



Challenges Faced & Strategies Adopted by Physical Retail Stores to Counter the Online Competition in India

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Abstract:

Purpose: To gain insight into the different competitive strategies of retailers which are active in the electronic product market and to explain the drivers which may underlie them.

Research Methodology: The data collected from the top five leading retailing physical stores in Delhi, for the period 2016-2018, was analyzed using factor analysis. The sample for the study was covering major physical retail stores that have 3000 to 5000 sq fit areas. Stores manager or floor in charge was the respondents of the study. A structured questionnaire was using for collecting responses from the respondents. The result of the study was analyzed by using EFA and CFA to identify the competitive strategies.

Findings: The study has revealed that the Indian consumers are price sensitive they always compare the price of products before actually buying them. In this case online products are very less price and physical retailer offer products comparative to little high price. This is the basic reason in Indian market online shopping to become more popular. Now physical retailers need to reframe their competitive strategies to encounter online competition and gain consumer faith at given price.

Limitation/ Future Research: The study is limited to organized physical retail stores, with a sample size of 150 stores of top 5 leading organized physical retail stores. There is huge scope for future research on competitive strategies in other retailing firms.

Research Implications: This paper broadens the scope of previous research work and marketing practices to the Indian retailing sector to encounter online competition.

Originality/Value: The study extends the literature by examining the competitive strategies of organised physical retail stores in India.

Keywords: online shopping, competitive strategy, physical retail

1. INTRODUCTION

Retailing in India is one of the most important part of economic activity in the growth of the economy. The total

value of retail sector is US \$600 out of top five-retail market in the world. As of 2003 Indian retail sector has emerged as one of the most dynamic and growing industries due to the entry of new leading firms. According to ASSOCHAM total consumption expenditure is expected to increase by US\$ 3, 600 billion in 2020 that was US\$ 1, 824 billion in 2017. It shows 10 percent increase in GDP and 8 percent of the employment. India is world's fifth largest economy for retail space.

This growth rate is possible by many factors such as rising income, changing lifestyle of middle class and increasing digital connectivity. According a report published by Deloitte the overall market is expected to growth at 12 percent per annum, modern trade would expand twice as fast at 201 percent annum and tradition trade at 10 percent. In the financial year 2017, organised retail sector contributed 7 percent of the total sector. Online retail is expected to be high growth with physical stores in the next five year and has grown 23 percent to \$ 17.8 billion in 2017.

The Indian retail trading has also promoted by Foreign Direct Investment equity inflows. The rate of FDI is US\$ 1.42 billion during April 2000-June 2018, according to the Department of Industrial Policies and Promotion. With the rising need of Indian consumer for electronic products and home appliances, many retail firms have invested in the Indian retail space in the past few years. Supporting government policies of India has also taking various initiatives to promoting and improving the retail industry in India. Some of them are: FDI rules in food processing to permit e-commerce companies and foreign retailers to sell made in India consumer products, 100 percent FDI in online retail of goods and services through automatic route.

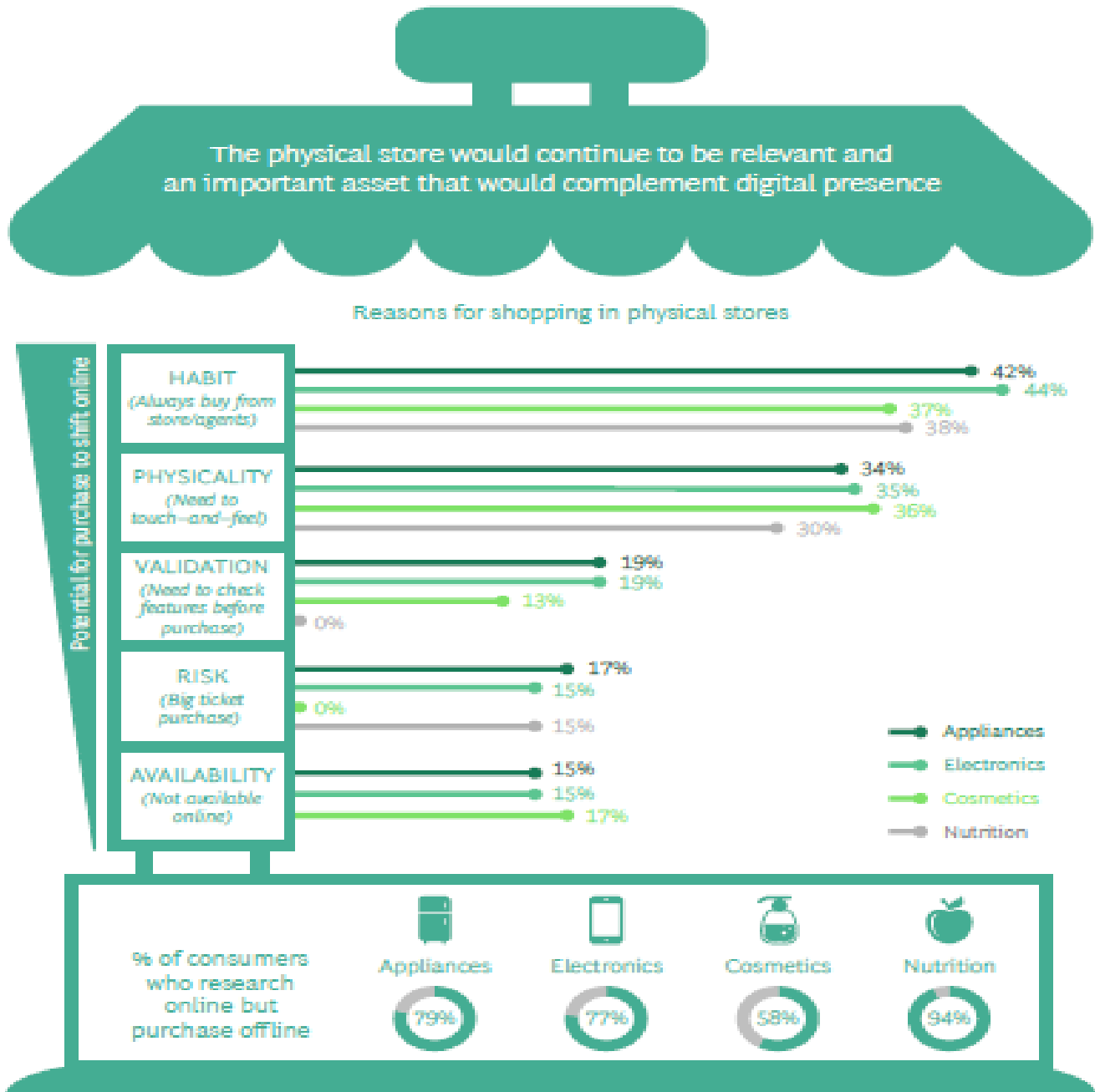
E-commerce is expanding gradually in the economy. Consumer have the ever increasing the choice of products at lowest prices. E-commerce creating biggest revolution the field of retailing, and growth rate of e-commerce in India is

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forecasted to reach US\$ 53billion by 2018 (Deloitte report 2017-2018).

Chu s., et al. (2016) explained that online and offline both channel use by the consumer. Some time online is used for searching information and order products than pick it form physical stores.



Source: Survey by BCG (Retail Association of India)

Some researcher try to find out the reason behind the shifting behavior of consumer. One of the basic reason is heavy price discount on online products but security issues are creating negative impact on consumerbehavior of online shopping.

Physical stores are still in demand due to their touch and feel policy McCabe, D. B. (2001). Modernization of retail stores increasing consumerism and consumer spending level. Trends of hyper mall are most common in big cities and the leading

players are Reliance digital, Future group, Birla group, Bharati retail having aggressive plan for retail format. The basic challenges face by the physical stores retailing is Indian consumer they are culture centric people, word of mouth impact, low income, price sensitive. Stores retailers need to plan their strategy according to Indian class level because common value in entire India is very few H. S. Cheema (2010).

It has been observed that researcher working in the field of online and offline retailing, working on O2O model but less research found on competitive strategies of physical stores retailing against online shopping. The need for research in this field arises, especially in India because organized physical retailing in India is very small but tremendous and it has not been explored sufficiently.

2. REVIEW OF LITERATURE

A noteworthy aspect that can be observed in the shortage of scholarly research in competitive strategy of organized physical stores retailing (OPSR) in India. despite having extensive literature in western countries and a few from developing countries. Some relevant literature pertaining to the phenomenon of competitive strategy based on porters five forced model and some are working on single competitive pricing such as pricing strategy, promotional strategy, differentiation strategy, channel management strategy and omnichannel strategy.

Porter five force model used by many researcher in different fields, Santos, A. T., & Gamboa, J. (2012) also using porter model in a case study, the basic purpose of this study to better understanding the local business community and the challenges faced by small family business. the focus of the study to examining the daily competition creating by big wholesale retailer and their impact on small own family business. recently retailing industry adopting more than two competitive strategy for effective organizational performance and excellence. Baroto, Abdullah & wan (2012) working on Hybrid strategy (cost leadership and differentiation) it has been implemented by the firm at international level. cost leadership offer best value in the market place, differentiation introducing new service, benefit with addition services in the market place. Marija, Panic & Matric (2011) noted that positioning strategy is most important to gaining competitive advantages at the market place. Retailers has been need to understand consumer behaviour and satisfied them more efficiently than competitor. Pricing strategy is also important to beating their competitor. Fratto et al. (2006) examining the price competition within price tiers in the retail industry with different retail format and brand. Price tiering is a channel of market positioning and it is successfully working with retail format and brand. Baroto and Abdullah (2011) working on three basic competitive strategy as on cost leadership, differentiation and hybrid has been

applied for broad range of products and service. Mega store retailing is a differentiation strategy, which focus on advance distribution channel and supply chain management. Hajmohamad & BehZad (2016) suggested a model of supply chain management in their case study. This study was based of jit model of retailing through mega store distribution channel, basically the whole concept was divide into two part i.e. independent on suppliers and dependent on suppliers. The distribution industry that was independent on suppliers using their own private channel of distribution and the dependent on supplier business model moving towards demand driven supply chain.

Different marketing strategies analysis by Aertsens et al. (2009) in a organic food market to find out the growth of market. the whole organic market divide into three parts according to product categories that was R1, R2, and R3. It was observed that R1 makes the real effort in selling organic products using different element and marketing mix, R2 makes no special effort to sale their products and the organic sale was declined last two years, R3 was focused on green line product strategy and its policy promoting environment friendly production and distribution. Kilinc, Oncu & Tasgit (2012) examined competitive strategies in airline industry and to find out the factors that was affected while forming these strategies. Competitive strategy formulated to focus on cost leadership, customer satisfaction, services quality, employee innovation and technologic change.

Store brand was continuously facing competition with changing retail format. The first aspect of competition of store brand was new balancing of vertical relation, second aspect of competition was evolution of private label policies, and the third aspect was possibility of collaborative relation. Survival of any firm requires continuous search for new and restructuring of the existing competitive environment. Butigan and Banic (2016) explore the determinants of capital integration among strategic alliances member firms in the retail sector. According to a report about retail intelligence (2014) in India Tier I and Tier II cities of Mumbai, NCR Delhi, Chennai, Kolkata, Bangalore, Pune, Hyderabad are the leading cities for retail as well as real state operation. A study done by Schrantz (2013) based on location strategy of retail competition and examined the impact of location on growth of retail shop. Procurement strategy is also important to beating the competition, Khan and Khan (2011) examined the procurement strategy of in the context of the competitive strategy. It shall include the purchasing merchandise, sourcing option and power relation in which procurement is done. Indian retail market has continuously changing with new trends and way of selling of products. unorganized market is very old way of shopping but still it is popular, organised market consisting big mall, hyper market and the third part is modern marketing which including both activities online and offline or O2O model based marketing. It can be explain

O2O= Online to online

O2O= Online to offline

O2O= Offline to Offline

Verma and Duggal (2015) working on retail sectors for construction on service dimensions by using exploratory factor analysis. The study was focused on need of managers, priorities of retail sector and marketing effort for uncovered quality dimension.

3. RESEARCH GAP

There are a few studies, that examined the competitive strategies of organized physical retail stores and impact of online retailing on physical retailing. However, there is stark absenteeism of documentation in case of the impact of online shopping on physical retailing and the strategies formulated by the physical stores retailers to encounter online competition. The present study identifies the competitive strategies of organized physical retail stores against online shopping. To identified the various strategies as a parameter for overcome competitive situation at the market place. Therefore, this study broadens the scope of previous research on marketing strategy and provides recommendation to organized physical retail stores.

4. OBJECTIVE OF THE STUDY

The study was conducted with objective: To identify the competitive strategies for organized physical retail stores to encounter online competition.

5. RESEARCH METHODOLOGY

Sample Unit

On the basis of the convenience sampling method, The sample for the study was major organized physical retail stores including (Croma, Reliance Digital, Sargam, Next, Hariom, Paradise and Vijay Sales) that have 3000 to 5000 sq fit store area. Data is collected through a semi structured questionnaire. Area of the study is NCR Delhi to covering all the organized physical retail stores with the help of google map. Total numbers of organized physical stores are 190 listed as Croma-26, Reliance digital-11, Sargam- 75, Next- 7, Hariom-26, Paradise-25 and Vijay Sales- 20. Out of 190 questionnaires, 100 were received while 90 questionnaires were not filled by the respondents. Stores manager or floor in-charge were the respondent of the study. The data was gathered for the period 2016-2018. Competitive strategies of organized physical retail stores are measured in terms of promotional strategy, positioning strategy, differentiation strategy and customer services strategy. These factors are selected from the review of

literature. Present questionnaire is based on five point Likert scale where, 1=strongly disagree to 5 =strongly agree.

Data and data sources

For the study a structured questionnaire was using for collecting responses from the respondents. The data was obtained from stores manager or floor in-charge which one is available. The secondary data was obtained from published annual report by retail association of India, IBEF, Euromonitor etc. to know the current position of physical retail stores.

Pilot Testing and Refinement

The identified competitive strategies dimensions formed the basis for instrument development. The initial draft of questionnaire was share with marketing experts for getting their opinion or feedback on scale validity and structural properties. Further analysis, including content and face validity was also checked. The questionnaire of five respondents was given to check for language and other basic error. After taking suggestion of expert the correction was done and modified questionnaire was reframe and distributed to 150 respondents. The collected data were coded, tabulated and subjected to statistical analysis. This was necessary to establish internal consistency and reliability of data. The result of pilot study help to development of final questionnaire that including 19 items out of 21 items.

6. DATA INTERPRETATION

Exploratory Factor Analysis (EFA)

The result of data interpretation was accumulated by IBM SPSS 21 package. In the first part of result we discussed the reliability of scale by using Cronbach's Alpha coefficients. The result of reliability is shown in table 1. As per the result and findings of this study, the scales are reliable because the Cronbach's Alpha values are .920, .889 and .667 which is reliability of scale. Exploratory Factor Analysis examines the factors extraction validity. The result of Kaiser-Meyer-Olkin is very high (KMO=0.819) based on Bartlett Test of Sphericity that was significant at .000. These test suggested that various competitive strategies are significantly related and value is suitable for factor analysis.

TABLE 1: Reliability Test

Factors	Cronch's Alpha value
Promotional strategy (F1)	.920
Differentiation strategy (F2)	.889
Positioning strategy (F3)	.667

The result of the study was measured by using principal component analysis (PCA) and a varimax rotation method. After using PCA it was found that 19 statements are grouped into four factors on the basis of Eigen values and scree plot. Eigen value was 1 and higher than selected the visibility of number of factors extracted and two items were deleted due to small coefficient value which is less than .50 (S18 and S23). Using PCA analysis three factors were extracted from 21 statements and these are as: F1 has high coefficient with 7 items and considered as promotional strategy, F2 has 8 items and considered as differentiation strategy, F3 has four items and considered as positioning strategy.

TABLE 2: Exploratory Factor Analysis

Rotated Component Matrixa			
	Component		
	1	2	3
POM3	.888		
POM5	.882		
POM6	.879		
POM4	.807		
POM2	.798		
POM1	.750		
POS1	.648		
POS4			
diff8		.847	
diff5		.793	
diff4		.751	
diff6		.743	
diff2		.725	
diff3		.724	
diff1		.712	
diff7		.664	
BR3			.676
POS3			.637
BR2			.595
BR1			.590
POS2			
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			
a. Rotation converged in 4 iterations.			

7. IDENTIFYING COMPETITIVE STRATEGIES FOR ORGANIZED PHYSICAL RETAIL STORES

The variance associated with each of the factors is depicted by Scree plot. This plot reveals the presence of three factors present in the data. This is observable in figure 1, which shows that an elbow occurs after three factors. Exploratory factor analysis is an interdependence multivariate method on the data was conducted. Principal component with varimax rotation was used. The factor retention was guided by the scree plot and eigenvalue. Those factors with values more than one, loadings higher than 0.5 and low cross loading retain for further processing. Factors with large eigen values (1 or higher) explain more variance and the factors with small or negative eigen values were omitted for the study Verma and Duggel (2015). The names of these competitive strategies based on variable loading. The presence of multiple factors indicated that competitive strategy is not one-dimensional but multi-dimensional.

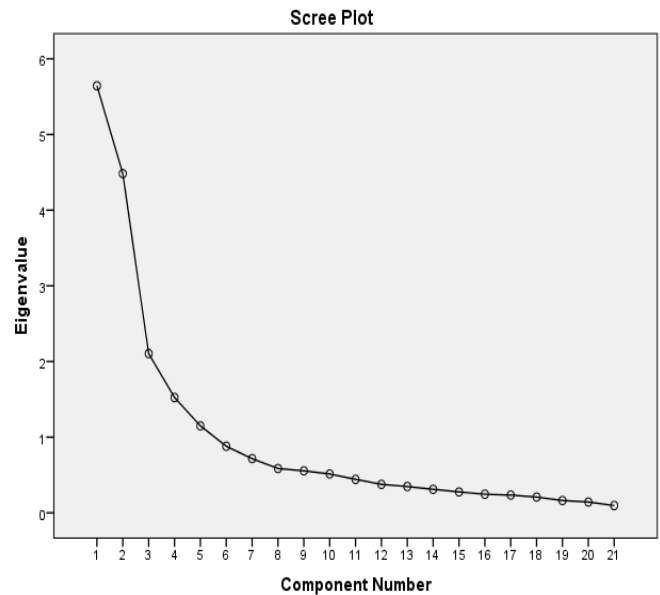


Fig. 1. Scree Plot

8. RELIABILITY ANALYSIS

The components derived from the factor analysis and their dimensions are depicted in table number 2. This retail competitive strategies developed on the basis of three dimensions were subjected to reliability analysis to check their consistency. Table 2 shows the components along with their factor loadings and reliability coefficients. Cronbach's alpha was used to assess the internal consistency between items and the reliability of the scale. As a rule of thumb, Cronbach's alpha of more than 0.60 is considered as the perfect level for exploratory research (Nunnally, 1978).

TABLE 3: factor loading

Factors	Items	Factor loading	Reliability Coefficient
Factor 1	1 Retailers need to give high priority to coordination of in store promotion and mass media to beat the online competition	.888	.920
	2 Retailers need to built strong store image to attract the customers	.882	
	3 Retailers need to introduce customer retention strategy to retain the customer at stores purchasing rather than online buying.	.879	
	4 They have to improve marketing effectiveness by planning and restructuring the promotion of tools	.807	
	5 Stores retailers need to use efficient inventory management to provide right goods to the consumer	.798	
	6 Retailers need to Improve customer satisfaction by offering different services	.750	
	7 The store must have wide range of products to attract the new consumer	.648	
Factor 2:	17 Retailers need to hire skilled and well Behave of stores staff that helps consumer by providing information about product and service.	.847	889
	19 Retailers need to make their store visually attractive from the inside and welcoming from the outside.	.793	
	20 They must to solve Service related issues by offering advance services	.751	
	24 Stores Retailers need to know their exact target audience to create their niche market	.743	
	27 Retailers sell their products at discounted price during festival season	.725	
	28 Store retailers need to use social media to promote their products	.724	
	30 Retailers need to organize point of sale for promoting new products.	.712	
	32 Contacting with consumers through mail or telephone after sale of the products	.664	
Factor 3:	13 The store retailers also need to attract upper-class consumers by providing high quality product and services	.676	.667
	14 Store Retailers need to sell well known local brands to increase the number of consumer	.637	
	15 Store Retailers also need to sell well known foreign brands for attracting upper class consumer	.595	
	16 Retailers need to create healthy consumer presence for increasing store purchasing	.590	

9. FINDING AND DISCUSSION

This study aimed to explore and identify the competitive strategies of organized physical retail stores in India. It was found that the competitive strategies of organized retailer against online shopping consisted of three factors. These three factors were considered as competitive strategies mainly- promotional, positioning and differentiation that was

formulated by the organized physical retailers against online competition. The items that was load on factors provide information about the formation of these factors. Factor labeling was done based on domain representativeness. Through this process, the name of factors was assigned. Table 4 shows the extracted factors list with their name, explanation and managerial implication.

TABLE 4: Extracted Components

Extracted Components	Explanation	Managerial Implication
Promotional strategy (F1)	aspect related to promotion of products through mass media, to improve marketing effectiveness by planning and restructuring the promotional tools, inventory management, to improve rate of customer retention	use of mass media, advancement in promotional tools and inventory management
Differentiation strategy (F2)	factor related to differentiation in their functioning such as creating niches, hiring skill staff, increasing store space and introducing new service concepts	niche market, skill staff, store space, new service dimensions
Positioning strategy (F3)	creating strong brand positioning by offering different brand	improving branding concept

The first factor promotional strategy refers to use of advance promotional tools such as use of mass media, by designing web page, also offering products through online channel. Second factor, differentiation strategy identifies the different and unique concept in their retailing. It includes aspect such as hiring well behave skill staff that will guide and help to human being in shopping, increasing area of stores for attractive visual display of products and creating niche market. Third factor entitled positioning strategy related with sold of products and goods in the stores and cover many concepts like brand, quality, price, variety and range of products for creating strong brand positioning in the market place.

The present study attempted to develop competitive strategies for organized physical retail stores in India to encounter online competition. The result revealed that three competitive strategies were identified by using exploratory factor analysis. This extraction could be explain by the advancement of technology and changing consumer behavior towards their shopping pattern.

10. LIMITATION AND FUTURE RESEARCH

There are some limitation of the study, first it is based on a sample of retail stores that was located in NCR Delhi, India. The questionnaire was self design so some possibilities of deformation. Future researcher can study of another area with different retail format. Identification of competitive strategies was focus of the study and only a few study was conducted by the other researcher so, due to lack of guidance through review process there is possibilities of some mistake. Hence, the scale may need further modification and adoption. Finally, the present study is only preliminary investigation. Future researchers should further explore the relative importance and type of the competitive strategies.

Online shopping is very popular in Indian market. People give more preference to online and mobile shopping due to this reason offline or physical store retailers are suffering from loss or consumer rejection of purchasing due to high price as comparing to online retailers. Indian consumers are price sensitive they always comparing the price of products before actual buying. In this case online products are very less price and physical retailer offer products comparative to little high price. This is the basic reason in Indian market online shopping to become more popular. Now physical retailers need to reframing their competitive strategies to encounter online competition and gaining consumer faith at given price. This is a research paper mainly focus on competitive strategies of leading physical retail stores of electronic products. The sample for the study is 150 retail stores that have 3000 to 5000 sq fit areas. Stores manager or floor in charge are the respondent of the study. A structured questionnaire is using for collecting responses from the respondents. The result of the study is analyzed by using EFA and CFA to identify the competitive strategies. This research is useful and insightful information to retailers or developers to reframe their competitive strategy.

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