Original Article

An empirical analysis of the determinants of customer conversion: A cross sectional study of organized retailers in Chattisgarh

Received (in revised form): 5th January 2011

Sumita Dave

is an associate professor and Head of Department of MBA, Shri Shankarcharya college of Engineering and Technology Bhilai, with 15 years of experience. She completed her doctorate in the field of Marketing. Her areas of interest are Retail management and Change management. She has more than 30 papers to her credit both in national and international journals.

Shikha Sondhi

is senior lecturer in the Department of MBA, Shri Shankarcharya college of Engineering and Technology Bhilai. She has 5 years of teaching experience. She is a postgraduate in Management with Marketing and Finance as her specialization. Her area of research work is retail management. She has 10 research papers to her credit that are published in conferences both nationally and internationally, as well as national journals of repute.

ABSTRACT The onset of the global financial crisis is spurring customers to spend cautiously, thus decreasing the average amount of money spent per shopping trip. A dip in the customer conversion ratio has marred the profitability of retailers, and therefore making customer conversion an imperative issue. Today, retailers are increasingly making use of various in-store influencers for converting browsers to spenders. However, success depends on how the customers perceive these influencers. This article empirically evaluates the perception of the customers towards various in-store stimuli that is, price, merchandise, promotion, displays and ambience, across stores located in a cross section of the retail market of Chattisgarh. The findings of this article help in developing a strategy for improving conversions, therefore the profitability of a retail outlet.

Journal of Retail & Leisure Property (2011) **9**, 465–475.

doi:10.1057/rlp.2011.9

Keywords: customer conversions; conversion ratio; impulse purchase; merchandising; in-store promotion

Correspondence: Shikha Sondhi
Shri Shankarcharya college of
Engineering and Technology
Junwani, Bhilai, Chhattisgarh, India
E-mails: eshikha@yahoo.com,
ssondhi2111@gmail.com

INDIAN RETAIL SCENARIO

The face of Indian retailing has witnessed a transformation over the last decade (Figure 1). This is evident from the fact that shopping mall activity, which before was only a feature of the big cities, has started perforating down to smaller cities and towns. Chattisgarh state is also

Figure 1: Changing face of India retail.

witnessing increased mall activity in its major cities. The near proximity of the state to Nagpur, which is one of the major retail hubs, has made Chattisgarh an attractive destination for the retailers. Retailing is a recent activity in Chattisgarh and is concentrated in the two major cities of Raipur and Bilaspur. However, with the onset of the global financial crisis, retailers both at the national level and in Chattisgarh have been witnessing a decrease in the conversion ratio and therefore are experiencing lower profitability. The inflationary environment in the state is spurring customers to spend more cautiously and the conversion ratio of Indian retailers is far less than that of international retailers (see Table 1 and 2). The major focus of Indian customers is on more affordable products, which is decreasing the average amount of money spent per shopping trip (Table 1). Improving the conversion rate of customers has become an imperative issue for retailers.

The number of customers that make a purchase in a retail outlet is influenced by various environmental factors within the store such as atmosphere, price, promotion, merchandise and presentation (Kanuk and Schiffman, 2005, p. 205). Retailers are increasingly making use of these internal influencers for improving their share of the spending of customers. However, success depends on the perception of customers towards these influencers. This article studies these perceptions.

INDIAN RETAIL CUSTOMERS

Currently, India has the largest young population in the world. According to statistics published by the Population Reference Bureau in 2005, 36 per cent of the population is below the age of 15, whereas 54 per cent of India's population is below 25 years of age. Eighty per cent are below 45 years of age and just 4 per cent are 65 years of age (Haub and Sharma, 2006).

Table 1: Conversion ratio and average transaction value of mega retail outlets in India

Name of retailer	Conversion ratio (%)	Average transaction value
Shopper stop	23–45	1100
Arcus Mall	20–60	NA
Pantaloons (Food Bazaar)	80	400
Trumart (Pyramid)	80	280
Lifestyle (Pantaloons)	25	1000
Big Bazaar (Pantaloons)	35	850

Table 2: Conversion ratio of major global retailers in India

Global retailers	Conversion ratio (%)
J.C. Penny	80–85
Wal Mart	85–90
Kohls	80–85
K-Mart	85–90

According to a report by Ac Nielsen, customers spend 42 per cent of their monthly expenditure on products in the grocery category (Peter, 2007).

Sinha (2003), in his article on shopping orientation, argued that Indian customers are orientated towards shopping because of the entertainment that can be derived out of it. According to him, the majority of the Indian population can be characterized as young, working class, with higher purchasing power. They seek more of the emotional value from shopping than the functional value and they value convenience and variety. Therefore, a better shopping experience has become the major focus of Indian shoppers (Hemalatha *et al*, 2009). According to Bajaj *et al* (2005, p. 25), more than 60 per cent of purchases in an organized retail outlet are unplanned. According to the above data, it can be concluded that most Indian customers are impulsive buyers who purchase products either on a whim or when they are emotionally driven to that product. This has led retailers to take on various marketing strategies for attracting and converting customers such as promotional schemes and attractive displays. The following section reviews the scholarly work that has been carried out on customer conversion.

LITERATURE SURVEY

Retailer's marketing objectives can be classified into three broad categories: attraction that focuses on consumers' store entry decision; conversion that relates to consumers' decisions about whether or not to make a purchase at a store; and spending that represents both dollar value and the composition of their transactions. In marketing parlance, conversion refers to the incidence of when a prospective customer takes the marketer's intended action (Kotler, 2003). Customer conversion is commonly known as sales conversion. It is the percentage of people who enter a store that buy something.

Figure 2: Important factors influencing impulse purchase behaviour of customers.

It is calculated by:

$$\text{Conversion ratio} = \frac{\text{Number of sales transaction}}{\text{The number of people who enter the store}} \times 100$$

It is difficult to benchmark conversion as it varies dramatically across different retail categories, channels and formats. For example, a high margin business converts at low rates and vice versa. The in-store environment has been identified as an important determinant of customer conversion and therefore impulse purchase. Prior research studies support this claim. Bajaj *et al* (2005, p. 203) identified the in-store environment as one of the determinants of conversion. Kumar and Karande (2000) have identified retail atmospherics as an medium that effects customer emotions and therefore enhances the chances of purchase. Barnad and Steiner (1964), Sttenkamp and Wedel (1991) argued that in-store characteristics such as location, service quality and atmosphere affects a customer's evaluation of a store and their store choice. Donovan *et al* (1994) found that in-store atmosphere affects spending levels and the amount of time spent in a store. In another study on store characteristics and store attitudes, it was found that store characteristics had both a positive and negative impact on the customer emotions and thus on their purchase intention (Yoo *et al*, 1993).

All of the studies presented above discuss the positive and negative impact of in-store environmental factors. In light of the above studies, my work focuses on identifying the in-store environmental factor that retailers should focus on when framing their marketing strategy in smaller towns. The following section presents, based on the literature review, the important factors influencing impulse purchase behaviour of customers (Figure 2). The findings are compiled in the form of a model.

FACTORS INFLUENCING IMPULSE PURCHASE

Ambience

Industry veterans are of the opinion that price is not a major deciding factor in the retail business, rather that service and convenience are more important and that it is customer experience that is the main factor

(Exchange4media News Service, 2007). This is shown in the findings of a survey commissioned by *Sunday Economics Times*. In this survey, 60 per cent of respondents admitted that because of the improved experience that the modern format of retail provides they tend to spend 'more on shopping' (Menon and Abhitabh, 2007). The customer's experience in a retail shop has a direct relationship with their moods and emotions. Mood has been identified as a mediator between the physical and rational element and loyalty behaviour (Gross and Pullman, 2004). According to Swinyard (1993) in-store environmental factors had either a positive or negative impact on the purchase intention of customers depending on their mood. The customer's mood determines the length of time they spend in a retail outlet, whereas emotional appeal directs the customers toward purchases and satisfaction (Babin and Darden, 1996). According to the impulsive purchase model of consumer behaviour, a positive mood leads to higher impulse purchase in retail outlets (Hawkins *et al*, 2007). Today retailers are increasingly making use of various situational variables such as settings that enhance moods and emotions and therefore the experience of customers. For example, today customers are increasingly seeking the service of Lakme Beauty parlours because of the experience they provide to customers. These parlours are open 7 days a week, from 10:00 to around 19:00. They have soft lighting and the music of Sarangi and Sarod are used to soothe and relax customers.

In-store advertising and promotion

Point of purchase interaction and retail unit decoration influence customers either positively or negatively and in turn influence sales (Bajaj *et al*, 2005). In-store advertising mediums like retail TV and digital signage are some of the important tools used. In their article on retail digital signage, Dave and Sondhi (2007) argued that in-store advertising through digital signage increases sales by targeting the primary emotions of customers. Point of purchase advertising also improves sales by displaying brands and providing information to the targeted customers at the point in time when they are in the mood for shopping, thus improving the rate of impulse purchasing in a retail outlet (Stern, 1962).

Retail promotions are another important medium that retailers make use of to attract and reward new customers. Kotler (2003) has defined sales promotions as the incentives given to the customer to make a purchase that in turn convert a browser to a spender. Promotion also induces a customer to buy sooner or to buy more than they would have otherwise (Blattberg *et al*, 1981; Neslin *et al*, 1985). Ailawadi *et al* (2007) found that more than 50 per cent of increased sales in a retail store during a promotion is because of brand switching within the store. Campbell *et al* (2009) studied the impact of promotion on the retention rate of customers and argued that promotions have a positive impact on the retention rate of loyal customers. These research findings are supported by examples of retailers today. For instance, Westside undertake in-house promotions during main festivals like Diwali and Christmas. These promotions are theme-based, using themes such as Hawaiian or the Wild West, with matching decorations and other

attractions. As increased competition and wafer thin margins have made traditional differentiators like price, range and service smaller factors, retailers are developing the strategy of providing incentives, through promotions, to customers to encourage larger purchases.

Pricing

Pricing influences the quantities of products or services that a consumer will buy, which in turn determines the total revenue and profit of the retail store (Bajaj *et al*, 2005). Pricing strategy philosophy contributes to the positioning of the store in the market, thus helping to develop a differentiating image in the eyes of the customer. Chang and Wildt (1994) empirically tested the relationship between price product information and purchase intention. The results of the study showed that perceived price is directly related to perceived value, which in turn leads to purchase intention. Vedamani (2006) has argued that conversion rate is inversely related to the price of a product. Higher price point items involve a higher degree of perceived risk in the decision-making process of customers. According to Kanuk and Schiffman (2005, p. 556), customers make an extensive search for information in a higher-risk situation. Thus, such goods are often subject to greater customer scrutiny and comparison, which means that they convert customers at lower rates than lower-priced items do.

Merchandise presentation

Merchandise presentation refers to the display of the product on the shelf. According to Kerfoot *et al* (2003), an effective product placement strategy maximizes selling opportunities by creating a desire, thus converting the customer from a browser to a buyer. Many empirical studies support this argument. In their article on category management, Larson and DeMarais (1990) suggested that substantially higher sales could be achieved by keeping shelves fully stocked. Dreze *et al* (1994) found from a series of experiments that the location of the product within a display has a significant effect on sales. Bezawada *et al* (2009), in their study of the impact of display management strategies on demand, argued that aisle and display placements have significant and asymmetric effects on cross category sales as compared to those influenced by marketing mix variables. Kerfoot *et al* (2003) also argued that the effective display of a product increases the sale of complementary or supplementary items to the one already chosen, thus increasing conversions, as well as increasing the average amount spent in a shop. For instance, Parade a boutique in Mumbai has increased its conversion rate by displaying new stock on hangers and placing them in the windows for public view.

RESEARCH METHODOLOGY

This article attempts to analyze the perception of customers towards various in-store stimuli that are considered to be determinants of conversions in retail outlets. The perception towards determinants are studied at individual store level and across different stores located in a cross section of the retail market of Chattisgarh.

Figure 3: The study determinants and parameters.

The results will help retailers to formulate a strategy for improving the conversions rate of their outlet. The study is based on the following hypothesis:

Hypothesis₀ (i): The perception of customers towards in-store stimuli of a retail outlet do not differ.

Hypothesis₀ (ii): The perception of customers towards various in-store stimuli of different retail outlets do not differ.

The study was conducted among 400 customers of different retail outlets in Chattisgarh. For the study, an equal number of responses were collected from the major four organized retail outlets – Big Bazaar (Raipur), Big Bazaar (Bilaspur), 36 Mall and Vishal mega mart – in the two major cities of Raipur and Bilaspur in Chattisgarh. A structured questionnaire, using a 5-point Likert scale, was administered to the respondents and included statements on various factors influencing impulse purchase within a retail outlet (as shown in Figure 3). Table 3 shows a weighted index of the results, whereas Table 4 gives the weighted mean. Once the data was collected, it was analyzed using ANOVA (TWO WAY) without replication (see Table 5).

DATA ANALYSIS

Results

1. Table Value at (4, 12) at 5 per cent significance level
(for testing the equality of X_i (Determinants))=3. 26
Here calculated value=0.28
Calculated Value < table value
 $\therefore$ Hypothesis₀ (i) is accepted
Hence $X_i = X_j$
2. Table Value at (3, 12) at 5 per cent significance level
(for testing the equality of Y_i (Parameters))=3.49
Here calculated value=41
Calculated Value > Table Value
 $\therefore$ Hypothesis₀ (ii) is rejected
Hence $Y_i \neq Y_j$

Table 3: Weighted indexed table

Parameters		Determinants				
		Promotion	Experience	Display	Price	Merchandise
		X1	X2	X3	X4	X5
Big Bazaar (Raipur)	Y1	25	20	15	26	28
Mahima Big Bazaar (Bilaspur)	Y2	90	74	97	73	94
Vishal Megamart	Y3	77	93	93	87	68
36 Mall	Y4	19	48	21	34	12

Table 4: Weighted mean

	Y1	Y2	Y3	Y4	Y5	Total	Mean
X1	25	20	15	26	28	114	22.8
X2	90	74	97	73	94	428	85.6
X3	77	93	93	87	68	418	83.6
X4	19	48	21	34	12	134	26.8
Total	211	235	226	220	202	1094	—
Mean	52.75	58.75	56.5	55	50.5	—	—

The values in bold represent the mean value of means in the columns, which is used for calculating sum of squares between columns. The results of variation are indicated in test statistics of Table 5, while crt *F* factor shows the tabled value of the mean difference at the given degree of freedom.

Table 5: Two way ANOVA

Source of variation	Sum of squares	df	MS	Test statistics	Crit <i>f</i>
Between columns	164.7	4	41.17	0.28	3.26
Between rows	17930.2	3	5976.73	41.00	3.49
SSE	1749.3	12	145.78	—	—

The values in bold represent the mean value of means in the columns, which is used for calculating sum of squares between columns.

Inference

According to the above results, it can be inferred that all of the in-store stimuli used in the study are equally important for the customers when making a decision to purchase from a retail outlet. However, a rejection of the second null hypothesis reveals that customers become comparative while evaluating in-store measures provided by different retail stores across different locations. Thus, all of the in-store measures taken by the retailer affects the impulse stimuli of the customers and therefore contributes towards conversion, but overall the promotional mix can act as base for differentiating a store from others and attracting customers to it.

Managerial implications

Our research work gives an insight into the major determinants of customer conversions. According to the findings, an organized retail outlet in Chattisgarh should make a strategic choice on service, merchandising presentation, promotion and pricing for improving

Figure 4: Small store format.

customer conversions. No single in-store measure can individually contribute towards increasing the retail conversions at a store level. This finding can be supported by the example of a global retailer called Cerruferro, who emerged as the largest foreign retailer in China. The company considered China to consist of many small markets instead of one large market and thus employed operational strategies according to local preferences. A report on Indian Consumer Markets by KPMG (2009)¹ also acknowledges the fact that in Indian markets, a strategy that holds true for one region may not hold true for another. Besides, as per the results of our study, the difference in the perception of customers towards various in-store stimuli across various retail outlets also indicates that conversion ratio is format specific and that retailers should develop a model that suits the tastes of local customers. Localization strategy is possible through small store formats that allow more flexibility in terms of strategic moves. The findings go in accordance with the fundamental transition that the retail industry is going through, from big box retailing to small format retailing. For example, Subhiksha, who was the pioneer of small format retailing and golden egg laying duck from 1999 to 2004, has used a model that emphasizes low prices and a high volume strategy, by keeping no fancy frills at the front end and by becoming an intermediary at the back end. This has helped Subhiksha to target middle-class customers who expect high value and low prices. Similar moves have been taken by today's retailers. For instance, KB'S Fair Price Shop, a no frills, fair price, small format store of the Pantaloon group who aim to provide essential items cheaper than market price. Another national level player in electronics retailing, CROMA, has introduced a small format store named CROMA ZIP (shown in Figure 4), which provides personalized customer service and a better shopping experience. Nilgiris and Provogue are other examples of those that are focussing on the small store format. Thus, the promotional mix strategy, if drawn on the basis of target market, can act as a differentiator for organized retailers, on the basis of which retailers can attract and pursue customers.

CONCLUSIONS

Customer conversion is the indicator of sales and therefore the profitability of a retail store so improving the ratio is an imperative issue for the organized retailers in Chattisgarh. A strategic approach drawn on the basis of local taste and preference can help retailers to improve customer conversions.

The findings presented above are based on a study conducted in Chattisgarh, where retailing is in a nascent stage. This means that although implications may hold true for the retailers of Chattisgarh, the findings need to be tested when applied to other parts of the country.

NOTE

- 1 Consumer Markets: Indian Retail Time to Change Lanes, www.indiaretailbiz.com.

REFERENCES

- Ailawadi, K.L., Harlam, B.A., Ceaser, J. and Trounce, D. (2007) Quantifying and improving promotion effectiveness at CVS. *Marketing Science* 26(4): 566–575.
- Babin, B.J. and Darden, W.R. (1996) Good and bad shopping vibes: Spending and patronage. *Journal of Business Research* 35(3): 201–206.
- Bajaj, C., Tuli, R. and Srivastava, N.V. (2005) *Retail Management*, Vol. 25, New Delhi: Oxford University Press, p. 203.
- Barnad, B. and Steiner, G.A. (1964) *Human Behavior: An Inventory of Scientific Findings*, 11th edn., New York: Harcourt, Brace and World, p. 240.
- Bezawada, R., Balachander, S., Kannan, P.K. and Shankar, V. (2009) Cross-category effects of aisle and display placements: A spatial modelling approach and insights. *Journal of Marketing* 73(3): 99–117.
- Blattberg, R.C., Eppen, G.D. and Lieberman, J. (1981) A theoretical and empirical evaluation of price deals for consumer nondurables. *Journal of Marketing* 45(Winter): 116–129.
- Campbell, C., Tsao, H.Y., Lin, P.C. and Pitt, L. (2009) The impact of loyalty and promotion effects on retention rate. *Journal of Operational Research Society* 60(5): 646–651.
- Chang, T.Z. and Wildt, A.R. (1994) Price product information and purchase intention: An empirical analysis. *Journal of the Academy of Marketing Science* 22(1): 16–27.
- Choudhari, M.S. (2003) Consumer Markets Indian Retail: Time to Change Lanes, http://www.in.kpmg.com/securedata/aci/files/indian_retail_mar09.pdf, accessed 15 October 2010.
- Dave, S. and Sondhi, S. (2007) Reach out for hot space – In-store advertising in the era of organised retailing with special reference to digital signage. *GNA Journal of Management* 2(1): 30–36.
- Donovan, R.J., Rossiter, J.R., Marcoolyn, G. and Nesdale, A. (1994) Store atmosphere and purchasing behaviour approach. *Journal of Retailing* 70(3): 283–294.
- Dreze, X., Hoch, S.J. and Purk, M.E. (1994) Shelf management and space elasticity. *Journal of Retailing* 70(4): 301–326.
- Exchange4media News Service. (5th 2007) *India's Retail Revolution: Customer Experience is the Key Differentiator*, http://www.exchange4media.com/e4m/news/fullstory.asp?section_id=1&news_id=24676&tag=19403&pic=, accessed 1 Jan, 2010.
- Gross, M.A. and Pullman, M.E. (2004) Ability of experience design elements to elicit emotions and loyalty behaviors. *Decision Sciences* 35(3): 551–558.
- Hawkins, D.I., Best, R.J., Conney, K.A. and Mookerjee, A. (2007) *Consumer Behavior Building Marketing Strategy*, 9th edn., New York: Tata McGraw-Hills, pp. 5–6.
- Hemalatha, M., Sivakumar, V.J. and Jayakumar, G.S.D.S. (2009) Segmentation of Indian shoppers based on store attributes. *International Journal of Business Innovation and Research* 3(6): 651–669.
- Haub, C. and Sharma, O.P. (2006) *Population Bulletin*, http://www.prb.org/pdf06/61.3IndiasPopulationReality_Eng.pdf, accessed 31 July 2010.
- Kanuk, L.L. and Schiffman, L.G. (2005) *Consumer Behavior*, 8th edn., New Delhi, India: Prentice Hall of India, pp. 205, 556.
- Kerfoot, S., Davies, B. and Ward, P. (2003) Visual merchandising and the creation of discernible retail brands. *International Journal of Retail & Distribution Management* 31(3): 143–152.

- Kotler, P. (2003) *Marketing Management*, 11th edn., New Delhi, India: Prentice Hall of India, pp. 609.
- Kumar, V. and Karande, K. (2000) The effect of retail store environment on retailer performance. *Journal of Business Research* 49(2): 167–181.
- Larson, P. and DeMarais, R.A. (1990) Psychic stock: A independent variable category of inventory. *International Journal of Physical Distribution & Logistics Management* 20(7): 28–34.
- Neslin, S.A., Henderson, C. and Quelch, J. (1985) Consumer promotions and the acceleration of product purchases. *Marketing Science* 4(2 Spring): 147–165.
- Menon, S. and Baxi, A. (2007) It's a mall and Kirana mix for savvy metro shoppers. *The Economic Times*, Sunday 10 June 2007.
- Peter, G. (2007) *2007 Retail & Shopper Trends*, http://pt.nielsen.com/documents/tr_0708_AsiaPacificShopperTrends2007.pdf, accessed 15 November 2009.
- Sinha, P.K. (2003) Shopping orientation in the evolving market. *Vikalpa* 28(2): 13–22.
- Stern, H. (1962) The significance of impulse buying today. *Journal of Marketing* 26(2): 59–62.
- Sttenkamp, J.-B.E.M. and Wedel, M. (1991) Segmenting retail markets on store image using a consumer – Based methodology. *Journal of Retailing* 67(fall): 300–320.
- Swinyard, W.R. (1993) The effect of mood involvement and quality of store experience on shopping intentions. *Journal of Consumer Research* 20(2): 271–280.
- Vedamani, G.G. (2003) *Retail Management: Functional Principles and Practices*, 2nd edn., India: Jaico Publishing House, p. 136.
- Yoo, C., Park, J.-H. and MacInnis, D.J. (1993) Effects of store characteristics and in-store emotional experiences on store attitude. *Journal of Business Research* 42(3): 253–263.