"A study of organized retail formats and their location strategy"

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**ABSTRACT:**
The study of retail location strategy was carried out on a limited scale considering the area covering Pune city and choosing specific formats and brands of organised retail outlets. The objective was to study location mapping of the chosen organized retail brands under the specified area in Pune city and another objective is to carry out a comparative analysis between competitors under the categories of organized retail format. In order to pursue the objectives outlined in the study, a content analysis of information collected from multimedia devices using GPS (Global Positioning System) system was conducted to establish the trends in location used by organized retailers. It was found out that in category 1-hypermarket , D'Mart has marginal advantage over its competitor Big Bazaar while in category 2-supermarket, Reliance fresh has a good edge over its competitor More ; and in category 3-departmental store, Shoppers Stop has a better advantage over its competitor Reliance Mart.

Keywords: retailing, retail location, retail location mapping

**INTRODUCTION**
Location decisions for organized retail formats are complex in nature ( Skogster, 2006 ). The cost of selecting a location is very high and there is little flexibility once the location has been chosen. Selecting the right location is imperative for the success of an organised retail outlet. A good location may lead to the success of an outlet even if other strategies are weak. A store location requires a sizeable investment and long-term commitment. Making a retail site selection decision is just as important for a small retailer as it is for major chains. In fact, a small retailer is significantly less able to sustain a bad site decision as compared with a major retail player. Small or first-time owners are typically undercapitalised and are unable to sustain months or years of underutilised business until they can relocate or renegotiate a lease. The choice of location depends on population size and trait, market competition, transportation access, parking availability, nature of nearby stores, property cost, length of agreement, legal restrictions and other factors. According to Fox et al (2007), the proximity of customers to a retail outlet relative to other outlets makes a significant difference in the revenue. Keeping this in focus, the researchers have developed a study over the chosen area, that is, Pune city, focusing on four different categories of outlets and identifying two competitive brands under each category. A competitive analysis was carried out between the identified brands in which the location analysis being carried out in a hypothetical situation forming the basis of this study.

## LITERATURE REVIEW

In order to understand and carry out the research, the researchers had to comprehend and recognise specific theories associated with the study. The following theories were reviewed in order to understand the topic of study. According to Reilly's Law, more consumers go to a larger city or community because of the availability of large number of shops and stores. The principle of minimum differentiation originated from Hotelling's (1929) classic paper, which suggests that a given number of stores operating within the same market sector will achieve superior performance if they are clustered together. Hotelling (1929) made key assumptions regarding location, pricing, transport cost, consumer behaviour, market shape, conjectural variation and number of competitors. Huff's Law delineates the trading areas on the basis of product assortment carried at various locations, travel times from the shopper's home to alternative locations, and the sensitivity of the kind of shopping to travel time. The Central Place theory assumes consumers to be identical, which is not a very realistic concept. Most of the authors have criticised oversimplification of a single product or the purpose approach. Factors such as price, quality and image have been ignored. New models are being propounded on the basis of multipurpose shopping. According to Spatial Interaction theory, the large retailers have recognised the commercial opportunities offered by changing consumer demands and they have responded by providing new shopping facilities that offer the advantages of easily accessible out-of-centre sites, adequate car parking, larger premises to provide larger range of products, associated services and a more attractive shopping experience in more secure surroundings. These findings have encouraged a large concentration of retail outlets in all the areas of retailing. Finally, the Land Value theory, which is also known as Bid Rent Theory and Urban Rent Theory, propounded by Haig and Hotelling (1926) argues that competition for an inelastic supply of land ensures that in the long run, all the urban land will be occupied by the activity capable of paying the highest rent and land is thereby put to its 'highest and best use'. It proposes that location of different activities will depend on competitive bidding for specific sites. Land use activities occupy locations sequentially, and once established they can prove difficult to move in. In an urban area, there can always be non-conforming and outmoded land. The centre of Pune has lost much of its accessibility because of traffic and congestion and this has led to the existence of positive and non-negative rent, which do not always decline with distance.

## CHIEF PARAMETERS TO EVALUATE RETAIL TRADING AREAS

The different parameters used to evaluate and compare the specific brands of retail outlets under precise categories are appended below.

Parameter 1 – Location
Parameter 2 – Proximity to Competitor
Parameter 3 – Property Rental Rate
Parameter 4 – Population Characteristic (Income)
Parameter 5 – Parking Facility

## RESEARCH OBJECTIVES

On the basis of the previous research conducted (Pathak,2009) and the researchers' understanding of the theoretical aspects, the study focused on the following objectives:

- To study location mapping of the chosen organized retail stores under the specified area in Pune city.
- To carry out a comparative analysis between competitors under the categories of organized retail format.

## RESEARCH METHODOLOGY

The present study is an exploratory research conducted in Pune city. In order to pursue the objectives outlined in the study, a content analysis of information collected from multimedia devices using GPS (Global Positioning System) was conducted to establish the trends in location used by organized retailers. The first stage involved gathering of secondary information of organized retailers and formulating a location map of the select organised retail outlets. The second stage involved identifying three categories of retail formats and two identified retail outlets in Pune city and studying their location strategy by means of their physical location and structuring a comparative analysis of the five identified parameters under each category. A summary of interpretations is given below.

**FORMULATION OF RETAIL LOCATION MAPPING**

Category 1- Hypermarket (Big Bazaar and D'Mart at Baner and Hadapsar)
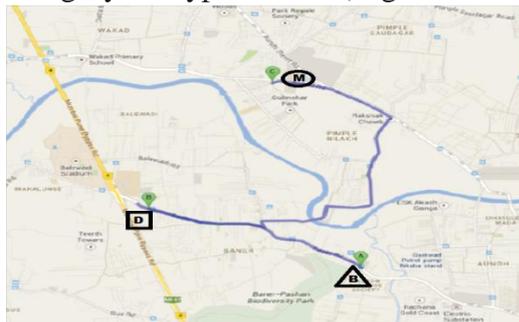


| Baner | Hadapsar |

Category 2- Supermarket (Reliance Fresh and More at Kharadi and Hadapsar)



| Kharadi | Hadapsar |

Category 3- Departmental Store (Shoppers Stop and Reliance Mart at Camp and Shivajinagar)



| Camp | Shivajinagar |

**INTERPRETATIONS OF COMPARATIVE ANALYSIS**
This research is based on literature review and qualitative data collection of actual physical location of different retail outlets in Pune city. In this research, the different parameters used to evaluate and compare the specific brands of retail outlets under precise categories are Location, Proximity to competitor, Property rental rate, Population characteristic (income) and Parking facility. With respect to these parameters, researchers formulated scale and their weights as deciding factor for comparative analysis (G. Ramesh, Prasad S., Goyal S. 2011).

Parameter 1 – Location

| Parameter | Weights (%) | Scale |
|---|---|---|
| Mall | 40 | 4 |
| Stand alone | 60 | 6 |

Parameter 2 – Proximity to Competitor

| No. of competitors | Weights ( % ) | Scale |
|---|---|---|
| 5 | 0 | 0 |
| 4 | 20 | 2 |
| 3 | 40 | 4 |
| 2 | 60 | 6 |
| 1 | 80 | 8 |
| 0 | 100 | 10 |

Parameter 3 – Property Rental Rate

| | Rate per Sq ft | Weights % | Scale |
|---|---|---|---|
| High (H) | Rs. 161-200 | 20 | 2 |
| Medium (M) | Rs. 136-160 | 30 | 3 |
| Low (L) | Rs. 100-135 | 50 | 5 |

Parameter 4 – Population characteristic (income)

| Parameter | Income | Weights % | Scale |
|---|---|---|---|
| Low income | < 3 lakhs | 40 | 4 |
| Middle income | 3 – 5 lakhs | 30 | 3 |
| Middle income | 5 – 10 lakhs | 20 | 2 |
| Upper class | > 10 lakhs | 10 | 1 |

Parameter 5 – Parking Facility

| Parameter | Weights (%) | Scale |
|---|---|---|
| Adequate | 50 | 5 |
| Sufficient | 35 | 3.5 |
| Not adequate | 10 | 1 |
| Nil | 5 | 0.5 |

To study the location mapping of organized retailers; a comparative analysis of retail location map and decision scale has been carried out by the researchers for selected stores.

Table A : Comparative analysis – Category 1: Hypermarket (Big Bazaar and D' Mart )

| Parameters | Retail outlets in BANER | | Retail outlets in HADAPSAR | | Total Value | |
|---|---|---|---|---|---|---|
| | Big Bazaar | D' Mart | Big Bazaar | D' Mart | Big Bazaar | D' Mart |
| Location (10) | 6 | 6 | 4 | 6 | 10 | 12 |
| Proximity to Competitor (10) | 8 | 8 | 2 | 2 | 10 | 10 |
| Population Characteristics (10) | 2 | 2 | 3 | 3 | 5 | 5 |
| Property Rental Rate (10) | 2 | 2 | 5 | 5 | 7 | 7 |
| Parking Facility (10) | 1 | 5 | 1 | 5 | 2 | 10 |
| TOTAL Value Out of 100 | 19/50 | 23/50 | 15/50 | 21/50 | 34/100 | 44/100 |

From the above result, it is clear that D'Mart (44/100) has marginal advantage over its competitor Big Bazaar (36/100) in terms of their location strategy in Baner and Hadapsar area.

Table B : Comparative analysis – Category 2: Supermarket (Reliance fresh and More)

| Parameters | Retail outlets in KHARADI | | Retail outlets in HADAPSAR | | Total Value | |
|---|---|---|---|---|---|---|
| | Reliance fresh | More | Reliance fresh | More | Reliance fresh | More |
| Location (10) | 6 | 6 | 6 | 6 | 12 | 12 |
| Proximity to Competitor (10) | 2 | 8 | 10 | 2 | 12 | 10 |
| Population Characteristics (10) | 4 | 4 | 3 | 3 | 7 | 7 |
| Property Rental Rate (10) | 5 | 5 | 5 | 5 | 10 | 10 |
| Parking Facility (10) | 5 | 5 | 3.5 | 3.5 | 8.5 | 8.5 |
| TOTAL Value Out of 100 | 22/50 | 28/50 | 27.5/50 | 19.5/50 | 49.5/100 | 47.5/100 |

From the above result, it is clear that Reliance fresh (49.5/100) has a good edge over its competitor More (47.5/100) in terms of their location in Kharadi and Hadapsar.

Table C : Comparative analysis – Category 3: Department Store (Reliance Mart and Shopper's Stop)

| Parameters | Retail outlets in CAMP | | Retail outlets in SHIVAJINAGAR | | Total Value | |
|---|---|---|---|---|---|---|
| | Shopper's Stop | Reliance Mart | Shopper's Stop | Reliance Mart | Shopper's Stop | Reliance Mart |
| Location (10) | 4 | 6 | 6 | 6 | 10 | 12 |
| Proximity to Competitor (10) | 8 | 4 | 10 | 8 | 18 | 12 |
| Population Characteristics (10) | 1 | 1 | 2 | 2 | 3 | 3 |
| Property Rental Rate (10) | 2 | 2 | 3 | 3 | 5 | 5 |
| Parking Facility (10) | 1 | 3.5 | 3.5 | 3.5 | 4.5 | 7 |
| TOTAL Value Out of 100 | 16/50 | 16.5/50 | 24.5/50 | 24.5/50 | 40.5/100 | 39/100 |

From the above result, it is clear the Shoppers Stop (40.5/100) has a better advantage over its competitor Reliance Mart (39/100) in terms of their location in Camp and Shivajinagar.

**CONCLUSION**

A location analysis or a retail site selection study evaluates the potential opportunity for a specific site. This is applicable for retail stores investigating new locations, or shopping centre developers interested in understanding the market opportunity a proposed site might offer. Tailored to client needs, a location analysis would involve the overview of the surrounding market and review of macro trends such as population and employment growth, delineation of retail trade area boundaries for the site based on drive time analysis and other influencing factors such as topography, competition, and regional accessibility, examination and benchmarking of trade area characteristics such as population and household change, and demographic characteristics such as age, income, and ethnicity, review of key retail store or shopping centre competition within the trade area, focusing on relative strengths and weaknesses against the proposed site, forecast of sales potential for the site and estimation of market share capture for the retailer or shopping centre. This paper shows that there exists a relationship between the format of the retail store and its location. Before deciding a location for a new store of a particular format, the retailers take into account the catchment area, competitors, income profile of the people living in the trade area, their lifestyle and demographic factors.

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