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## RESEARCH ARTICLE

**TO GAUGE THE PRICES THE CUSTOMERS ARE WILLING TO PAY AND THEIR SERVICE EXPECTATIONS IN ONLINE GROCERY.**

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**Abstract**

There was a time when the Indian retail consumers had the “can’t touch, won’t buy” type of mentality. However, the consumer mentality and shopping patterns are changing very fast. According to a Forbes’ report, dozens of online grocery stores have opened up in the past few years. Some of these include Big Basket, LocalBanya, Veggie Bazaar, Fresh N Daily etc. Many of these stores currently cater to either single cities or a few metropolitan cities in restricted neighborhoods. Primary study was conducted by taking a sample size of 150. Convenience sampling was used, out of 150 results was captured and analyzed for 147 questionnaires. The willingness to pay is high at around 70% with around 53% not willing to pay any premium for the convenience. The maximum amount of premium that customers are willing to pay is 10% of product price. With regards to mode of payment, the respondents are almost equally divided among the On-Delivery payment option and Pre-Delivery payment option.

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**Introduction:-**

As per a *Gartner Inc. report*, the industry is expected to grow by 70% over 2014 to reach \$ 6 billion worth of business in 2015. According to *Flipchart’s CEO*, the e-commerce business in India is expected to grow to \$50-\$70 billion by 2020. There was a time when the Indian retail consumers had the “can’t touch, won’t buy” type of mentality. However, the consumer mentality and shopping patterns are changing very fast. In coming years, online shopping will become mainstream. There are various drivers which contribute to this changing behavior and growth. Firstly, the steep increase in number of smart phones has resulted in increased usage of internet over phone. This coupled with the ever dropping rates of internet services is driving a large number of people towards online shopping. According to a report by *Accel Partners*, 300 million users are expected to have internet access by 2015. Moreover, the rapidly growing middle class of the country is pressurized by lack of time. All these factors together paint a bright picture of the online retail business. Most of the online retailers sell books, apparels, electronics and accessories while groceries, which form 60-70% of traditional brick-and-mortar-retail, form only a miniscule part of the total online retail space. This stems from the fact that selling perishable products online is very difficult as compared to selling non-perishables. Moreover, selling groceries is a low margin business and entails a lot investment in supply chain and IT infrastructure. In addition to this, skepticism about quality of the product in customers’ mind has restricted the growth of online groceries.

**Objectives:-**

1. To know the premium or discount over the traditional grocery channels expected by customers.
2. To find the preferred mode and delivery.
3. To know the preferential products for online buying.

### Research design:-

Customers were segregated into different segments and a target was selected based on the analyzed data. A positioning strategy was also developed for this segment and the prices they were willing to pay for groceries through an online channel were also estimated. An exploratory research was conducted for gathering data in Ahmedabad. Two focused group discussions with a diverse set of participants were conducted to understand the consumer behavior. A total of three interviews, including one with an expert were also conducted. Based on these, insights about online grocery shopping were generated. Convenience and quality were seen as the most important purchase drivers and concerns over quality were also identified. Data from some primary sources were considered. Building upon the understanding gained, a detailed questionnaire was created for getting quantitative data for the search. Responses from 147 respondents were recorded out of given 150. As a secondary source journals, magazines and other research papers were referred.

### Data analysis and findings:-

#### Premium or discount over the traditional grocery channels expected by the customer:-

As we have established that a significant percentage of customers are willing to purchase groceries online, the next aspect is the premium that they are willing to pay for the added convenience by delivering groceries to their home. The willingness to pay premium will be an important factor in deciding the pricing and margins in this business.

Amount of Premium (as a %age of product)	Percentage of respondents
0 (No premium)	54%
5-10%	44%
11-15%	0%
16% and above	2%

It is interesting to note that though the willingness to purchase groceries online is significantly high (around 70-75%), only 44% of the respondents are willing to pay a Premium of 5-10%. Around 54% of the respondents are not willing to pay any premium for Using this channel to purchase groceries.

Customer Segment	Amount of Premium	Percentage of Respondents
Students	0 (No premium)	59%
	5-10%	41%
	10-15%	0%
	16% and above	0%
	0 (No premium)	53%
Single Professionals	5-10%	47%
	10-15%	0%
	16% and above	0%
	0 (No premium)	46%
	5-10%	46%
Married Professionals	10-15%	0%
	16% and above	8%

When we analyze the responses among the different segments, even then the results are same across all segments. The willingness to not pay any premium is slightly more in Students segment when compared with Professionals segments, which can be attributed to the fact that students are generally not earning individuals. There are about 40-45% customers in all segments who are willing to pay 5-10% premium for availing this service, which reflects a good sign for this kind of business.

**Preferred mode and time of delivery:-****Service Expectations:-**

The customer might have certain service expectations to provide convenience in purchasing groceries online. We have considered expectations based on mode of payments available, convenient time of delivery and preference of certain products in our research.

**Mode of Payment:-**

The different mode of payments that can be made available to the customers can be of two types:

1. On Delivery (Cash/Card)
2. Pre-Delivery(Cards/Net-Banking/Online Wallet)

Our research showed around 47% of the respondents preferred the first method of payment i.e. they want to pay when the delivery is done. Around 53% are comfortable with paying the amount at the time of order itself. It is interesting to note that around 8% of the respondents are willing to maintain an online wallet with the service provider. Hence, it goes on to show that an equal number of respondents are comfortable with paying upfront at the time of order also.

Mode of Payment	Percentage of Respondents
Cash on delivery	32%
Card on delivery	15%
Online wallet	8%
Net-banking	19%
Cards (Debit Card & Credit Card)	26%

When we observe the responses across the customer segments, we get a similar result. There are 45-50% customers who are willing to pay on-delivery of the products across all segments. Around 50-55% of the customers are willing to pay prior to delivery through net-banking or cards (credit/debit) which is consistent across all segments. This shows that the online website can be assured of the payments being done for the orders. Moreover, the chances of order cancellations also decrease to a great extent.

Customer Segment	Mode of Payment	Percentage of Respondents
	Cash on delivery	36%
	Card on delivery	13%
Students	Online wallet	8%
	Net-banking	17%
	Cards (Debit Card & Credit Card)	27%
	Cash on delivery	25%
	Card on delivery	17%
Single Professionals	Online wallet	8%
	Net-banking	25%
	Cards (Debit Card & Credit Card)	25%
	Cash on delivery	33%
Married	Card on delivery	17%
	Online wallet	10%
Professionals	Net-banking	13%
	Cards (Debit Card & Credit Card)	27%

**Time of delivery:-**

The time of delivery is very critical service factor in such a business. The return of order adds to further costs and delay, which decreases the customer service satisfaction. Therefore, the delivery should come at a time when the customer is available to receive it. We tried to get the preferred time of delivery from customers i.e. when they will be available to take delivery or willing to receive the delivery. As can be seen, 37% respondents prefer the time between 4 PM and 8 PM for the delivery. Another 31% want the delivery from 8 PM to 10 PM. This shows that preferred time of delivery is mainly from 4 PM to 10 PM. Hence, this serves as a good insight while designing the logistics leg of the business.

<b>Preferred Time of Delivery (can be more than 1 also)</b>	<b>Percentage of respondents</b>
Morning (10 am to 12 noon)	18%
Afternoon (12 noon to 4 pm)	14%
Evening (4 pm to 8 pm)	37%
Night (8 pm to 10 pm)	31%

When we observe the responses across the segments, we see around 45% of single professionals prefer time slot of 10 AM to 4 PM. These professionals could be the ones who work in night shifts and hence are available at home during the day time whereas most of the student, which is the other target segment, prefers the time slots from 4 PM to 10 PM. This tells that for the business to be successful the company needs to have flexible logistics options throughout the day.

<b>Customer Segment</b>	<b>Preferred Time of Delivery (can be more than 1 also)</b>	<b>Percentage of respondents</b>
Students	Morning (10 am to 12 noon)	25%
	Afternoon (12 noon to 4 pm)	17%
	Evening (4 pm to 8 pm)	58%
	Night (8 pm to 10 pm)	33%
	Morning (10 am to 12 noon)	30%
Single Professionals	Afternoon (12 noon to 4 pm)	15%
	Evening (4 pm to 8 pm)	30%
	Night (8 pm to 10 pm)	25%
	Morning (10 am to 12 noon)	0%
Married Professionals	Afternoon (12 noon to 4 pm)	15%
	Evening (4 pm to 8 pm)	31%
	Night (8 pm to 10 pm)	54%

#### **Preferential products for online buying:-**

There could be a number of products that the customer might be willing to purchase through the online website. We classified the different products into 9 categories and recorded the responses of the respondents. The results, as shown below, reflected that out of all the preference given, around 15% preference each was for Grains, Pulses, Edible Oils and Ghee and Beverages. The daily use perishable items such as Vegetables, Fruits and Dairy Products got around 9% preference each. Non-veg items are the lowest preference of people at around 1%.

<b>Product Type</b>	<b>Percentage of Respondents</b>
Grains	15%
Pulses	15%
Edible Oils and Ghee	16%
Beverages	15%
Dairy Products	9%
Bakery products	11%
Vegetables	9%
Fruits	10%
Non-veg items	1%

The trend of responses across the customer segments shows that the Student segments prefer around 19% and 14% for Beverages and Bakery Products respectively. The single Professional segment prefers more of Pulses, Edible Oils & Ghee and grains as compared to Student segment. Another take away is that the Non-Veg items are not preferred (only 1% or 2%) by either of the segments. This research is important in deciding the kind of products to be offered through the website.

Customer Segment	Product Type	Percentage of Respondents
	Grains	13%
	Pulses	13%
	Edible Oils and Ghee	15%
	Beverages	19%
Student	Dairy Products	8%
	Bakery products	14%
	Vegetables	8%
	Fruits	9%
	Non-veg items	1%
	Grains	18%
	Pulses	16%
	Edible Oils and Ghee	15%
Single professionals	Beverages	14%
	Dairy Products	7%
	Bakery products	11%
	Vegetables	9%
	Fruits	9%
	Non-veg items	1%
	Grains	13%
	Pulses	16%
	Edible Oils and Ghee	18%
	Beverages	11%
Married professionals	Dairy Products	13%
	Bakery products	7%
	Vegetables	9%
	Fruits	11%
	Non-veg items	2%

## Conclusion

The willingness to pay is high at around 70% with around 53% not willing to pay any premium for the convenience. The maximum amount of premium that customers are willing to pay is 10% of product price. With regards to mode of payment, the respondents are almost equally divided among the On-Delivery payment option and Pre-Delivery payment option. A major chunk of 68% respondents prefer the delivery between 4 PM to 10 PM time slots. The customers want a variety of products to be delivered through the online grocery shop. These products are Grains, Pulses, Edible Oils and Ghee, Bakery Products, Beverages, Dairy Products and Fruits & Vegetables. The issues pertaining to quality are related to freshness of the goods, hygiene and packaging of the products. These are the major reasons that discourage purchase through online groceries. These issues can be addressed by providing the customers the option of returning the products at doorstep during delivery. The familiarity with online shopping is fair however; the awareness about online grocery websites is quite limited. The perception about online channel is also good. More than 50% believe it is as good as the local channel. The price sensitivity is different across different customer segments. The Students segment is price sensitive whereas the Professionals segment is more of premium kind of customers. The groceries for respondents mainly are bought from Local Kirana Stores or Roadside Greengrocer by mainly "Other Family Members" or in some cases by himself.

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