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W.P. No. 2012-12-04
December 2012

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Abstract

The Indian retail industry is estimated to be \$470 billion. The organized or modern retailing with 6% share stands at \$26 billion. It is projected to reach US\$ 1.3 trillion by 2018 with the organized retail market estimated to grow at the compounded annual growth rate of 40% and reach US\$107 billion by the year 2013. Entry of these retailers in different formats, including online, has affected an irreversible change in consumer buying habits and businesses related to serving these retailers. However, unlike many other countries, India has its own unique character of size, geographical spread, cultural diversity, and multiplicity of formats being introduced at quick succession. Retailers also face the challenge of developing infrastructure, on their own or in cooperation with the government. This paper attempts to explore the industry and evaluate the extent of its impact on distribution and procurement networks and changing consumption pattern in India.

Key Words: India, Retailing, Distribution, Procurement, Consumption.

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Introduction

India has witnessed a revolution in the last two decades owing to rapid urbanization and changing consumption. This has led retailers to concentrate their energies and leverage their capacities to harness the potential. The entry of the leading corporate houses into retail created a surge into the growth of the industry. The Indian retail industry is estimated to be \$470 billion. The organized or modern retailing with 6% share stands at \$26 billion.ⁱThe Indian retail sector is projected to reach US\$ 1.3 trillion by 2018 and the organized retail market is estimated at compounded annual growth rate of 40% which is anticipated at 107 billion US\$ by the year 2013.ⁱⁱAs per the McKinsey Report, 'The rise of Indian Consumer Market', by the year 2025, the Indian consumer market is expected to grow four foldⁱⁱⁱ. India with its current retail growth rate turns out to be one of the most prominent countries for global retailers.

Since the liberalization of the Indian economy in the 1990s, there has been a continuous change in the consumer buying behavior. The positive consumer sentiment has led to retailers expanding to eventier 1 and 2 cities. The market dynamics in Indian retail industry are dissimilar when equated with other countries and it is not easy to function in an Indian market. If we have a close look at the unique demography of India, we would discover that it comprises of 25 states with different cultural districts existing concurrently in a market. While urbanization seems to be mixing these cultures, people tend to be living in coherent cultural group, mainly described by the state from where they originate. Most stores have trading areas that are mixed in their demography, thereby making the retailers work harder while meeting the varying demands of diverse consumers. The areas consist of heterogeneous group of consumers who have predominantly varying buying power. It

is posited that for retailers in India, social class could be a better segmentation variable than other demographic factors.

The main objective of this paper is to gain insight into the developments of modern retail from the Indian perspective. This paper attempts to explore and evaluate the extent of its impact on distribution and procurement networks and changing consumption patterns in India. The initial section of this paper discusses the development of modern retailing in India alongside the nature of the Indian retail industry. The next section of this paper enumerates the changing consumption patterns due to the progress in modern retail and subsequently this paper examines the impact of modern retail on the distribution and procurement. Moreover, FDI (Foreign Direct Investment) in retail, another major area of discussion having its bearing on the development of modern retail is discussed.

Development of Modern Retail

As per the estimates of Indian Retail Report 2011, the modern retail in the next five years is expected to contribute to a minimum of one third of the market of 40 trillion. This report estimates that by the year 2016, the modern retail would have 19.3 percentage share of the total retail market^{iv}. For some leading consumer product companies, modern retailers contribute about 10% of their total sale nationally and about 20% in top 10 cities.^v The preeminent outcome of the development of modern retailing in India is an increase of choice among consumers. With the advent of modern retailing in the emerging markets have witnessed developments in the areas of Technology Transfer, enhanced quality levels of produce, products at competitive prices, better procurement practices and enhanced employment opportunities.^{vi}

The development and growth of modern retailing is connected to the lower prices resulting from the functional efficiencies in the supply chain (Minten and Reardon, 2008). Studies in the developing

countries have also indicated that there is no evidence of modern retailers exploiting the producers or consumers and it is more to do with policy paralysis than the actual practices of modern retailers (Swinnen and Vanderplas, 2007). While modern retailing is fast penetrating in a developing country like India, it is significant to understand that it is quite complicated to accurately assess its impact. Even though modern retailers have invested in the supply chain in varying degrees, there is mixed evidence that consumers ultimately fetch lower prices in the modern formats. As a result of this, it has been critical for the modern retailer to understand the local consumption pattern to offer the right mix in the rapidly changing Indian market. Some habits are unique to the country. Modern retailers in India find it quite challenging to sell meat products because a large number of Indians would deliberately avoid visiting stores dealing in meat, fish and poultry. There is a separate channel for these fresh produce which is largely in the traditional format. With the increase in disposable incomes, abundant media choices, internet penetration and modern amenities, the shopping activity which used to be a mundane necessity has become a pleasant activity for many consumers (Sinha, 2003). On one hand impulse buying and brand switching behavior has become more evident (Sinha and Uniyal, 2005), on the other hand unnecessary shopping has increased leading to consumers buying goods which are non-essential. With a greater focus on supply chain efficiencies, modern retailing could do better for both consumers and farmers.

Changing Consumption Patterns

In a developing economy like India, the biggest challenge a marketer faces would be to tackle the ever changing consumption practices. The majority of the Indian consumers are shifting from brand loyalist to value conscious, which would require greater efforts on the part of a retailer to satisfy the billion demands and provision of enduring services. These changes are reflected in the growing disposable income and per capita growth in the table below^{vii}:

Indicator	2010	2011	2012	2013	2014
GDP, Purchasing Power parity (\$ Per Capita)	3453	3777	4103	4434	4819
GDP, Purchasing Power parity (Per Capita %)	12	9.3	8.6	8	8.6
Gross Disposable Income Per Household \$	5295	6151	6867	7627	8447
Gross Disposable Income Per Household Growth %	16.3	26.1	11.6	11.07	10.75
Rural Population %	70.21	69.98	69.75	69.53	69.3
Urban Population %	29.79	30.02	30.25	30.47	30.7

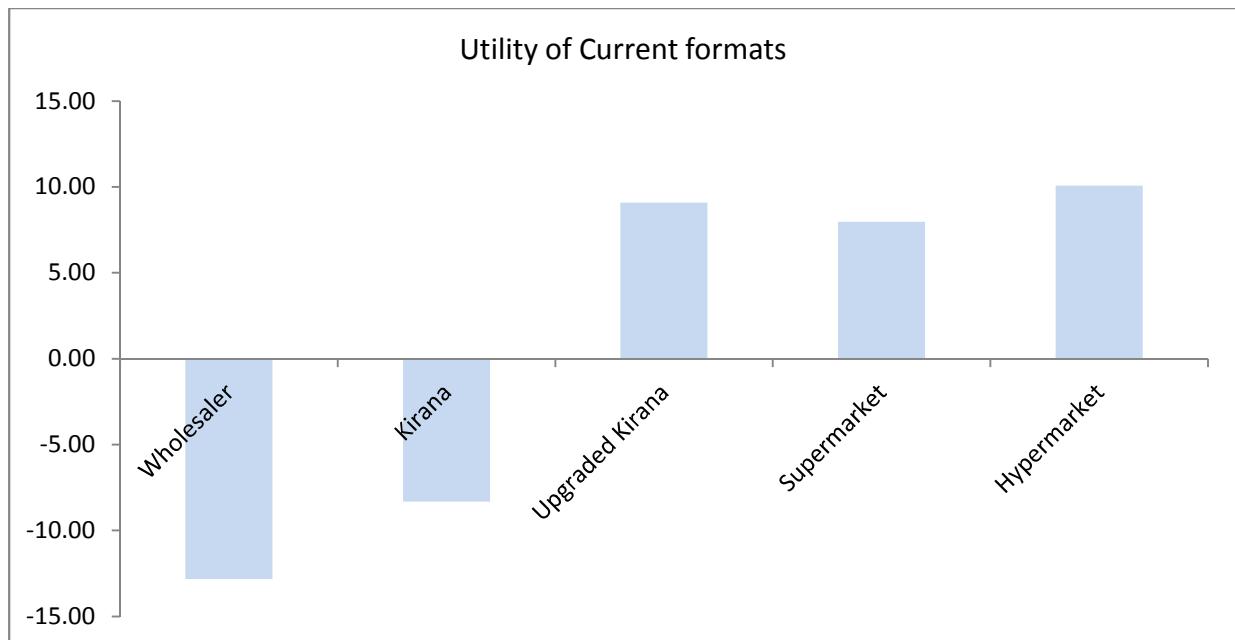
Source: Datamonitor Country Insight, 2011

It has been evident that in emerging economies, with the increase in the number of retailers entering the market, the shopping habits and consumption patterns evolve and moreover with the growth of modern retail, the total set of offerings turns out to be more accessible to consumers thereby helping the retailers achieve their broad objective of meeting the demands of diverse audiences. The progress of modern retailers, with grocery sector in particular, is always not dependent on the level of supply chain efficiencies. It is also influenced by consumer demand for food quality and convenience. This leads to efficiencies gained between producers and consumers. The high growth of modern retailers has witnessed growth of packaged and readymade foods (Tandon et. al., 2011).

Consumer Expenditure						
Household	2006	2007	2008	2009	2010	2011
Total US\$ Million						
Couple with children	3,29,364	4,01,651	4,37,863	4,48,467	5,55,701	6,22,907
Couple without children	82,941	1,05,418	1,16,065	1,19,630	1,49,432	1,68,575
Single parent family	10,012	13,149	14,473	14,926	18,646	21,039
Single person	6,825	8,115	8,603	8,547	10,319	11,292
Other	1,20,100	1,60,975	1,73,835	1,76,419	2,16,964	2,41,361
Total	5,49,241	6,89,308	7,50,838	7,67,990	9,51,061	10,65,174
US\$ per household						
Couple with children	3,001	3,596	3,854	3,882	4,734	5,223
Couple without children	1,984	2,446	2,617	2,625	3,195	3,517
Single parent family	2,214	2,825	3,025	3,039	3,702	4,078
Single person	1,012	1,204	1,276	1,268	1,529	1,672
Other	2,494	3,316	3,550	3,571	4,351	4,795
Total	2,603	3,210	3,437	3,457	4,212	4,643

Source: www.euromonitor.com

The modern retailers, whether domestic or international, have focused on investing in various retail formats like supermarkets, hypermarkets, cash and carry stores and convenience stores which has eventually led to the change in the overall consumer shopping behavior. The small stores are also undergoing a change. It is found that in the food and grocery sector, hypermarkets would face more competition from the Upgraded Kiranas¹ than supermarkets (Sinha, Mathew and Kansal, 2004). The smaller stores offer very high level of service and convenience and are able to tailor the requirement to their customer much better than the larger stores, who so far have been competing on price and wider assortment.



The emergence of modern formats tends to satisfy the desire for convenience and consumers prefer these formats owing to high quality perceptions and safety characteristics (Veeck and Veeck, 2000). Studies have shown that modern retailing is offering more choice to the consumer at the same or lower price when compared to the traditional retailers (Minten et.al., 2010). It also leads to customers exercising choices and becoming more variety seeking (Sinha and Uniyal, 2005).

¹Small mom and pop and general stores

Retail Sales						
US\$bn	2006	2007	2008	2009	2010	2011
Apparel Specialist Retailers	23.81	26.63	29.72	33.37	37.44	42.31
Electronics and Appliance Specialist Retailers	7.18	8.26	9.08	9.90	10.99	12.28
Health and Beauty Specialist Retailers	7.32	8.21	9.09	9.92	10.96	12.15
Home and Garden Specialist Retailers	7.52	8.47	9.09	9.48	10.11	10.84
Leisure and Personal Goods Specialist Retailers	13.92	16.31	18.15	19.78	22.48	24.93
Mixed Retailers	0.71	0.98	1.22	1.23	1.50	1.85
Other Non-Grocery Retailers	0.36	0.39	0.43	0.46	0.51	0.55
Non-Grocery Retailers	60.82	69.26	76.78	84.14	94.01	104.91
Grocery Retailers	109.98	123.49	139.78	155.50	176.39	202.66

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

The food and grocery segment remains the primary segment with around 65% share in the total Indian retail market segment. We have reached to 4% level in organized horticulture when compared internationally where it has reached to 56%^{viii}. The Indian food processing industry is organized up to 25% and consumers are buying superior varieties and quality produce, even dried fruits and vegetables. The recent trends have also witnessed increase in consumption of fruits although compared to vegetables, the former being expensive in the Indian market conditions. The Indian consumers are projected to spend more on fresh food and it is estimated that there will be 130 million new consumers in India by 2015 as per the Euromonitor International's Countries and Consumers database.

Household Income Brackets, Annual ('000 INR)	2015	2025	2015	2025	2015	2025
	Number of Households, mn		Aggregate Disposable Income, INR tn		Aggregate Consumption, INR tn	
Globals (>1,000)	3.3	9.5	6.3	21.7	4.1	14.1
Strivers (500-1,000)	5.5	33.1	3.8	20.9	2.7	16.5
Seekers (200-500)	55.1	94.9	15.2	30.6	11.8	24.6
Aspirers (90-200)	106	93.1	14.6	13.7	12.2	11.9
Deprived (<90)	74.1	49.9	3.8	2.6	3.3	2.4

Source: McKinsey Global Institute

Source: McKinsey Global Institute

Procurement and Distribution Networks

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 India. 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 (ECR). The spur 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 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.^{ix}

However, procurement and distribution is a challenge for any retailer operating in India due to the existing insufficiency of infrastructure and supply chain logistic developments. This affects the capability to serve the consumers from point of origin to point of destination. In rural and remote areas, there is a lack of a well-developed distribution network as also power cuts and road connectivity. Experiences in some other countries have also been mixed. For instance, in Czech Republic, while the quality of produce available in the modern format stores has improved, there is no significant increase in the production by growers (Liesbeth Dries and Vlaho Kojakovic, 2004).

It has been evident in emerging economies that the procurement outlets set up by modern retailers allows them to deal with fewer intermediaries and gives them a better opportunity for the farmers to gain better prices for their produce. On the contrary, it is necessary to empathize that Indian retail dynamics is complex and it is not easy to replicate any model from external economies. The emerging modern retailers in India, both domestic and international, who are attempting to revitalize the traditional supply chains, have been slow in their progress (USDA, Foreign Agriculture Service, 2009). The procurement centers set by modern retailers have not been very successful in gaining the trust factor of farmers or producers because of which local market centers are still prominent. For instance in India, Agriculture Produce Marketing Committee (APMC) controls the marketing of horticulture commodities across different states and by far the integration of the total market has not been fully possible and the success on the procurement front has been limited. The modern retailers find it hard to operate due to a number of issues like the fragmented nature of the business, institutional weakness, perishability/seasonality of the horticulture produce, transportation problems, poor harvesting techniques, infrastructure constraints and substandard marketing arrangements. This has restricted them to make substantial investments in power generation, road/rail transport and cold storage facilities. The rising real estate cost has also been a barrier in the Indian market for the progress for modern retailing. Government needs to work with the companies to set up an efficient back-end.

Foreign Direct Investment (FDI) in Retail

There have been slow but steady changes taking place on FDI front in India. The whole agenda of discussion on FDI revolves around striking supply chain efficiency in agriculture, rise in income for farmers and provide benefits to the low income class of people. FDI was initiated around the year 2005 by Government of India. It was around 1990 when the modern retailing process started gradually in India. Initially Government of India had allowed 100% investment in the cash and carry or wholesale trading. The single brand retailing in 2006 was initially restricted to 51% but later it was allowed up to 100% subject to 30% sourcing from within India. Since last few years we had been emanating discussion towards multi-brand retailing and presently, 51% investment in multi-brand retail is permitted but it is left to the discretion of the State Governments to finally implement it in the respective states of India. FDI would play a major role in the takeoff of modern retailing in India. A CII analysis shows that FDI will benefit the stakeholders:^x

- From the farmers perspective, organized retail has the potential to drive efficiencies in this chain by (a) increasing price realization for farmers by 10–30 percent through sourcing directly or closer to the farm (b) reducing handling and wastage by 25–50 percent through consolidation as well as investments in technology, either directly or through aggregators (c) upgrading the farmer’s capabilities by providing know-how and capital.
- FDI can help SMEs supply in large volumes, increase quality and become a vendor to international players and increase the quality of products and become cost competitive in global arena.
- Traditional trade will continue to have its own place and should not decline. Even in the last 3 years when modern retail has grown 24%, unorganized retail has continued to grow, albeit at a slower rate of 10% to 12%.
- Investments that would flow in agricultural back end and supply chain would ensure food security through curbing wastages and improving quality for our future generations. Furthermore, it would lower prices for Consumers that can help curb inflation. With its ability to drive efficiencies and leverage scale, modern trade is able to increase affordability for consumers and can lower the cost of monthly consumption basket by as much as 5- 10 per cent. On the other hand, Unorganized retail involves a large number of intermediaries

that earn greater profits at times of shortage. For instance, during the current onion crisis, the consumer price jumped 2.7 times in a matter of months. The largest portion of this rise went to the profit margins of the intermediaries, which went up 5.4 times.

The Government has controlled the entry of international players by making it mandatory for them to invest in logistics and infrastructure in India. It is expected that such a policy would help in revenue generation through various taxes coming from the service sectors. It would also promote non-agricultural employment for the unemployed in the rural areas and would help in increasing the overall standard of living of the rural population. Several studies have supported this argument and found that farmers have benefitted from the technical support and contracting arrangements made available by the modern retailers (Birtal et.al., 2005; Minten et.al., 2009). The small players in the Indian market would play better on distribution with the progress of modern retail. The joint efforts from the public and private bodies would see the small farmers make progress gradually through the evolution of alternative marketing channels.

The country has witnessed the entry of almost all leading retailers such as Wal-Mart, Tesco, Carrefour, Ikea, Staples, Home Depot, and Hamleys in association with leading Indian retailers. With the new FDI rule, they would now be able to hold a majority share. The association has brought new practices in merchandising, store management and technology. However, none of them is profitable and have yet been able to find the right mix for their operations. Catering to people in 35 states and union territories is equivalent to catering to people in 35 countries, leading to complexities in merchandise/inventory management.^{xi} The current policy is expected to be an enabler by allowing each state to take a decision suitable to them. However, the implementation has been restricted to only those states which have the same ruling party as at the Centre. This limits the impact of the policy.



Even the online retailers are facing similar issues. While only one of them has ventured into grocery, most offer categories where there is no restriction on pricing as compared to packaged good which have printed MRPs. The multiple taxation structure and other statutory compliances would require simplification.

M&A in Retail Industry						
Date	Target Company	Deal Type	Buyer	Seller	Deal Value USD (mn)	Stake %
Aug 24, 2012	Flipkart Online Services	Minority stake purchase	Naspers Ltd.; Tiger Global	N/A	150	N/A
Sep 27, 2012	Woolworths Wholesale India Pvt. Ltd.	Acquisition	Infiniti Retail, a Tata Group Company	Woolworths Ltd. Australia	37.55	100
Apr 12, 2012	Adelie Food Group	Acquisition	India Hoispitality Corp.	Duke Street Capital	350	100
Aug 27, 2012	UrbanTouch.com	Acquisition	Fashion and You	Accel Partners; Tiger Global	30	N/A
May 3, 2012	Pantaloon Retail India Ltd.	Minority stake purchase	Bennett Coleman & Company Ltd.	N/A	36.1	3.68
Feb 29, 2012	Fabindia	Minority stake purchase	PremjiInvest	N/A	25.35	7
Sep 26, 2012	Business operations of Debenhams, Next, Nautica in India	Acquisition	Arvind Lifestyle Brands	Planet Retail	10.34	N/A
Feb 09, 2012	LetsBuy.com	Acquisition	Flipkart Online Services	N/A	25	N/A
Apr 4, 2012	eSportsBuy.com	Acquisition	Snapdeal.com	N/A	12.3	N/A
July 10, 2012	Yebhi.com	Minority stake purchase	Fidelity Growth, Partners India, Qualcomm Ventures	N/A	20	N/A
Sep 18, 2012	Big Apple Stores	Acquisition	Future Ventures India Ltd.	Express Retail Services Pvt. Ltd.	11.36	100
Aug 15, 2012	Verite	Minority stake purchase	Gitanjali Group	N/A	4.5	15.3

Data from different countries country indicate that the share of smaller stores would remain to be large, with no large retailer having a dominant market share. Large retailers must learn to co-exist and may have to help them modernize. It is also imperative for government to create policies that help smaller retailer improve their performance.

Retailing Brand Shares: % Value 2008-2011		Non-Grocery Retailers Brand Shares: % Value 2008-2011	
Store-Based	%	Non-Gocery	%
China			
Suning	1.1	Suning	1.8
Gome	1	Gome	1.7
Tmall	0.7	Hisap	0.5
RT Mart	0.6	Parkson	0.4
Others	92.2	Others	92.3
Taiwan			
7-Eleven	4.3	Shin Kong Mitsukoshi	5.3
Shin Kong Mitsukoshi	2.7	Pacific Sogo	2.8
PX Mart	2.2	Costco	2.5
Others	75.6	Others	78.8
Malaysia			
Giant	4	Jusco	4.1
Tesco	3.1	Parkson	2.7
Jusco	2.5	The Store	2.1
Carrefour	1.7	Guardian	1.6
Others	74.7	Others	80.2
Chile			
Hiper de Lider	7.5	Sodimac	11.8
Sodimac	5.9	Falabella	8.5
Falabella	4.9	Paris	5.7
Others	45.5	Others	39.4
Mexico			
Sam's Club	3.4	Sam's Club	7
Walmart	3	Coppel	4
OXXO	2.7	Liverpool	3.2
Others	72.2	Others	69.8
Russia			
Pyaterochka	4	Eldorado	2.7
Magnit	3	M Video	2.1
Eldorado	1.2	Svyaznoy	1.2
Others	82.9	Others	85.4
UK			
Asda	6.1	Boots	4.2
Sainsbury's	5.9	Marks & Spencer	4
Morrisons	4.4	B&Q	2.5
Others	58.4	Others	70.9
Japan			
7-Eleven	3	AEON	3.9
AEON	2.4	Ito-Yokado	1.7
Lawson	1.7	K's Denki	1.5
Co-op	1.3	Takashimaya	1.2
Others	80.2	Others	78.5

Conclusion

The Indian retail industry is witnessing far reaching changes. The modernisation process started by large retailers has spread across country. Even smaller independent stores are upgrading in terms of assortments, delivery and ambience. The change is riding on an overall growth in income and consumption across the country, including the rural areas. While customers are getting better prices and assortments, the impact of large format retailer in driving consumption is still limited.



The development and growth of modern retailing in India in different segments has been due to different factors.^{xii} The modern retailers would like to make substantial savings through efficacy and pass this benefit to producers and end consumers. Since the entry of foreign retailers would require

substantial investments in supply chain systems, it would possibly bring in innovative procurement and distribution systems which will further play an important role in bringing more stability. In view of the fact that the retail industry is largest employer after agriculture in India, the political parties always have reservation towards opening up of retail sector to foreign investment. On the contrary small and medium enterprises would stand to benefit from the fact that private label brands would constitute the product mix of any modern retailer and thereby small suppliers would effectively take their products to national platform.

The Indian retail industry will, however, take a long time and would require a sustained effort before the benefits reach the target due to its own characteristics. Firstly the country is very large and heterogeneous in terms of cultures, demand patterns and consumptions. Even the back-end challenges are different in parts of the country. The extent of localisation required by the retailers

would be daunting task. The trade practices and policies change with every state and even within the state. But these have not deterred the TNC retailers in entering India due to the huge potential it offers. Will it translate into reality and would it finally reduce the prices of essential products for a consumer is the key question? Another question to ponder is how much time the market would take towards total integration for greater efficiency?

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End Notes

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ⁱⁱⁱibid

^{iv}IRIS Primary Research- India Retail Report 2011.

^vSKBKS Industry Observer, volume 6, September 12

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^{vii}ibid.

^{viii}<http://www.franchiseindia.com/articles/Opportunity/Unique-Concepts/Fruitful-returns-for-F-V-biz-owners-584/> accessed on September 29th, 2012.

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