

# *Small Retailer's Merchandise Decision Making: A Grounded Theory Approach*

**Surabhi Koul**

**Piyush Kumar Sinha**

Indian Institute of Management, Ahmedabad

**Hari Govind Mishra**

Entrepreneurship Development Institute of India, Ahmedabad

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## **Abstract**

The present study is focused on small retail stores in the Jammu province of J&K and examines the relationship between retailer's perceptions of the trading area, their assortment policy decisions and reported performance levels for a product under FMCG category. The study focuses on the external and internal environment of small stores that affect the decision making of the assortment. Retailers keep only a small range of assortments since market uncertainty is high. The study focuses on the impact of store attributes on assortment policies, controlling for both store space and store location factors. The impact of customer profile and local market environment perceived by small retailers is also analyzed as an important factor towards assortment policy decision. Based on a grounded theory approach, the study argues that four criteria are used by the retailers in selecting products for their stores.

**Keywords:** Assortment, Grounded Theory, Product Selection, Small Retailers.

## **1. Introduction**

Indian retail environment can be broken into two sectors: organized and unorganized sectors. Organized retailing covers supermarkets, hyper-markets and malls. Organized malls are professionally managed and offer a variety of services and products under one roof, whereas the unorganized retail sector consists of small retail stores which have small store area and are usually family-owned (Ramakrishnan, 2010). The Indian retail landscape has been dominated by small retailers and most Indians prefer to do their household shopping from such outlets. India has the highest retail density in the world and only 4 percent of these outlets are more than 500 sq. ft. in size; almost all are family-owned shops and establishments (Mukherjee & Patel, 2005). This reflects the diversification of small stores in the Indian retail environment. The

consumers prefer them due to a multitude of factors such as locational convenience, credit facilities, easy return and refund facilities, personalized attention, friendly attitude of the retailer, and sales and service assistance. The small retailers have high flexibility in designing their marketing mix according to local consumer needs (Ramakrishnan, 2010). The diversified nature of small retailers is the motivation for taking them as the target context for the current research.

The national portal of Government of India defines small retailers as retailers whose scale of operation is restricted to a small segment of the market and to a narrow range of products (National Portal of India, 2005). They generally hold small stocks of products of regular use. In the Indian retailing scenario, such retailers are very large in number but account for a small portion of the total retail business. The business potential that exists in this segment has begun to interest businesses offering branded products because urban markets have become highly competitive for brands (Burgess & Steenkamp, 2006). Small retailers face a complex and changing environment and this considerably varies from one store to another. Responsiveness to the local market environment is an important dimension of market orientation for small retail operations (Kara, Spillan & DeShields Jr., 2005). According to Reinartz and Kumar (1999), retailer performance depends broadly on retailer (store) characteristics, store merchandising policies and environmental conditions. Important dimensions of the market environment facing a retail store are diversity, uncertainty and munificence.

Although the Indian retail industry has seen large growth in organized retailing, the trademark of Indian retailing, the small shops with high levels of personalized service, is making shoppers reluctant to depart from traditional ways of shopping (Sinha & Banerjee, 2004). The paradigm shift in consumers' socio-economic, demographic and geographical proportions are driving traditional retail

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<sup>1</sup> Corresponding Author

towards an organized retail format aimed at catering to the evolving needs and tastes of discriminating consumers. Changing consumer behavior of rural customers has led marketers to increasingly look to ventures in rural areas of India. This is a big challenge for the small retailers as they now have to compete with the organized retailers in terms of products and services provided. The upcoming retailers have forced the existing small retailers to consider reforms in retailing to attract more customers and thus maintain a profitable business. For this, the small retailers need to think about the assortments and varieties they offer within a product category. Research in western countries posits that small retailers are important because they make products available, offer customized services, credit facilities, and give importance to personal relationships (Megicks & warnaby, 2008; Smith & Sparks, 2000). In a similar direction, Sinha and Banerjee (2004) report that traditional retailers in India have a huge potential and attract customers due to their flexibility in providing retail facilities. The current research adds to existing research on merchandise selection decision of retailers in small retailer's domain in India. It explores small retail stores-related factors that can help retailers improve their competitive position. The purpose of the current research is to explore small retailers' merchandise selection criteria, i. e., new product selection criteria, and the product retention criteria.

## 2. Literature Review

### 2.1. Small retailers in India

According to Venkatesh(2008), there are about 12 million small stores spread over 5,000 towns and 600,000 villages across India. These account for more than 70 percent of grocery sales in India (Jones, Lasserre & Gehlen, 2005) and play a strategic role in Indian retail business (Ramakrishnan, 2010). So the importance of small retailers cannot be neglected in the Indian retail environment. The number of constraints to compete with other retailers is also high for the small retailers. So they need to evaluate several factors before adding new products to their product list. In the same context, the first study was published by Grashof (1970), which addressed two primary decisions affecting the mix of products carried by a retail chain. These were related to, (a) the addition of new items, and (b) the deletion of items currently stocked by the chain. But in the next 30 years, very few follow-up articles on this topic have been published (Kaufman et al., 2006; Rao & McLaughlin, 1989; White, Troy & Gerlich, 2000). The

research on product adoption by retailer has been dominated by large retail formats. However, the topic of product adoption should be observed from the point of view of small retailers. For selection of products, these retailers are not only dependent but also make decisions completely on the basis of what they believe will sell in the market. They have a high degree of freedom in determining the elements of the marketing mix. They can adopt appropriate mechanisms to tailor fit the offered products that are in line with the need and demand of the target market customers (Ramakrishnan, 2010).

Earlier research in the area of product selection have focused on main factors considered by a retailer for addition of new products such as, consumer demand, promotional programs of suppliers, rate of movement, competitive reaction to new item, test market information and estimated sales as projected by the supplier. Also, these studies were in the context of organized retail stores. Due to uncertain and heterogeneous customer preferences, the variety seeking behavior of consumers and competition between large numbers of retailers etc. product selections has gone up in all merchandise categories. With fixed shelf space, increase in variety means less store space for each product, which translates to higher operational costs due to either lower availability or higher replenishment costs. As a result of excessive levels of variety, many retailers are switching to a strategy called "efficient assortments" which primarily seeks to find the profit maximizing level of variety by eliminating low-selling products (Kurt Salmon Associates, 1993).

It is a question of how retailers of small retail shops develop assortments and stock policies in response to the market environment, which may or may not necessarily follow operational models better suited to larger stores. Even though there is limited work by analysts of the assortment planning of small retailers, the "heterogeneous nature of the marketplace demands that retailers tailor their assortments to local tastes . . ." (Mantrala et al., 2009). So, the small retailers need to select products for their stores keeping several factors in mind. The current research is a step towards finding the determinants of product selection and product retention.

### 2.2. Merchandise decision making

For a retailer, merchandise decision making mainly includes two decisions viz., which new products to be included in the assortment, and which products to be retained or deleted. Assortment is traditionally defined as

the number of products offered within a single product category (Levy & Weitz, 2001). A product category is defined as a group of products that consumers perceive to be interrelated and/or substitutable. Retailers need to select products keeping a tradeoff between customer expectations and retail profits. Retailers attempt to maintain a balance between variety (number of categories), depth (number of stock-keeping units – SKU - within a category), and service level (the number of individual items of a particular SKU). With appropriate tradeoffs between variety, depth and service levels, retailers hope to satisfy customers' needs by providing the right merchandise in the right store at the right time. If the retailer fails to provide the expected assortment demanded by customers, it may cause loss in both current and future sales. But the retailers in rural areas tend to be different from those in urban areas. Increasing market uncertainty and rapid technological development present challenges to new product marketing (Calantone & Benedetto, 2007). Many manufacturers sell new products to consumers through retail channels, which makes their success depend on retailer acceptance and support (Hultink et al., 1999; Kaufman et al., 2006). The retailers need to select products for their stores from the vast array of new products across multiple categories offered by the manufacturers (Kaufman et al., 2006). In case of small retailers, they need to select products from those being offered by the wholesalers.

The small retailers are predominantly small in shop size and are dependent on a long chain of intermediaries for getting their supplies. So the problems faced by these retailers are much larger. As the environment in which these small retailers operate is difficult and full of challenges, introduction of new products generally lead to a change in the retailer's assortment, not only due to the addition of a new product, but also because, given limited shelf space, a weak performing product will most likely be dropped. Substitution generally takes place within but not across categories (Kök, Fisher & Vaidyanathan, 2009). Previous researchers have investigated how retailers evaluate selection of products through examinations of category and shelf management (Dreze, Hoch & Purk, 1994), assortment optimization (Boatwright & Nunes, 2001), product attractiveness (Rao & McLaughlin, 1989), inter-firm relationships (Kaufman et al., 2006), and introductory slotting allowances (Larivière & Padmanabhan, 1997; White et al., 2000). However, limited empirical research has examined the determinants of

retailers' selection of new products and retention of existing products in the small retail environment.

### 3. Research Methodology

As discussed earlier, the studies related to small retailers are limited and those related to Indian context are scant. So, a qualitative technique of data collection was preferred, based predominantly on the concept of grounded theory. Data for the study was systematically collected and analyzed to generate a theory grounded in the data. The grounded theory method is particularly employed for studying a new phenomenon or for replicating a study in new settings to understand the peculiarities of the context under study (Glaser and Strauss, 1967). A grounded theory is derived inductively through the systematic collection and analysis of data pertaining to a phenomenon (Strauss & Corbin, 1998). Very few studies were found in the field of assortment planning and category management, which have applied grounded theory. One such study is of Gruen and Shah (2000) which, in the research of factors affecting category management, developed a theoretical model using Glaser and Strauss' (1967) "grounded theory" method, similar to that used by Manning, Bearden and Rose (1998).

Since the focus of the current study is on merchandise selection criteria of small retailers, we have adhered to the definition of small retailers explained in the introduction, and interviewed small scale retailers from rural and urban regions of the Jammu province of Jammu and Kashmir (J&K), India. Semi-structured indepth interviews were conducted for collecting data. Each interview was conducted by the authors in Hindi and later verbatim in converted to English. Interviews were conducted till it was felt that data saturation has been attained. Data saturation means that with the collection and analyses of additional data, no new concepts could be developed and additional data may not alter conditions, characteristics or consequences of the existing categories (Strauss & Corbin, 1990). The interview was started by seeking the consent of the retailers to participate in the discussion. All the interviews were conducted in person and at the retailer's shop, mostly in the afternoon or morning when they were willing to participate in the discussion. Also, in response to queries on the discussion, the retailers were informed that the objective of the study was to understand how retailers decide which products to keep in their store. Wherever required, they were asked to cite examples and cases to bring out the dimensions. The average length of

interview was approximately 35 minutes, the longest one lasting for 1 hour 12 minutes. The interviews were audio-recorded and yielded about 102 pages of verbatim. The interview sessions were stopped at 24 interviews as it was observed that the data collected from the respondent were turning out to be redundant.

This qualitative survey helped generate research dimensions which, in turn, led to model development (Creswell, 1998). The respondents of the study were small retailers who typically sell FMCG products from stores, better known as Kirana stores. The study typically focuses on the study of the environment in which the retailer operates. Hence the socio-demographic strata of the customers residing in the locality were also examined from the retailers' point of view. Small retailers in villages and towns in three districts of the Jammu Province in J&K were selected for the study. These retailers form a suitable group because they served the population of small towns in rural and urban areas. The areas in Jammu province of J&K were selected on the basis of convenience from Census 2011 (See Table 1). In all, 24 interviews were conducted, out of which 21 retailers were males and 3 females. The small stores that were covered had an average size of approximately 100 – 200 square feet. The stores had multiple goods, specifically focused on foods and grocery products. A wide range of products such as FMCG, cereals, vegetables, footwear, stationery, tobacco products, electronic items and mobile recharge coupons were sold by these retailers. A few of the retailers typically sold cosmetic and stationary goods. Each village had multiple shops which were generally located in different parts of the village and served a faintly distinct area. A unique feature of the small retailers was that the retail shops were generally located within household premises.

#### 4. Data Analysis

The recorded interviews were first converted into a transcription which, in turn, was subjected to analysis based on grounded theory (Glaser & Strauss, 1967). Three independent investigators read the transcriptions. They conducted open coding, generating 225 statements that showed the general behavior of small retailer's assortment selection criteria. The general statements were then searched for in existing literature on the subject in order to identify whether the codes could be related with any theme. As work on small retailers is very limited, reference of assortment planning with respect of large retailers was taken from existing literature. Thereafter a round of axial

coding (Strauss & Corbin, 1998) was conducted to sort the descriptions into 79 first order statements. The available 79 were further analyzed to create 16 second order themes that described major themes emerging from the interviews. Further, these 16 second order themes were sorted to combine and form five final categories. The details of the sub-themes, concepts and categories have been shared in Table 2. The five categories developed from axial and selective coding served as the major constructs of the small retailer's assortment planning criteria based on external environment.

The current research divides the retailer's criteria of deciding merchandise for the store into external and internal factors. This study considers external environmental factors, which are not directly in the control of the retailer but are important when deciding the store merchandise. Examples are, the store's trading area and customer profile. Internal factors are factors under the retailer's control, such as store attributes, retail profitability and relationship management.

### 5. Findings

#### 5.1. Trading area and retailer merchandise selection

Organized retailers usually operate in urban areas where population density is high and consumer shopping behavior is heterogeneous. But small retailers operate in areas of low population density where consumer shopping behavior is more homogeneous. As small retailers in India are present in both urban and rural areas, the sample of the study was also diversified to urban and rural domains. Demographic factors such as, shoppers' income and age, vary across each trading area in urban and rural areas. Heterogeneity provides the opportunity for experimentation with retail assortment; so the retailers need to keep higher diversified assortments. The construct of trading area has three sub-constructs: Competition, Market Uncertainty and Store Location. The findings of the relationship are explained below through descriptive statements of the respondents.

##### *Competition*

*"I have many stores in the locality which sell the same products which I do... As the numbers are increasing my overall sales get affected."*

Although the level of competition within the locality is high, retailers perceive that other retailers selling the same goods will have their own targeted customers while they have theirs. Most of the retailers perceive no direct

competition with other retailers of the village. Generally, if a product is not available with a store, the customer swaps the retailer; otherwise the customer would not leave his retailer. These retailers feel that competition will be present in terms of increased number of other retail shops, but they can retain their customers just by having their preferred goods. With increase in the number of retail stores, the customers get distributed and this affects overall sales. They add new goods to their stores if the competitive retailer nearby has added it to his/her store.

*"We do not have any competition with the big retailers in the city area because the brands we sell are different and our customer demands are different."*

These retailers believe that organized retailers are not a threat. They consider that these big retailers sell higher quality products and have money to run their business on big platforms whereas the small retailers have fixed customers and carry fixed merchandise. The scope of goods to be carried in the store is limited to the customer preferences and local competition.

#### **Store location**

*"My store is located in the rural area so the customers are limited to my locality. Moreover I have to travel large distances to reach to the supplier."*

These retail stores are located in the rural areas. These areas have localities of poor or lower middle class people. People have two-wheeler vehicles for transportation. The retailers have to travel to the city to reach their suppliers. Hence, they usually purchase a stock for more than a week so that unforeseen needs of the customers can be catered. The store is usually surrounded by small residential houses. The Indian traditional retail store format is dominated by small stores located at the front portion of the house in a small room, less than 50 sq. feet in area.

#### **Market uncertainty**

*"We have a small retail store with fixed customers, so we have to know what customers will buy. The customers are fixed but the demand pattern fluctuates so we have to know which brands to keep and in how much quantity".*

*"We try to know what products and what specific brands have the highest sale in the locality, then accordingly we order it to the supplier on fixed basis. Sometimes a mid-day demand arises, and then the supplier sends the stock at my store only."*

The most important factor in assortment selection is to know the market dynamics i.e., the demand pattern.

Nearly all the retailers emphasized that the stock to be kept is mainly guided by the purchasing pattern of the customers. But the uncertainty of sale is the highest in case of new products kept in the store; so very few such items are kept. Until the customer demands, the new product is not added in the stock. Sometimes, if the product or the specific brand does not have a distinct demand pattern in the market, chances of dropping the product from the assortment list are very high. Many retailers were reluctant to add any new product, as they feel it is a risky affair. The retailers emphasized that demand and customer choice for a brand are the main criteria of product selection.

#### **5.2. Customer profile and retailer merchandise selection**

Branded products are now sold in India through both traditional and modern retail outlets. Brand visibility has increased through multiple advertising channels such as, television, news papers, radio and lifestyle magazines. So, due to increased customer brand awareness, retailers have to put in great efforts to offer products that satisfy customer demands, attracting customers to the store. Moreover, employment opportunities for people have increased, which aids even rural customers to buy new products on a regular basis. Some of these areas lack market information, so the product consumption is relatively stable over long periods. Retailers in these areas do not show product diversity in their assortments. Rather, the assortments are typically based on customer demands and preferences. The retailers need to analyze customer demands depending upon the type of market to be dealt in. The construct of customer profile is formed using the three themes which are, market diversity, customer preferences and social strata.

#### **Market diversity**

*"I cater to all types of communities. I have Hindu, Muslim, Kashmiri pundit and Dogri customers. The village does not have a distinct market place; rather it has small retail stores which are built inside the house of the retailer. People live a simple life style."*

People living in the locality have a simple lifestyle. They are mainly engaged in agricultural practices or have their own small businesses. These customers prefer low cost brands. Moreover, the exposure level is low. So brand awareness among them is low. People belonging to various communities like Dogras, Kashmiri pundits, Hindu, Muslim live in the villages. Although their brand

preferences are similar, retailers have to keep certain community based products at the store. For instance, during Shivratri festival, when Kashmiri pundits purchase certain dry fruits and other Pooja accessories, the retailer has to keep an inventory of this stock depending upon the demand pattern. Some of the retailers emphasized that their major customers come from the labor class (migrated) people who buy low price products but in bulk quantities.

#### **Customer preferences**

*"I select products for my store based upon what customers demand. If the product is not available at my store, I tell customers to wait for some days and I get it for them. The brands which are advertised on TV or newspapers sell more than the non-advertised brands. When a supplier comes at my shop with a new brand, I usually keep it only when its advertisements come on TV."*

Retailers would keep well-known brands in their stores. They keep both national as well as local products in the store. Because of price constraint, customer preferences vary from low priced products to high priced products. These customers do not differentiate brands in terms of national, international or local; rather, they buy products either on the basis of price of the product or awareness of the brand. Retailers stock only such products that have high customer preference. Most of the customers prefer small packaged products, so the quantity of units stocked for small packaging is more than those for large packaging. Many retailers shared the fact that when they come across a brand that they were not aware of, but enjoys clear demand in other markets, they are interested in stocking that brand.

#### **Social strata**

*"I cater customers from all the religions.... The customers from poor and lower middle class families come to my shop."*

The customers living in the locality belong to rural areas. They have low living standards due to monetary constraints. Very few people own car but some people have two wheeler transport vehicle. The customers belong to poor or lower middle class background. Retailers have to manage their merchandise accordingly. Products of lower price as well as high range are to be kept. As the customers are rigid in their preferences, the stock of preferred brands is to be maintained always, otherwise the customers will swap to other retailers.

### **5.3. Relationship management and retailer merchandise selection**

In the current era, relationship management is predominately used in the context of technology. However, in case of small retailers, where use of technology is not evident, retailers use the traditional approach of maintaining relations with the third party. The business environment for small retailers is different from those of large retailers in terms of the technology, infrastructure, customers as well as the merchandise they carry. In terms of product selection, the retailer's relationship management with the supplier plays an evident role.

Traditional retail stores have been providing certain extra facilities to the customers in order to have an increased level of satisfaction, leading to retention of customers. These facilities could be, providing goods on credit, home delivery of goods or providing scope for bargaining. The construct of relationship management was formed with four sub-constructs: supplier, credit facility, buy back facility and replacement facility.

#### **Supplier**

*"I have a fixed supplier since I have opened my shop. I trust my supplier in terms of quality of the product and timely delivery of goods. In case of shortage of goods, he sometimes delivers goods at my store."*

Many of the retailers emphasized that they have a single supplier from whom they procure goods. They go to the supplier on a weekly basis and buy goods. In case of a sudden demand, the supplier delivers goods at their stores. The relationship between the supplier and the retailer is healthy and trustworthy. Sometimes the retailer adds a new product on the recommendation of the supplier. The unsold products are also sometimes taken back by the supplier. The supplier helps the retailers in terms of providing higher margin goods. So, by building a trust worthy relationship, both the retailer and the supplier ensure a profitable outcome.

#### **Credit facility**

*"I usually keep new products in the store when they provide me it on credit. I tell the supplier I do not have the money to keep something new, so I will pay you when my product gets sold."*

*"I also give goods on credit to my customers, as they are my regular customers and live in my locality."*

Most of the retailers said they only adopt a new product provided they do not have to pay the amount to the supplier up front. The retailer pays the amount when all the units are sold. Hence, a credit from the supplier helps the retailer to add a new product to the store. If the demand of the product seems increasing, the retailer buys more stock from the supplier. The retailer also provides his/her customers goods on credit facilities. The retailer provides goods on credit to customers who are regulars at the store and buy goods in bulk. This helps in building a strong relationship between the retailers and the customers.

#### **Buy-back facility**

*"When I add a new product in my merchandise, I tell the supplier to buy back all the unsold goods.... sometimes when the product turns out to be defective, I buy back the product from the customer."*

Another very important factor that influences retailers in deciding the product is the buyback facility from the supplier. This facility helps the retailers to sell back all the unsold goods to the supplier. This facility is helpful to the retailers because, customer preferences being restricted, it is a risky affair to add a new product. But if the supplier gives a buy back facility, the retailer can easily add a new product in his merchandise list. Also, these retailers have limited space in the store and rarely have a stocking place. So when stock is piled up, it gets difficult for them to manage other products. Hence this facility helps them reduce their stock piling cost. Nearly all retailers prefer a brand with buy back facility.

#### **Replacement facility**

*"I keep new brands only if the distributor offers replacement. This helps me to be on the safer side of the risk."*

Nearly all retailers were also willing to stock a brand provided the supplier is ready to replace the unsold stock or replace defective stock. When a product is new, customers are not aware of it. So in order to minimize the risk, retailers want suppliers to offer a replacement facility. This opportunity is also beneficial for suppliers because, instead of giving products on credit basis, they would like the retailers to buy the product. If the product does not sell, the suppliers would take it back. Some retailers also mentioned that they take a new product only when the supplier is known. The retailers also offer replacement facility to the customers. When the product is defective, the retailer replaces it with a new one. In turn, this

defective product is replaced by the supplier. A retailer mentioned the example of a defective pack of 100 ml of shampoo (Brand X). He said that when he visits the supplier next time, he will give it back to him and get a new bottle.

#### **5.4. Store attribute and retailer merchandise selection**

##### **Store size**

*"I have a small shop of about 100 sq. feet. I have placed shelves on all three walls and distribute all the product categories accordingly."*

Almost all the retailers interviewed had small shops, about 50 sq. ft. to 100 sq. ft. in area. The retailers had placed wooden shelves on three walls. The categories of the products were divided accordingly. Nearly all stores had Over The Counter (OTC) facility. A few retailers had refrigerator provided by the supplier or company distributors. The retailers used hangers for display of products. The entire inventory was maintained inside the store; very few retailers had separate area for stocking of goods. Some retailers had a wooden plank at the center of the store where they displayed grocery items. Due to the small size of the store, they could not place the products category wise. Space management was rather haphazard. High-demand products were kept at the front and low-demand products were on the back shelves. Products preferred by children were displayed on the counter.

##### **Product categories**

*"I sell nearly all the grocery items, cosmetic items and even stationary items for kids."*

Products being offered by these retailers were not confined to grocery items but included certain cosmetic products like hair oil, hair shampoo and face cream. They also kept stationary items for children. As the demand for stationary items was not frequent, these items were placed on the back shelves. Brands for each product category were varied on the basis of customer preferences. Nearly all possible sizes of packaging of brands were kept in the store. The retailers were not willing to increase product categories due to space constraint and also due to customer preferences.

##### **Ownership**

*"I run the store all alone and do not have any sales person."*

The stores do not have sales persons as the retailers believe that they can handle it all alone since the store is

small. Some retailers have been running the stores for 20 years or more. The retailers do not want their children to man the stores in future as they aspire to see them in a better business and move to city areas. Even the second generation retailers feel that if they find a better job opportunity, they will leave this profession.

*"I want to renovate this store and make it similar to ones in the big cities. I have been to various other cities; the stores there are well organized."*

The next generation of the retailers, who want to run the store in future, want to renovate the store, bringing about healthy changes. The level of exposure among the new generation is high. So they want to make changes in the store in terms of assortment and variety of stock. They are also fascinated with the systems at the organized stores.

#### **Shelf space**

*"I have very low shelf space and the number of products to be kept is large. So I have divided each shelf into sub-shelves. Organization of the products on the shelves is not possible as I am alone at the store managing everything. I cannot waste time in organizing products. Instead, I can cater customers in that time."*

Small retailers have very small store area and hence small number of shelves. So shelf space management is a difficult task for them. Moreover, they feel that organization of the products is a difficult and time consuming task. The front shelves are organized and high selling products are displayed on them to attract more customers. The customers rarely enter the store premises; rather, they ask for products from outside the store. Since the owner knows the location of each product, the need for organized shelf placement is perceived to be low.

#### **Retail profitability**

In this study, retail margin is defined as the difference between cost price and retail price, an important determinant of a retailer's expected profit (Corstjens & Corstjens, 1995). Retail profitability has been found to be a determinant of selection of product by many researchers. It was important to check the context of retail profitability from a small retailer's perspective. New product entry in the assortment may result in dropping an underperforming product due to shelf space limitations. Therefore retailers are more likely to consider a new product for adoption if the gross margin of this product is higher than the average gross margin for comparable products in the

category. As budgetary constraints are always present in small businesses, adoption of any new product will affect the overall budget of the retailer. Thus he might delete some low performing products from the assortment.

#### **Total budget**

*"My budget is limited, so I have to think over the addition of any new variety of products at my store. Sometimes I delete those products which don't sell at all, but even if the sale is less, I do retain the product."*

Retailers have limited amount of money kept exclusively for the business. So the scope of adding new products is less. However, when any product or brand is in demand from the customers, the retailers have to add it in the store in order to fulfill the needs of the customers. With the addition of new varieties of the product, retailers need to provide shelf space to that product. For that, they often reduce the number of front display SKUs of the less selling products or sometimes totally delete such products from the assortments.

#### **Retail margin**

*"Although I have to keep all the products which are demanded by the customers, the products that give high retail margin to me are preferred."*

*"When a customer asks me for a product and doesn't have a specific choice, I usually offer them products that give me high margins."*

High retail margin is the basic and the most important factor for any retailer to accept a brand or product variety for the store. Customers who have low brand knowledge usually purchase products based on the retailer's advice. Retailers often offer products to the in customers products that yield a high margin and are more profitable to the retailers. Retail margin of a product also is an important factor in deciding the location of the product on the shelves. High-margin products get front shelf space in the store. One of the key findings of the study is that retailers select products on the basis of the profit they attain from the product. The higher the retailers' profitability, the better is the chance of the product to be selected for the store.

## **6. Discussion**

The current research work is an initiative to understand the drivers of merchandise selection by small retailers. The factors considered by the retailers in selecting merchandise for their store can be seen in Fig.1. The figure explains a three order construct which leads to small

retailers' merchandise decision. The approach of merchandise selection for small retailers is multi-dimensional. The retailers need to consider customer, supplier, environmental as well the profit oriented factors, when deciding the merchandise for the store. These small retailers need to manage their merchandise keeping in view customer demands and preferences. The most basic and important strategy of retailers is to decide the appropriate product assortments for the store. Customers are heterogeneous with some belonging to high economic groups and some to low economic groups. Each of the categories of products that the retailers present in the store is selected on different bases. Products with higher demand and longer shelf life are stocked more as compared to less-preferred products. But retailers have to keep certain level of SKUs of products which have low demand to provide them to customers if there is demand. The stocking criteria of the retailers are also affected by supply from the suppliers. As these retail stores are in the rural areas, they have to maintain a substantial stock of goods. Their suppliers are located far in the city areas, so they have to travel distances to visit them. However, a very important reason for not keeping huge merchandise is that these stores are small in size with low capital investment. The findings are similar to the research by Dholakia, Dholakia and Chattopadhyay (2012). The inventory held by small retailers is small and demand based decisions ensure higher churns leading to better ROI (Return on Investment) over the year. They prefer to stock brands with definite demand rather than those with higher profit margin.

These retailers deal with various socio-economic groups and people of different religions. So they have to cater the needs of all the people living in the locality and thus manage the merchandise they carry. The people have poor background, so their preferences are very rigid. Brand awareness is low among the people, so the retailer has to ascertain the brands that the customers know and keep the same. The retailers maintain a healthy customer relationship and supplier relationship. Facilities like credit, buy back and replacement are offered by the retailers to the customers, and the suppliers to the retailers. Their relationship is paramount. They would provide what customers want and refrain from unknown products which may endanger the relationship. Since they serve a small market and are part of the community, business transactions are shaped by social relations. This relationship is used to assess demand for new products.

Customer relations mean the final word for them. Recommendations of products by suppliers are also a vital input for the retailers. For maintaining a healthy relationship, retailers keep the supplier-preferred products, but with conditions such as, buy back facility or credit facility.

The current research shows that small retailers adopt traditional assortment strategies, which primarily seek profitability. The main focus of the retailers in terms of profitability is to maximize the variety of products in the store to attract more customers by eliminating low selling products. Some of the earlier studies have focused on the importance of profit related variables on retail product adoption and shelf allocation of the products (Chaing & Wilcox, 1997). The construct of store attributes was an important aspect to study as the store features are important in the Indian retail scenario. For small retail stores, space is very limited and it is difficult for the retailers to expand the physical dimensions of the stores. So the total area of the stores remains more or less fixed. Hence, the retailers need to manage their assortments in the given limited dimensions. One of the findings of the study emphasizes that small retailers plan the space requirements for their stores by first choosing the number of categories (variety or breadth), then the space each category requires based on the number of SKUs within the category (depth), and finally the number of units within each SKU (desired service level). It was observed that the small retailers arrange products of similar category together in order to let the customers' shopping experience be more comfortable. In some settings, complementary products are kept together in order to induce customers to go for unplanned purchases. Similar results were given by Mantrala et al. (2009) in their study of assortment planning by small retailers where they mentioned that physical space of the store is directly related to the number of products a retailer will carry.

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**Table 1: List of Areas Covered in the Study**

Sl. No.	Sub District	Village Code	Name of village	No. of retailers covered
1	Akhnoor	0135	Pallan Wala	2
2	Akhnoor	0158	Muthi	5
3	Akhnoor	0178	ChakDhlan	3
4	Jammu	0148	Jaswan	2
5	Jammu	0154	Phalora Nagbani	3
6	Jammu	0156	Gura Brahmana	3
7	R.S Pora	020	Kadyal	2
8	R.S Pora	024	Nari	4

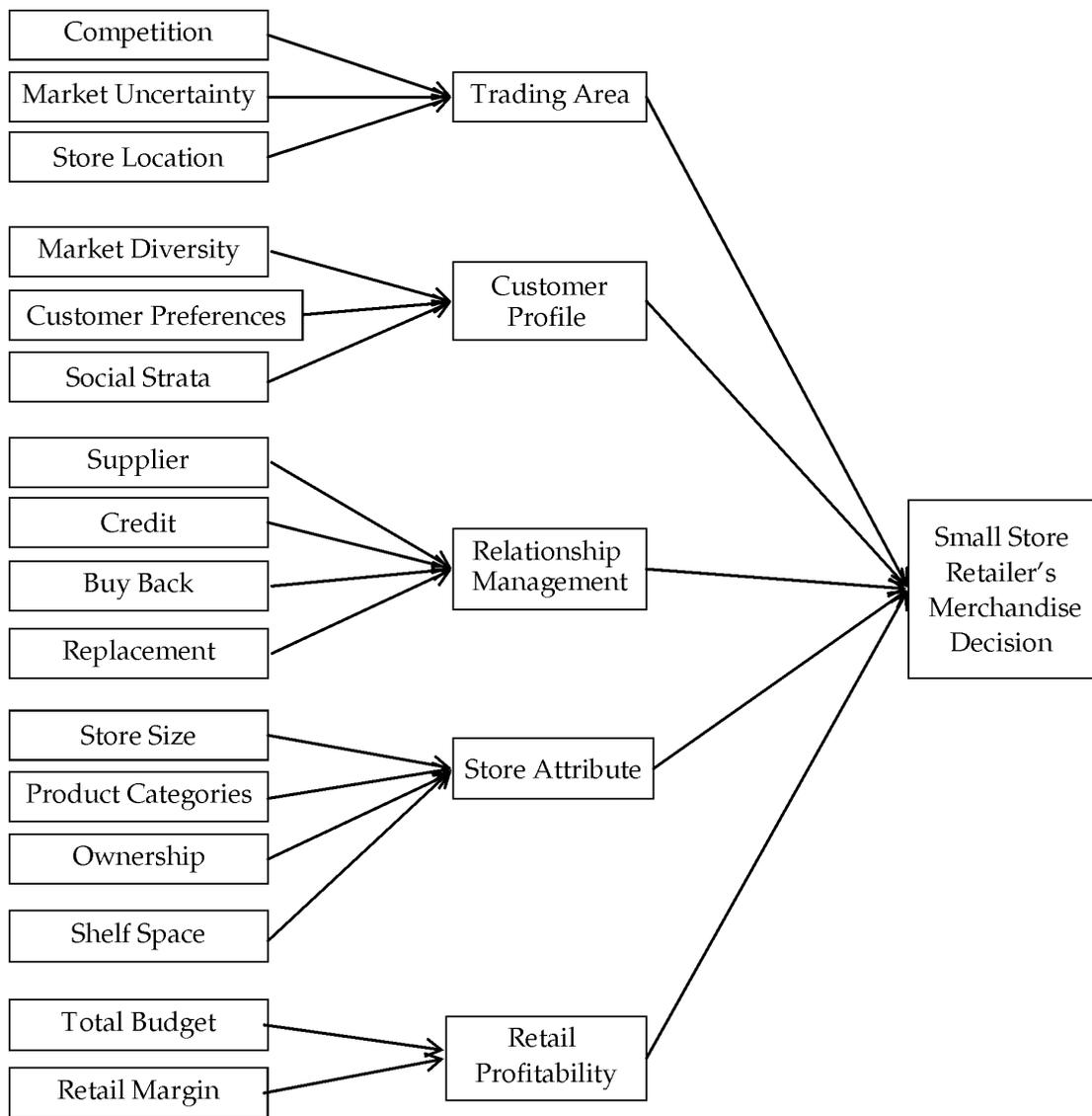
**Table 2: Themes Deduced from Interviews**

Sr.No.	First Order	Second Order	Third Order
1.	I observe other retailers in the locality and add products accordingly.	Competition	
2.	New products for my store are selected when other retailers also add it to their store.		
3.	No competition from big stores.		
4.	Competition is just within the locality retailers which sell similar products.		
5.	Competitions from other nearby retailers which also sell the same product affect my overall sales.		
6.	Number of customers coming to my store has reduced due to increase in stores nearby.		
7.	The demand from the customers is never fixed.	Market Uncertainty	TRADING AREA
8.	High demand products are being stocked more.		
9.	Products from the suppliers are bought on weekly basis.		
10.	Products are sometimes bought from the supplier on odd days when uncertain demand arises.		
11.	New products are not added unless I feel there is demand for them.		
12.	Products are added on the basis of customer recommendations.		
13.	Customers visiting are rich as well as poor, so brands are to be managed accordingly.		

Sr.No.	First Order	Second Order	Third Order
14.	Store is located in rural area so the awareness of new products is not much.	Store Location	
15.	Customers are not much aware here, so they listen to my recommendations.		
16.	Some of the customers who buy from this store come by cars, so products of their status are also to be kept.		
17.	Store is in the center of locality, so I get customers from all of the area.		
18.	Each customer has a different demand of brands, so I have to manage accordingly.	Market Diversity	
19.	Upper as well as lower class people come to my store.		
20.	The buying pattern of each stratum of customers is different in terms of the quantity they buy.		
21.	I have to add certain high price brands recommended by certain fixed customers even though demand of such product is low in the locality.		
22.	I carry products for both males and females.		
23.	I keep products of children's attraction near the counter area.		
24.	Uneducated customers recognize products through packaging of the product.		
25.	Due to variation of customer choices, products of national as well as local brands are to be kept in shop.		
26.	Customer preferences are more important for product selection than the margin I gain from products. Customer Preferences	Customer Preferences	Customer Profile
27.	For customer attraction, I keep as many brands as possible in my shop.		
28.	I usually add only those new products that are preferred by customers in my locality.		
29.	Customer recommendations for new product introduction are most important.		
30.	I keep local and national brands as I cater both kinds of demands from the customers.		
31.	Product deletion is not done until and unless the product is totally not in demand by customers.		
32.	In each product category, all possible pack agings are kept at the store as different customer prefers different priced products.		
33.	Sometimes products of low demand are to be included in the store just because a few customers prefer it.		
34.	Through TV advertisements, customers keep them selves updated and demand products of new brands, so I also have to keep myself updated.		

Sr.No.	First Order	Second Order	Third Order
35.	Poor, middle class as well as upper middle class people come to my shop.	Social Strata	
36.	As my store is in rural area, I have to keep local brands based on the monetary worth of people.		
37.	Even if I keep high priced branded products, no one will buy them as people in the locality cannot spend so much on basic utilities.		
38.	People of many religions reside in the locality and I have to keep products for all.		
39.	Labor class people usually buy a lot of products from my shop.		
40.	I have kept some products that are of exclusive use to Kashmiri people.		
41.	I buy goods from my supplier on weekly basis. Supplier RELATIONSHIP MANAGEMENT	Supplier	Relationship Management
42.	The amount of products to be bought within a product category varies with the demand of the product.		
43.	I have a single supplier since opening this shop.		
44.	I trust my supplier to have low defection rate of his products.		
45.	In case of uncertain demand, my supplier takes my order on phone and delivers it to my shop.		
46.	I travel to the city area for buying goods.		
47.	I offer credit facilities to my customers. Credit Facility	Credit Facility	
48.	Whenever I introduce new products to my shop, I take them on credit basis from my supplier.		
49.	Credit facility is my priority.		
50.	Merchandise should be available from a new supplier on credit such that payment will be done only after goods are sold.		
51.	Even known new brands have to be initially stocked on credit basis.		
52.	Products offering buy-back facility are preferred.	Buy Back Facility	
53.	If the product is defective, I replace the product for customer. Replacement Facility	Replacement Facility	
54.	Suppliers provide replacement facility for defective products.		
55.	Retailers are not ready to take the risk of unsold stock. This stock should be replaced.		
56.	Average size of the store is 100 square feet.	Store Size	
57.	Due to small store size, less number of products can be accommodated.		
58.	No extra stocking area. All the stock and goods are placed in the shop.		
59.	Small store size leads to less number of shelves in the store.		
60.	OTC system in the store.		

Sr.No.	First Order	Second Order	Third Order
60.	Product categories related to food and grocery, FMCG, cosmetics and some supplementary products.	Product Categories	Store Attributes
61.	Only variants within each product category that have high demand are kept in store.		
62.	Demand of small packaged products is more in comparison to big packaged products.		
63.	I carry merchandise of general usage.		
64.	On an average, nearly 5-6 yrs have passed since the shop began operating.	Ownership	
65.	No salesman to take care of shop. In case of emergency, family members take care of the shop.		
66.	All the three walls of the stores have shelves on it.	Shelf Space	
67.	I have segmented the size of shelves based on the category of products I carry.		
68.	Based on the availability of shelf space, I decide which varieties to be selected within each product category.		
69.	I have increased the number of shelves at my store.		
70.	The margin I get from each product affects the placement of the product.	Retail Margin	Retail Profitability
71.	When supplier offers high margin products, I often add them at my store.		
72.	When I select my supplier, I keep in mind the profit margin he will give me from each product category.		
73.	My only profit is generated through the margin I earn from non-branded products, so I prefer keeping them at my store.		
74.	Overall business profit should be large enough to accommodate at least my daily expenses.		
75.	Profitability is an important criterion for selecting a product for the store.		
76.	I purchase small stocks of goods due to budget constraint. Total Budget	Total Budget	
77.	A small amount of risk with the purchase is addressable but no huge risks are taken.		
78.	When I started with this shop, I kept few product categories.		
79.	Store size cannot be increased as I require huge money to build a big store and then maintain it.		



**Fig. 1: Theoretical Framework for Small Retailers Merchandise Decision**

**Surabhi Koul** is a doctorate in marketing from SMVD University, J&K. She currently works as a Research Associate at IIM-A. Her area of research broadly covers rural retailing, consumer behaviour and small scale retailers. She has published papers in several international and national journals.

**H G Mishra** earned his PhD from VBSPU, UP. His professional interests includes Retail Marketing, Rural marketing and Strategic Marketing. Mishra has 11 years of teaching experience. He guided three Ph.D. students. Got published articles & papers in renowned journals such as; Global Business Review, Journal of Business

Management, IIM Journal of Management Science, Journal of Business & Economics, Journal of Management Research. (Email:-govindhari1976@gmail.com)

**Piyush Kumar Sinha** is a professor in marketing at Indian Institute of Management, Ahmedabad. His papers have been accepted for publication in international journals like the International Journal of Retail and Consumer Services, International Journal of Retail and Distribution; Vikalpa and Decision. He has published a book "Managing Retailing with text and cases" by Oxford University Press. (Email:-pksinha@iimahd.ernet.in)