypothesis is accepted and the Null Hypothesis is rejected.

7.3.3 Human Resource Practices:

The extent of percentage change in various human resource practices adopted by unorganised retailers after the entry of organised retailers was found in the range between 11.71% to 23.75 %. The highest change has been observed for training provided by employees (23.75%) followed by qualified staff employed (18.88%), Allow employees in decision making (15.92%), fair salary

revision (12.75%), Assess performance of employees (12.21%), reward and discipline system for all employees (11.71%).

Most of the unorganised retailers businesses are family owned and managed business outlets. They generally have family members managing the important aspects of the business and employees generally act as helpers and just perform more menial jobs of either packaging, home delivery etc. Unorganised retailers have to develop distinctive competencies to have a competitive advantage over organised retailers. Thus, unorganised retailers have realized the importance of employing qualified, efficient and trained employees. Thus, to improve their business performance, unorganised retailers are taking effort to upgrade the skills of their employees as it has an impact on their business performance. Customers prefer those stores where store employees are courteous, efficient and knowledgeable.

An analysis of the same, highlights that the adoption of human resource practices has grown after the entry of organised retailers. Also, the quantum of change in human resource practices has been found to be significant at 5% level. This implies that the use of innovative human resource practices have been helpful to the small retailers in creating value for their customers.

Thus, we can conclude that the change in the human resource practices has been found to be significant at 5% level, hence we accept the Alternate Hypothesis and reject the Null Hypothesis

7.4. SUGGESTIONS

- Maintaining good customer relations, accepting telephonic order and larger area of home delivery, accepting debit/credit cards, maintaining good quality and wide variety of products, taking regular feedback from customers will help the retailers to attract, enhance satisfaction and retain existing customers.
- Use of softwares for: accounting, inventory control, bar coding could help unorganised retailers to improve efficiency in store operations and will ensure improved service quality to customers.
- To meet the competition from organised retailers should adopt new services such as accepting orders through mail or whats pp. They further can adopt promotional methods such as advertising on local cable , radio sponsor neighborhood activities such as conduction of some sports or celebrating festivals, offer free gifts discounts on purchase of particular bill amount.

Thus, the innovative services adopted by unorganised retailers will lead to value creation for customers. This will enable unorganised retailers to develop a competitive advantage over organised retailers.

8. CONCLUSION

Retail in India is dominated by the unorganised retailers who have more than 92% of the total market share. The entry of organised retailers has changed the retail landscape in the country. Organised retailers have a very small 8% of the total retail share in the country. The cause of concern is the robust percentage growth of these organised retailers. Organised retailers are trying to attract customers to their stores by offering them a wide product assortment, attractive

prices, ambience, better quality of products, discounts and offers and have created a new shopping experience for customers. To meet the competition from organised retailers, unorganised retailers have redesigned their business practices to attract and retain customers at their stores. Unorganised retailers have improved their customer services, usage of technology and the human resources employed at their stores which will help them to improve the operational efficiency at the store and improve customer satisfaction. By introducing innovative services unorganised retailers have been able to create value for their customers. This will facilitate the development of a competitive advantage over organised retailers.

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