



Impact of Organised Retail on Grocery Retail Suppliers

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ABSTRACT

The retail market in India is transforming due to flourishing of organised and online retailing. In the organized retail market in India the role of supply chain is very important for the Indian customer demands at affordable prices and a variety of product mix. It is the supply chain that ensures to the customer in all the various offerings that a company decide for its customers, be it cost, service, or the quickness in responding to ever changing tastes of the customer. Effective supply chain management has become a potential way nowadays to improve organisational performance through matching supply chain practices and competitive advantages in the competitive world. Organisations focus on better supply chain management practices to gain competitive advantage for better organisational performance. This paper focus on study the impact that manufacturers and suppliers of grocery retail that has due to growing organised retail market. The study was carried out in Indore market and 70 responses of manufacturers and suppliers were collected. Multivariate statistical techniques were used to analyze the data collected with the help of a structured questionnaire. Manufacturers and suppliers are getting benefitted and expanded their business as they have better coordination with organized retailer. Supply chain is a broader business function of retail and Manufacturers and suppliers are only covered in this paper.

Keywords: Retail; Supply chain; Manufacturers and suppliers; transform

1. INTRODUCTION

The face of Indian retailing has witnessed a rapid transformation over the last decade. Retail sector is going through a transformation and the emerging market is witnessing a significant change resulting in growth of organised retail. Indian retail segment comprises of organized and unorganized retail and online retail is also a present retailing scenario. Initially the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the customers, the industry is getting more prevalent and organized. India is a dispersed country. It would require a retailer an excellent support of effective logistics and infrastructure systems to reach the masses and cover the distances. It is key to gaining competitive advantage by any retailer operating across the country. The Indian food retailing comprises of small and independent sellers who are fragmented and survive on low levels of technology. The advent of modern retailing brings with it advanced procurement technology, inventory management expertise and diffusion of efficient consumer response. The growth of modern retail in India could bring about increase in the levels of investment in the logistics and supply chain dynamics which again could have a considerable impact on the total logistics cost incurred in the economy. There are studies that have discovered that supply chain efficacy would lead to 20-25 percent benefit for consumers and 24-48 percent benefit to farmers respectively (Raghunath et al., 2005) The integration of local producers

With modern retailer's procurement practices is likely to benefit the economy as well as help them to leverage relationships with local suppliers. However, studies conducted across 10 developing countries indicate that the cost reductions only happens over a longer period of time when the modern retailer eventually strikes efficiency with centralized processing, new innovative techniques and latest technology introductions (Reardon and Timmer, 2007; Minot and Roy, 2007).

Retailers put their best efforts to influence and improve the consumer decision making by providing them comparable quality products at low prices. Private labels are becoming a part of every retailer's products mix for increasing the footfalls. Although the private label market has not matured in India, it is growing rapidly given the early stage of modern retailing. These products for were most prominent across supermarkets and hypermarkets, accounting for between 15% and 30% of total value sales of these two sectors respectively. Non-grocery retailers, especially clothing, electronics and appliances, also offer private label portfolios to increase the variety.

There is a lot of concerns about growing organised retail in the India. How will it affect the farmers, 'kirana' store owners, traders, consumers and the economy? This sector is gradually evolving- on the one side organized retail is entering into life of urban consumers, on the other hand our own neighborhood 'kirana stores' are opposing strongly. A shift between organized and unorganized retail sector is apparent, which has led to a number of theories in Indian retail sector.

The most important level headed discussion is related to the implications for the development of the organised retailing in India revolves around whether it is going to have positive effects on the economy overall relation with the traditional unorganized form of retailing . On one side it has general positive effects as far as producing more number of employments, increased number of jobs and enhancing the way of retail employment (higher compensation, more employment advantages, security of employment, employability and so forth). This form of retail is additionally looked upon as a huge sector having immense

business opportunities for new entrepreneur and capital investors. In addition, organised retailing is seen as productive and well-suited to provide the enhanced and changing nature of the consumer demands in developing economies like India. The general advantages of organised retail additionally is seen as improved supply chain, improvement in productivity of farmers and it is additionally expected that it will help uplifted economic activity.

This paper focus on suppliers of grocery retail about how they are influenced by the growing organised retail. Attempt was made to know their perception about organised retail because lot of discussion was made how they will be impacted by growing organised retailer. These retailers claims that they will improve the efficiency of the supply chain and benefit the stake holders and customers.

2. REVIEW OF LITERATURE

There is a huge research gap in the given area of research and relevant literature was not present so review of literature was done to study the relationship of supermarket and suppliers to solve the purpose of the study.

In recent literature there has been a greater acknowledgement of the influence of power in buyer-supplier network relationships. It is also widely accepted that power is usually asymmetric (Blois, 1997, Hingley, 2005), however, Hingley argues that this is not necessarily a negative thing in the context of such relationships. Legitimacy and prestige often dictate such relationships, usually helping balance out this imbalance of power (Blois, 1997). There is also the issue of the exercising of power, and what influences whether or not a firm utilizes power that it may possess. Firms with a high relationship marketing orientation, who are focused on maintaining the best interests of both parties, are similarly only likely use power for mutual benefit (Zhuang & Zhuang, 2011). This is likely to be non-coercive, for example using reward or informational power in a positive way (Zhuang & Zhuang, 2011). However, firms with less of a relational focus are more likely to exercise the full extent of their power, and this is likely to be in the coercive form, utilizing bullying tactics and creating significant potential for conflict (Zhuang & Zhuang, 2011).

Buyer-supplier relationships exist in many forms, with differing levels of commitment and cooperation. Supermarket-supplier relationships are highly influenced by the fact that there tend to be a few dominant supermarkets, acting as the 'gate-keeper' between producer and consumer (Lang, 2003). Supermarkets have interactions with a vast range of suppliers, most of whom rely on this business in to remain viable. In line with the IMP interaction approach supermarkets have been injecting significant resources into supporting and maintaining long-term supplier relationships with the underlying aim of achieving maximum efficiency (Merrett & Smith 2013). A category management approach has also been utilized, with the supermarkets maintaining closer ties with fewer partners, creating a simpler supply chain and greater economies of scale (Hingley, 2005, Jarvis & Woolven, 1999).

This 'dependence', which forms part of many definitions of trust, is very important in maintaining consistently productive relationships. However, it is important to ensure that this dependence does not lead to opportunistic behavior by the more dominant party in the relationship (Krishnan, Martin & Noorderhaven, 2006). An issue with the study of trust in buyer-supplier relationships is the measurement of trust, as it is largely based on perception (Anderson & Narus, 1990, Nielson, 1998). Even within a particular relationship, there may be

different perceptions of trust between the various actors. This relates to the issue of emotion, which is an issue that is often ignored despite the fact that it often plays a significant role, not only at the individual level (Andersen & Kumar, 2006). At a basic level, emotion in networks can vary in frequency in intensity and is relative to the actors' ability to achieve certain goals. Emotions can also have a significant influence on decision-making and negotiation strategies (Carnevale & Isen, 1986, Greenhalgh & Chapman, 1988).

Dependence plays a significant role with regards to power in buyer supplier relationships. Dependence can be viewed in the context of resources, with the firm that controls critical resources having significant power over the other party who are dependent on these resources (Sutton-Brady, 2001, Pfeffer, 1978). More simply, Emerson (1962), describes power and dependence as being inherently intertwined; "*power resides implicitly in the other's dependency*". This dependence is influenced by two variables- the motivational investment of one party's goals influenced by the other party, and the availability of those goals outside this relationship.

Commitment is another important dynamic in buyer supplier relationships, because at least some level of commitment is necessary for all such relationships to exist. Commitment can come in various forms; from an actor, from investment in time or money, to a willingness to achieve various mutual goals as part of the relationship (Sutton-Brady, 2008). Morgan & Hunt (1994) describe commitment in the context of relationships as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts in maintaining it". As such, there is a desire to maintain a relationship in the long term, and for it to be as productive and effective as possible (Olsen, 2011, Moorman, Zaltman & Deshpande, 1992). Trust and commitment are highly interrelated concepts, and if together managed effectively, are viewed as extremely beneficial as they are focused far more on a co-operative two way exchange, as opposed to power which is focused on manipulating and "conditioning" of others (Thorelli, 1986, Morgan & Hunt, 1994).

The necessary condition for supply chain collaboration is that the supply chain partners are able to expand the total gain due to synergy (Simatupang and Sridharan, 2005). The supply chain partners will gain financial benefits by increasing responsiveness, especially for innovative products (Fisher, 1997). The literature also supports the ability of partnerships to achieve cost savings and reduce duplication of efforts by the firms involved (Lambert et al., 2004). In particular, cooperation among competitors can foster greater knowledge seeking and result in synergetic rents (Lado et al., 1997). In the short term, firms will see operational improvements (e.g., productivity) as the primary benefits. In the long run, firms expect the supply chain collaboration to pay off through more competitive products and quicker product development that will transform into possible competitive advantage and increased profits (Stuart and McCutcheon, 1996). Many scholars contend that both customer and supplier firms seek collaborative relationships with each other as a way of improving performance (Duffy and Fearn, 2004; Sheu et al., 2006). Supplier firms can obtain high sales and earn great returns from resources invested in maintaining long-term relationships with their customers (Kalwani and Narayandas, 1995). Stanket al. (2001) suggest that both internal and external collaboration are necessary to ensure performance. Partnerships can improve profitability, reduce purchasing costs, and increase technical cooperation (Ailawadi et al., 1999; Han et al., 1993). Lee and Whang (2001) report that a study conducted jointly by Stanford University and Accenture on 100 manufacturers and 100 retailers in the food and consumer products industry reveals that companies that reported higher than average profits were the ones who

were engaged in higher levels of information sharing. In general, researchers suggest that the higher the level of interdependence (i.e., higher level of collaboration) in a relationship the better firm performance (Duffy and Fearn, 2004; Mohr and Spekman, 1994). Supply chain collaboration can deliver benefits to all partners, for example, reducing risk and cost and increasing productivity and profit. However, collaborating with partners can also cause increased costs of coordination, compromise, and inflexibility (Das et al., 2006). The effect of SCC on collaborative advantage and firm performance is a multi-faceted and intricate issue, which might require a contingency perspective (Sousa and Voss, 2008). Potentially, there are many other factors that might impact firm performance including environmental or contextual variables such as firm size (Frohlich and Westbrook, 2001; Hendricks and Singhal, 2005; Krause et al., 2007; Deveraj et al., 2007; Danese, 2007; Smáros, 2007; Johnson et al., 2007; Ramaswami et al., 2009; Yeung, 2008; Heim and Peng, 2008). Firm size can be represented as the number of employees, e.g., small – less than 250, medium – between 250 and 500, and large – greater than 500 (Deveraj et al., 2007). Firms with different sizes might have different supply chain collaborative efforts, achieve different levels of collaborative advantage and benefits, and thus attain different levels of firm performance.

3. OBJECTIVES

1. To study the perception of grocery retail suppliers about the impact on profitability due to increase in the number of organized retailers.
2. To study the perception of grocery retail suppliers about the impact on employment due to increase in the number of organized retailers.
3. To study the perception of suppliers about the mutual competition with organized retailers.

4. HYPOTHESIS

- I. H₁: Perceived benefit of organized retailer is negatively related to Perceived decline in margins of the grocery retail suppliers
- II. H₂: Perceived benefit of organized retailer is negatively related to Perceived fear of employment by grocery retail suppliers.
- III. H₃: Perceived benefit of organized retailer is positively related to perceived improvement in operational efficiency of grocery retail suppliers.

5. RESEARCH METHODOLOGY

The cross-sectional descriptive research design is used for conducting this research work because this design enables the researcher to study the problem at given point of time of the population of interest. To identify the problem, to develop and approach to the problem & to formulate an appropriate research design, primary & secondary data has been used.

The study is a combination of exploratory and descriptive research. The proposed research study is based on primary and secondary data both. The main sources for procuring

secondary data is published literature including books; journals, annual reports etc. and they will be referred from libraries of some universities and research institutes. Questionnaire was designed to collect data from various segment like local retailers, consumers, farmers and manufacturers and suppliers of Indore market region to find out the impact of organised retail on them. The study was carried out in Indore and its nearby area of Madhya Pradesh. Data was collected from grocery wholesale suppliers in Indore and surrounding areas. The sample size of 70 respondents were grocery wholesale suppliers in Indore and surrounding areas were used for the purpose of the study. Along with the structured questionnaire personal interview was also conducted for the purpose to gain insight through qualitative analysis. Convenient sampling technique was used to collect the data. For testing hypothesis parametric test and regression analysis have been used in this research. Data was analyzed with the help of SPSS v 20 (Statistical Package for Social Sciences). Statistical tools like reliability, multi- co linearity, normality and linear regression analysis have been applied to the data to test the hypotheses.

6. GROCERY RETAIL SUPPLIERS

Organised retailers claim that their operation will improve supply chain efficiency of the country. They will better coordinate supply chain activities like transportation, warehousing etc. They will bypass the lengthy channel and reduce the cost of the business and transfer the benefit to customers. Organised retailers will also boost the trade and result in large orders for the Suppliers.

H_{01} : Perceived benefit of organized retailer is negatively related to Perceived decline in margins of the manufacturer and suppliers.

The above hypothesis is based on the perception that organised retailers do not result in decline in margins of the manufacturer and suppliers, intact these will increase their profit by bulk orders.

Table 1. Sub variable for perceived decline in margins of the suppliers.

S.N.	Major Variable	Sub Variables
H₀₁	Perceived decline in margins of the suppliers.	Decline in profit
		Price and credit term pressure

H_{02} : Perceived benefit of organized retailer is negatively related to Perceived fear of employment.

The above hypothesis is based on the perception that organised retailers do not fear for employment by growing organised retail but they are also strengthening their business by getting large deal in business with them.

Table 2. Variables for perceived fear of employment of the suppliers by organised retailers.

S.N	Major Variable	Sub Variables
H ₀₂	Perceived fear of employment	Retail presence due to fear of employment

H₀₃: Perceived benefit of organized retailer is positively related to perceived improvement in operational efficiency.

The above hypothesis is based on the perception that the manufacturer and suppliers believe that there is improvement in operational efficiency as a result of better technological coordination like inventory management, utilization of facilities etc.

Table 3. Sub variable for perceived improvement in operational efficiency of suppliers by organised retailers.

S.N	Major Variable	Sub Variables
H ₀₃	Perceived improvement in operational efficiency.	Economies of scale
		Effective integration of functions
		better coordination in supply chain

Table 4. Reliability statistics of suppliers by organised retailers.

S. No	Construct	No of items	Reliability (Cronbach's alpha)
1	Perceived decline in margins	02	.566
2	perceived improvement in operational efficiency	03	.722

Table 5. Mean, Std. Deviation and Variance of major variables for variables of perceived improvement in operational efficiency suppliers by organised retailers.

	Mean Statistic	Std. Deviation Statistic	Variance Statistic
PBN	2.90	1.987	3.946
PM	4.2643	1.63237	2.665
EP	4.9286	1.89064	3.575
OE	2.7524	1.43533	2.060
Valid N (listwise)			

Table 6. Descriptive statistics of major variables for variables of perceived improvement in operational efficiency of suppliers by organised retailers.

	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
PBN	70	2.9	1.987	3.946	0.93	0.287	-0.374	.566
PM 1	70	4.76	1.907	3.636	-0.506	0.287	-0.957	.566
PM 2	70	3.77	2.001	4.005	0.257	0.287	-1.211	.566
EP 1	70	4.93	1.891	3.575	-0.649	0.287	-0.79	.566
OE 1	70	2.86	1.852	3.429	0.709	0.287	-0.766	.566
O E 2	70	2.64	1.694	2.871	1.007	0.287	0.149	.566
O E 3	70	2.76	1.821	3.317	0.832	0.287	-0.498	.566
Valid N (listwise)	70							

Table 7. Coefficients of hypothesis related to impact of organised retailers on and suppliers.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.72	0.802		3.392	0.001
MD	-0.409	0.125	-0.336	-3.273	0.002
OE	0.658	0.135	0.475	4.858	0
EP 1	0.023	0.107	0.022	0.216	0.83
a. Dependent Variable: PBN					

Table 8. Result of hypothesis related to impact of organised retailers on suppliers.

Hypothesis	Sig.	Result
H ₀₁ : Perceived benefit of organized retailer is negatively related to Perceived decline in margins of the suppliers	.002	Accepted
H ₀₂ : Perceived benefit of organized retailer is negatively related to Perceived fear of employment.	.000	Accepted
H ₀₃ : Perceived benefit of organized retailer is positively related to perceived improvement in operational efficiency.	.830	Declined

7. FINDINGS

Perceived benefit of the suppliers was taken as dependent variable and Perceived decline in margins of the suppliers, Perceived fear of employment and to perceived improvement in operational efficiency were taken as independent variable. Perceived benefit of organized retailer is negatively related to Perceived decline in margins of the suppliers and Perceived benefit of organized retailer is negatively related to Perceived fear of employment were proved in the analysis and Perceived benefit of organized retailer is positively related to perceived improvement in operational efficiency was not accepted by the significant value.

8. CONCLUSION

Grocery retail suppliers were studied for the research since grocery segment was the focus of the research. They were directly found to get benefitted by the growing organised retail. Suppliers are getting benefit by getting bulk orders, leading to economy of scale and resulting in higher profits by organized retailers. Suppliers are not found to have any negative impact of organised retail on employment. Their business is benefitted and earning more profit with the growing organised retail. Suppliers are getting benefit from growing organised retail because overall market is growing as a result their operations are expanding and business is growing resulting in increased efficiency and better functioning. The result reveal that Suppliers operational efficiency did not improve as they may not get the expected in effective integration in different functional areas with organized retailers.

Limitations

1. The feedback provided by the Suppliers may be biased.
2. The feedback provided may be governed by other factors like perception and not on the real grounds.
3. It was difficult to get the appointments from large suppliers.
4. Many corporate offices of the companies were not present in the Madhya Pradesh.
5. During the course of personal interview the subjective nature of interviewers might also have influence upon the response-received for the present study.

Scope of the Research

As this study was restricted to Indore and surrounding areas in Madhya Pradesh State, India further research needs to be done in other Parts of the country. This Study focus on grocery segment, further study on various other segment of Retail can also be done to draw conclusive inferences.

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