Pricing Strategies and Customer Perceived Value in Organised Retailing of Fruits and Vegetables- an Empirical Study

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Abstract

This study is aimed at understanding the pricing strategy and how pricing is done for Fruits & Vegetables at organised retailers of F&V. It is also aimed at knowing the customer perception of the value offered by organised retailers of F&V.

The study on perceived value offered by organised retailers of F&V is conducted at six stores of organised retailers of F&V in Chennai and responses of 200 customers are taken through questionnaires. The questionnaire consists of closed ended questions. The primary data obtained is analyzed to find out as many associations as possible between the various variables of sales promotion and demographic attributes. Chi-Square test is used to find out possible associations between variables.

Keywords *— pricing, strategy, retailing, fruits and vegetables*

I. INTRODUCTION

A. Food and Grocery Retailing in India

The Indian consumers, being in a fast growing economy, spend a larger share of their income on food. The food retail sector is largely dominated by unorganized players (Kirana shops/ mom and pop shops/neighborhood and convenience retailing) in India. According to National Sample Survey Organization (NSSO) report on household consumer expenditure in India, "out of every 100 rupee spent in 2006-07 by the average rural Indian on household consumption, 51 rupees was spent on Food and 49 rupees on non food items. But the average urban Indian spent 39 rupees on food, spending smaller portion of household expenditure in every food category excepting, beverages, refreshments and processed food". According to McKinsey report (2007), the share of an Indian household's spending on food is one of the highest in the world, with 48 per cent of income being spent on food and beverages.

The following studies stress the importance and significant contributions of food and grocery retailing in India, wherein the majority outlets delivering food and grocery situate in metro and mini metro cities. Chatterjee Purvita (2009) reports that, according to KPMG report on retailing in India, it was pointed out that the value of Indian food and grocery market was US $236 Billion and this food and grocery segment constituted about 60 per cent of total retail sales. Surprisingly it was found that majority of these sales emanate from unorganized retail outlets.

In India, food sales are the largest segment of retail industry. There are around 3.7 million food retail outlets with an estimated turnover of Rs 7400 billion (Cheng appa et al., 2007). Food retailing in India is, by and large, unorganized, highly fragmented and predominantly small, family owned businesses (Singh, 2007). About 78 per cent of these shops function with only family labour. Nearly 96 per cent of the food outlets are small with less than 500 sq ft area. Unorganized food retail segment consists of kirana shops, selling dry food products, and fruit/vegetable shops and hawkers (pushcart vendors) selling wet food products. As the unorganized retail outlets are under-capitalized, these are not able to cater to the fast changing consumer demand for value-added services, thus providing the edge to the organized retail sector.

II. NEED FOR STUDY

Organised retail sector in India has witnessed a rapid growth in the last decade. Still it constitutes for only 3 percent of the total retail sector in india. organised retailers of F&V was established exclusively for Fruits and Vegetables. Later, Staples and other FMCG also entered the stores of organised retailers of F&V because, there was a decline in the sales of F&V due to many reasons including agitations against organised retailing of F&V in some parts of the country. Still it manages to stay ahead of it's competitors. It may be relevant to study the pricing strategy employed by organised retailers of F&V for fruits and Vegetables which helps it stay ahead of in this sector and at the same time offering value to it's customers. The consumer perception of the value offered by organised retailers of F&V should also be studied to analyse the efficiency of the pricing strategy of it.

III. OBJECTIVES OF THE STUDY

1. To study the price fixation method for Fruits and Vegetables in organised retailers of F&V.
2. To study the customer perception of value offered by organised retailers of F&V.

IV. REVIEW OF LITERATURE

A. Price

A retail store's pricing policies should reflect the expectations of its target market. Successful retailers carefully position themselves in a market and then direct their specific pricing strategies toward satisfying their target market. Generally shopper perceive price as an important attribute to start their shopping activities. Indian consumers were also found to be price sensitive and quality conscious (Tuli and Mookerjee, 2004). Hortman et. al., remarked that shoppers appear to be making "lexicographic decisions". For example, price sensitive shoppers consider price as a primary factor in selecting stores to shop but finally make their store choices based on quality of products. Fisk (1961) identified six attributes as the most important: location accessibility, merchandise suitability, value for price, sales efforts and store service. Retail pricing strategies, however, may also affect the way consumers perceive each store's overall price level or store price image (Dhar et. al., 2001). Bell and Lattin (1998) determined two types of pricing strategy (everyday low price across a wide assortment of product, and temporary deep discount in certain product categories), which are said to be used by most the supermarket operators. Price is a very important attribute for consumers, as it is a common and salient product attribute for most of the consumers in any purchase decision (Desai and Talukdar, 2003). Pricing is found to be one of the most important attributes in grocery-shopping decisions Hortman et. al., 1990). Further, the price level has been found to be an influential factor in terms of retail format choice and determinant of different customer groups (Carpenter and Moore, 2006; Baltas and Papastathopoulou, 2003). People can be inelastic to price changes for grocery purchases (Fox et. al., 2004). Moreover, Sirohi et. al., (1998) found that price has a great effect on the value of the store. Singh et. al., (2004), found that large basket buyers are more likely to choose the everyday low price strategy. Value pricing is setting a fair price level for a marketing mix that really gives the target market superior customer value.

The customer's evaluation of the difference between benefits and costs. Customers often do not judge values and costs accurately or objectively.(Philip kotler)

Product's perceived performance relative to customer's expectations. Customer delight leads to emotional relationships and loyalty(Philip kotler)

B. Store Ambience

Creating an appealing store environment is a really and also a tough challenge on the part of the retailer. So keeping in mind of shopper's taste and preferences, a retailer should think about clean store, good ambience, new attractive fixtures, color and graphics etc so as to take a lead than their competitors in communicating to the potential shoppers. From the retailer perspective, who ever shopper enters in to the retail store, should feel that how the product is supposed to perform. Most shoppers are accustomed for noticing the layout and design of a store, which comprises all elements affecting the human senses of sight, sound, smell, and touch. So it is the overall perception, the consumer has of the store's environment. The merchandise presentation must be exciting to catch and hold customer's attention, be easy to understand, and encourage shoppers to browse, evaluate and buy (Dunne and Lusch 1999). High performance retailers design their stores to expose shoppers to as much merchandise, that is displayed in a safe and orderly manner and create an uncongested shopping environment. The attractiveness, to a consumer, of a specific outlet is a function of fixed and variable shopping utility (which, in turn, is the difference between shopping benefits and costs). While fixed shopping utility is inherent to the shopping trip (e.g., store location, store loyalty, service quality, and travel costs), variable shopping utility varies with the shopping basket (price of products) (Bell et. al., 1998; Tang et. al., 2001). Previous research has identified store attributes as a multi-dimensional construct including location of store, nature and quality of stocks, in-store promotions, sales personnel, physical attributes, convenience of store, atmospherics and loyalty cards that influences consumer behaviour (Miranda, Konya and Havrila 2005). Lindquist (1974-1975) determined nine key attributes: merchandise, services, clientele, physical facilities, convenience, promotion, store ambience, and institutional factor satisfaction. Use of appropriate signage can also reduce search effort. This is where store ambience plays an important role. The shopping experience as created by a clean, hygienic, well lit and neatly laid out store has been found to increase store patronage. This evaluation of the total retailer's offer in the customers mind is defined by Martineau (1958) as "store image. An important attribute of supermarket store image is store atmosphere. This refers to the environment that is created by combining a set of visual elements of the physical store environment (colours, displays, decorative features, ease of movement etc.,) and stimulation of senses (smell, condition of the air, music, lighting) enabling an aesthetic consumer response. Stores with a favourable atmosphere are likely to increase the positive buying experience and customer satisfaction (Babin and Darden, 1996) as well as affecting the time, the customer spends in the store and the amount spent (Babin and Darden, 1996;

Babin et. al., 2003; Donovan and Rossiter, 1982; Bellizzi et. al., 1983; Eroglu and Machleit, 1990).

V. RESEARCH DESIGN

A. Research Methodology

The method employed for this study is Analytical Study. Primary data and secondary data are used for the study. Primary data is collected by using structured schedules from the customers visiting the stores.Primary data is collected from customers of organised retailers of F&V through stores of organised retailers of F&V. The average walk-ins in each store per day is 600. The sample size is selected as 300. The questionnaire adopted for the study consists of multiple choice questions. The questionnaire is closed-end in which multiple choice, Likert scale, Semantic differential are used.

VI. PRICING OF FRUITS AND VEGETABLES

The price fixation of Fruits and Vegetables at organised retailers of F&V is done as follows.

A. Procurement Price

In the first step, the procurement price is considered at which Fruits and vegetables are bought from the farmers or other agencies (in the account of high demand). The price paid is based on the market rate. Fruits and Vegetables are bought from the cheapest source available including transportation costs. Use of own transport facilities helps the company a lot in this regard. The company has also got a good network across countries which helps it in procuring SKUs from other countries at a comparatively lesser price and with less transit time.

B. Price Comparison

In the second step, prices of different SKUs in wet market, unorganized stores and other competitors are compared. The list of bench mark prices(procurement price including transport cost) of all SKUs is obtained every day. This bench mark list and prices of others are compared and price is fixed according to the margin scale. Pricing of a typical SKU on a typical day is seen below

Here, margin rate for apple is 25 percent. Margin range in organised retailers of F&V is 25-28 percent. Gross margin is the mean of the margins of all the SKUs sold.

1. Gain margin
   Gross margin $H=F-G$
   F (Net Sales without tax)$=D-E$
   $G= G1+G4+G5$
   where,
   G1 is COCS as per MAP
   G2 is COGS as per standard margin
   G3 is COGS Adjusment - commited sells standard

margin
G4=G2+G3 (Total costs for concessionaire)
G5 is Vendor COGS-SIS
G6 is Transfer COFS
Margin $(h/f)*100=I$
COGS is Cost of Goods Sold

When the prices are compared with that of competitors, their sales volume is also considered because, price of others may be higher or lower based on the volume of sale and their core business. Sometimes need arises to change the price of a SKU at a particular store due to the effect of lower pricing in the other local stores surrounding that store. Then changes are made in the price of that SKU in that store by the store manager with the consent of NHQ through department head. Any change made in price will be in effect only from D+1that is from next day.

C. Consolidated Testing Result

Hypothesis	Test	Result
$H1_0$=There is no association between perceived pricing and gender. $H1_1$= There is association between perceived pricing and gender.	Chi-square	Accepted
$H2_0$=There is no association between perceived pricing and income group. $H2_1$= There is association between perceived pricing and income group.	Chi-square	Accepted
$H3_0$=There is no association between satisfaction level of ambience and income group $H3_1$= There is association between satisfaction level of ambience and income group.	Chi-square	Accepted
$H4_0$=There is no association between satisfaction level of ambience and gender $H4_1$= There is association between satisfaction level of ambience and gender	Chi-square	Accepted
$H5_0$=There is no association between frequency of visit and income group	Chi-square	**Rejected**

$H5_1$= There is association between frequency of visit and income group.		
$H6_0$=There is no association between frequency of visit and occupation $H6_1$= There is association between frequency of visit and occupation.	Chi-square	Accepted
$H7_0$=There is no association between preference for Mark down and income group $H7_1$= There is association between preference for Mark down and income group.	Chi-square	**Rejected**
$H8_0$=There is no association between perceived quality and income group $H8_1$= There is association between perceived quality and income group.	Chi-square	**Rejected**
$H9_0$=There is no association between perceived quality and age group $H9_1$= There is association between perceived quality and age Group.	Chi-square	Accepted
$H10_0$= There is no association between sales promotion offers rating and income group. $H10_1$= There is no association between sales promotion offers rating and income group.	Chi-square	Accepted

VII. SUMMARY, FINDINGS AND RECOMMENDATIONS

This study is aimed at understanding the pricing strategy and how pricing is done for Fruits & Vegetables at organised retailers of F&V. It is also aimed at knowing the customer perception of the value offered by organised retailers of F&V.

The study on perceived value offered by organised retailers of F&V is conducted at six stores of organised retailers of F&V in Chennai and responses of 200 customers are taken through questionnaires. The questionnaire consists of closed ended questions.

The primary data obtained is analyzed to find out as many associations as possible between the various variables of sales promotion and demographic attributes.

Chi-Square test is used to find out possible associations between variables.
The tests have shown association between the following variables:
- Frequency of visit and Income group
- Preference for Mark down and income group
- Perceived quality and Income group

VIII. FINDINGS AND SUGGESTIONS

A. Product

Around 75 percent of respondents are satisfied with the quality. During the informal interaction with the customers, they felt that, Quality of the Fruits & Vegetables should be improved in terms of freshness and consistency in maintenance of freshness and that the standards need to be raised. Quantity of assortment need to be increased especially on weekends. The fresh pick of the day is finished within hours of stock arrival.

B. Service

CSA should be trained to communicate more politely especially to the sensitive (high income group and elders) who expects it most. Billing should be done properly by including the discount offers provided if any. At some stores, especially West mambalam, customers have to wait very long at the counters for billing. This problem can be rectified by adding express checkout counter, proper handling and maintenance of billing equipment

IX. CONCLUSION

Freedom to choose product is one of the attributes of ambience. It is understood that customers of high income group are not completely satisfied with ambience. Labeling of products should be done properly and should be well displayed. There have been complaints that the labels at the products regarding the promotional offers are not updated regularly and are sometimes misleading.(customers may be attracted by old offers but don't find them in their bill)

Sales promotional offers are not well communicated to customers. Steps like in store announcements and SMS campaigning can be taken to make the customers aware of the promotional offers. Markdown is not preferred by 38 percent of the sample. Especially in the high income group, there are more respondents who don't prefer Mark down than those who prefer markdown of fruits and vegetables. Those who don't prefer markdown feel that the products that are marked down are of inferior quality.

It is observed at some stores that the marked down products are not seemed to be of good quality. Such few instances may affect the reputation of the organization.

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