

# Digital Technology and Retail Format Innovations

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## Abstract

Digital Technology has proved to be the biggest disruptor for traditional retailers in the recent times. It has spread its wings in all segments of consumer purchasing. It has changed the way consumers interact with retailers. Today people are relying on the internet for most of their shopping needs. Rich assortment of products and convenience of payment, returning and exchanging goods have brought digital retail in the forefront of retail space. This has pitched retailers and e-markets in direct competition with traditional retailers which still follow formats like supermarkets, hypermarkets and departmental stores. Under changed circumstances, it has become imperative for traditional retailers to devise strategies to survive and bounce back. Today consumers expect their retailers to provide them avenues to shop via online store or in the physical store through mobile phones, tablets, PCs, and so on. They also expect to make payments using digital wallets, m-Commerce, cash on delivery, online buy in store. It is no longer just important to be present across channels and expect the consumer to walk-in. Store location has somewhat lost its importance. Now it is also important to have a customer-focussed organization, supported by swift flows of supply chain and personalized delivery options. It is also important to be constantly in touch with the consumers which can be done with the help of call centres, kiosks, text messaging, social media and mobile applications. To stay in competition, traditional retailers have started working on their digital strategy for promotional purposes under which Departmental Stores and FMCG companies have set up their online stores in addition to their existing distribution set up. The proposed study is exploratory in nature. Literature of Indian and International sources shall be reviewed extensively in order to cull out strategies devised and adopted by the counterparts of traditional retailers in other parts of the world that has already witnessed the evolution of disruptive technologies over past years. The findings of this study shall offer Indian retailers and managers to formulate effective retail strategies in order to optimize their future business.

**Keywords:** Traditional Retailers, e-Tailers, e-Markets, Online-Stores, Retail Formats

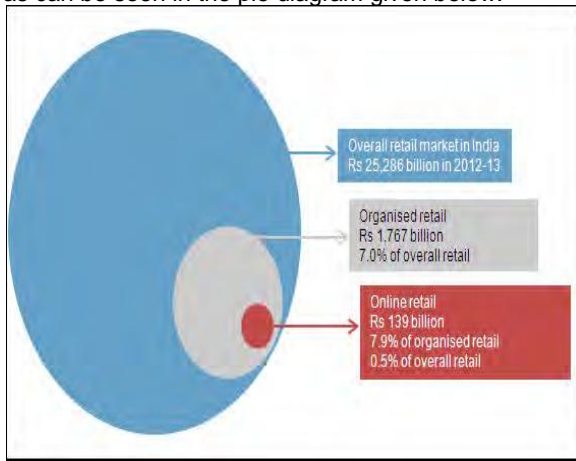
## Introduction

Retail industry can be broadly classified into two categories namely- organised and unorganised retail. Organised retailers, are licensed for trading activities and registered to pay taxes to the government. They comprise of conglomerates and big business houses, for them retail is a one unit among many strategic business units. Unorganized retailers consists of unauthorized small shops - conventional Kirana shops, general stores, corner shops, street vendor among various other small retail outlets. We can further classify organized retailers as traditional retailers that operates within the formats like hyper market, super market and departmental stores. Another category of organized retailers is online megastores like Flipkart, Snapdeal and Amazon which operate digitally and rely on their robust logistics network.

The Indian Retail sector has gone through major transformation over the last decade with a noticeable shift towards organised retailing. The government policy has been changing with time and with growing participation of India in WTO has resulted in emergence of organized retail formats in an exponential manner. The retail market is expected to reach a whopping Rs. 47 lakh crore by 2016-17 (Assocham 2012). The retail market, (including organised and unorganised retail), was at Rs. 23 lakh crore in 2011-12. Accordingly organised retail, that comprised just seven per cent of the overall retail market in 2011-12, is expected to grow at a CAGR of 24 per cent and attain 10.2 per cent share of the total retail

sector by 2016-17. The given data reveals the huge potential of organized retail in coming years.

As per CRISIL research (2014) "India's online retail industry has grown at a swift pace in the last 5 years from around Rs 15 billion revenues in 2007-08 to Rs 139 billion in 2012-13, translating into a compounded annual growth rate (CAGR) of over 56 per cent. Further it expects trend to sustain in the medium term, and estimates the market will grow at a healthy 50-55 per cent CAGR to Rs 504 billion by 2015-16. In terms of size, India's online retail industry is very small compared with both organised and overall (organised + unorganised) retail in the country as can be seen in the pie diagram given below.



**Source : CRISIL Research**  
**Evolution of E Commerce in India**

Internet was introduced in India in 1995, which can be considered as the beginning of the e-Commerce in the country. Initially it was looked upon as a source of information and less of commercial opportunity. The commercial activity which took place through the internet were job searching and matrimonial service which in itself did not involve any exchange of money. The economic liberalization after the launch of reforms in 1991 attracted many MNCs to India. These MNCs and IT enabled services became the agents of internet revolution in India. With younger generation using plastic money and internet as a medium of recreation apart from gaining knowledge. The first inning of e-Commerce in India was characterized by low internet penetration, a small online shopping user base, slow internet speed, low consumer acceptance of online shopping and inadequate logistics infrastructure. The IT downturn in 2000 led to the collapse of many e-Commerce businesses in India. After which, there was a low level activity in the IT space in India between the period of 2000 and 2005. The Indian aviation sector with the foray in low cost carriers in 2005 marked the beginning of the second innings of e-Commerce in India. Travel emerged as the largest segment. People began relying on internet to search for travel-related information and to book tickets. This triggered the commercial use of internet like online payments for air tickets and use of plastic money. The success of the online travel segment made consumers comfortable with shopping through the medium, thus leading to the development of present day online retail. This

progress was substantially supported by the financial infrastructure of India, where banks were aggressively promoting online banking and usage of credit cards. It served dual purpose for the bank besides increasing the revenue it also helped it controlling cost as most of the transactions were done on the lines of self service i.e. by the customer himself.

#### **Government Policy on Online Retailing**

According to the current policy, FDI is not allowed in domestic e-commerce companies conducting B2C (business-to-consumer) transactions, while 100 per cent foreign investment is permitted in B2B (business-to-business). The government policy on online retailing came to light during the Diwali season of 2014, when three top online retailers in India Flipkart, Snapdeal and Amazon announced festive discounts which were as high as 90% on some items. The questions were raised on the pricing policy as some of the products were sold at a price lesser than its cost price. Commerce and Industry Minister has taken a note of this situation. There has been demand coming from all the ends for a strict and firm regulations for online retailers as there seems to be a lot of chaos in the market due to heavy discounting. A report published in Times of India stated that the Confederation of All India Traders has also sought a probe into the business model and trade practices of e-commerce companies to find out how they are offering huge discounts during the ongoing festive season. There are allegations that the companies have violated the foreign direct investment (FDI) norms for the e-commerce sector.

#### **Review of Literature**

McKinsey (2008) in its report on retail has predicted that India is a young country and its citizens are becoming more comfortable with mobile transactions and online browsing. This gives a great opportunity for retail to boom as it has in Brazil and China. Goswami and Mathur (2011) have identified the following as drivers of online retail in India : increase in number of buyers and sellers, change in customers attitude, 24X7 availability of accessibility and better deals. Further they elaborate the two popular models that exist in the eTailing marketplace which are Online Retailers and Online Auctions. The Website of an Online Retailer is used as a storefront to sell physical goods that are then delivered by a third party. The Online Auctions, on the other hand, serves as a platform where a seller can offer to sell its products to interested buyers and provides the enabling infrastructure for electronic transactions. Aldrich (2011) has observed the increasing trend in UK online home shopping market. In 2008 it was worth more than £50 billion, £2.6 to £3.9 billion of which was from grocery shopping. This development was founded on advances made in the 1990s such as ubiquitous access to the World Wide Web, reasonably secure use of credits cards across the Internet, and so on. Goswami and Khan (2012) in their study have highlighted that there has been a significant change in the attitude of an average Internet user. An average user is buying a variety of products online These may vary from low-end items like books to high-end items like laptops, from low involvement items like flowers to high involvement items like jewellery.

Srikanth and Dhanpal (2012) in their study have identified the government measures taken to build the confidence among common public to increase online business. The CCA (Controller of Certifying Authority) has created PKI (Public Key Infrastructure) i.e. for electronic authentication via digital signatures. This will avoid cyber space crimes and don't let anybody unpunished. To increase the use of internet, our government has taken various steps to reduce cost and offer attractive plans for corporate and end users with high speed communication services getting increased day by day based on the demand. Das and Behura (2012) state online retail in India to be on fire. In their words 'Just switch on the television in the evenings and you will see signs of this trend waves of advertisements during prime time slots from companies like Snapdeal and Flipkart blanketing the airwaves.' Forrester (2012) in association with ASSOCHAM has found that ecommerce market in India smaller than in other markets in Asia, but it is growing the fastest. Retailers have a sizeable opportunity as the online population starts to spend more and buy more frequently online.

CRISIL research (2014) states, to stay in the game, traditional retailers have to work on their internet strategy, as what is been witnessed in India today has happened in the US about a decade-and-a-half back.

#### **Aim of the Study**

The specific objective of this paper is to identify and understand the challenges faced by the traditional retailers with the emergence of e-marketplace and to examine the strategies designed by traditional retailers to compete in the changing scenario.

#### **Research Methodology**

This paper is the outcome of a theoretical study on retailing in India with special reference emerging trends in organized retail sector. To complete this, various books, journals and periodicals have been consulted, reports of various organizations like A.T. Kearney, Ernst & Young, Indian Brand Equity Foundation, Price Waterhouse Coopers have been considered. Internet searching has also been done for the purpose.

#### **Findings and Recommendations**

On the basis of literature review analysis variables have been identified which are important from the perspective of the traditional retailers to compete with the e-tailers. The variables are 'imitation', 'hybrid formats', 'integrated marketing communication', 'immediate benefits'.

Future Group has launched Big Bazaar Direct, a direct selling platform for which it will use a tablet based e-commerce backend. It is a hybrid set up which will work on franchisee model with a major focus on Tier-II cities. Under this format the customer can get the feel and touch of the product at the concerned franchisee's premises and from there he can order the product online. The product will be delivered to the customers place in a weeks time. Big Bazaar Direct will have a strong focus on Tier II/III cities where internet penetration and credit-card penetration is much lower and therefore a direct door-to-door selling by a brand could be hugely successful.

Similarly Reliance Digital have announced the launch of their new concept stores in India called Digital Xpress. These new stores will essentially create awareness of new technologies and will help users make the most of their purchased devices.

The Xpress stores will house lifestyle products like smartphones, ultrabooks, speakers and smart TVs among others. But instead of just selling these products, the stores will also offer buyers an opportunity to learn to do extra stuff like setting up IP cameras at one's house to help monitor using a mobile device, or set up wireless backup solution and then access data using a mobile app. In order to survive the competition the traditional retailers will have to control cost and offer deals which can deliver value for the customers money. Strategies like Every Day Low Pricing and Price Leader will only help to get the price sensitive customers. In order to tap the niche customers the traditional retailers will have to adopt the best practices followed by their competitors, in this case the e-tailers. The retailers will also have to penetrate in tier II and tier III cities where the internet density is less. Despite of this retailing in India will have a tremendous future, if retail players concentrate on Indian rural segment, having vast and untapped potential. For this, the strategy should be different from that of urban to turn challenge as an opportunity.

#### **Conclusion**

From the perspective of competition between the online retail segment and the traditional retailers, standalone online retailers and marketplaces are the major threat. Segments such as online ticketing and online deals do not compete directly with traditional brick and-mortar retailers. Recognising the danger, many physical retailers have started to establish or beef up their online presence. At the end the traditional retailers who have strength of physical reach and multilocation presence, will be able to build successful and, more importantly, complementary, business models – just as it happened in the United States 15 years ago.

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