

IMPACT OF ORGANIZED RETAIL ON UNORGANIZED RETAIL

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Abstract :

Today Indian Retail Industry is considered to be the fifth largest in the world and one of the fastest growing industries in India. The Indian Retail Industry is expected to grow up to US\$640 billion by 2015. It contributes to 22per cent of country's GDP and to 8per cent of the total employment. According to the 10th Annual Global Retail Development Index (GRDI) of A.T. Kearney, it is the perfect time to invest into Indian Retail Market .

Indian retail is undergoing tremendous transformation, expanding and modernizing rapidly. Over a decade or so, retail has witnessed considerable growth while a new form of organized retail sector has emerged. From traditional retail outlets and hawkers (local market) to supermarkets or hypermarkets, Indian retail sector has different shades. Hence, the retail sector of Indian economy is categorized into two segments - Organized retail sector and Unorganized retail sector with the latter holding the larger share of the retail market.

In spite of the special features or strengths of the unorganized retail sector, there is a set of problems with which this sector has to deal in day-to-day operations. Absence of proper supply chain management, lack of strong negotiation ability with wholesaler, lack of sufficient infrastructure and storage facilities, low quality of the products as well as customer service, absence of promotional activities could be some of the problems faced by this sector. As mentioned earlier, owners of unorganized store retailing business are generally the ones with less education, exposure and also lack the required skills. All these make up for the low productivity of the unorganized retail sector in India.

INTRODUCTION

Retail finds its roots way back centuries and it has grown tremendously over these years. It started when people used to do business or exchange goods with their neighbors. Slowly people began to gather at a pre-decided neighborhood place to conduct this exchange. This gave birth to a formalized system. As number of people gathering together increased, it created a need to have a common place. This common place got the name as 'Fair'. As time passed, crowd at these fairs increased and security and transportation became major issues. Then, the concept of small scale groceries came up where these small setups started providing different varieties and combinations of goods to the neighborhoods. This forms up what we call 'Unorganized Retail Sector' today. The Story does not end here. The choices customer had in a given grocery store were limited and this gave rise to the concept of "all under one roof". As time passed, joint families changed into nuclear families, both the members of the family started earning and this led to new way of lifestyle which gave a push to the emergence of organized retail stores like hypermarket, supermarket.

OBJECTIVE OF THE PAPER:

- To examine the scope of organised retailing in creating skill development.
- To create initiatives in developing economic growth in organised and unorganised retailing in India.
- To study the developments this sector with reference to business Scenario.
- To study the advantages of organised and unorganised retail.
- To study the government role and initiatives in these sectors.

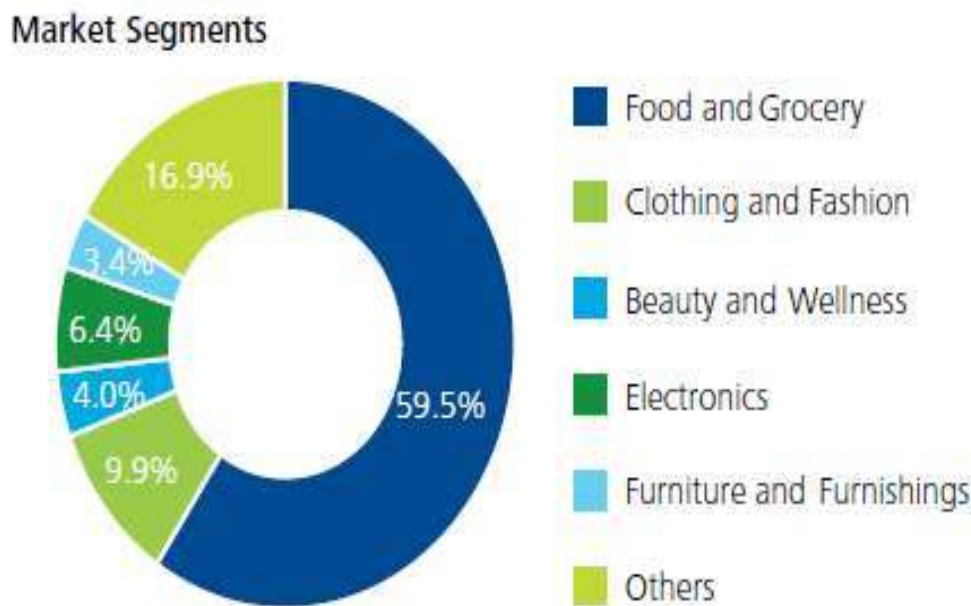
RESEARCH METHODOLOGY:

The present empirical study has been done mainly from the secondary data for depth investigation. All the information data and opinion are collected which has a direct or indirect relevance to the information like official publications and research journals.

UNORGANISED RETAIL:

India's unorganized retail sector include large number of small shops and small retailers consisting of the local kirana shops, owner operated general stores, chemists, apparel and footwear shops, paan and beedi shops etc. India has highest retail outlet density in the world i.e. 11 outlets per 1000 people. However, only four per cent of them have larger than 500 square feet area. Street vendors, pavement vendors, hand cart vendors and hawkers also form a large section under this category of 'Unorganized Retail'. According to the Ministry of Housing and Urban Poverty Alleviation, there are around 10 million street vendors in India, with Mumbai accounting for 250,000, Delhi having 200,000, Kolkata, more than 150,000, and Ahmedabad, 100,000. Most of these are immigrants or laid-off workers, working for an average of 10-12 hours a day. The key features of this form of retail business are Minimum requirement of skills or education, limited initial investment (capital, land and labour) and provision for self-employment. Also, there are not much entry barriers in the unorganized retail market.

The unorganized retail business is divided into different market segments like fruit and vegetable sellers/vendors, kirana stores selling cereals, pulses, spices, home and personal care products, beverages, bakery and dairy products etc. Small and unorganized apparel and footwear shops, stationary shops, furnishing and hardware shops also fall under this category. Following pie chart shows the market segmentation of Indian retail industry.



Source: Deloitte Report, "Indian Retail Market, Embracing a new trajectory", Sept. 2011

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Above diagram highlights the significance of 'Food and Grocery' segment within the sphere of retail business.

Food retailing plays a very significant role in retail industry in the world. Rate of growth of food retail sector was estimated to be around 30 per cent and hence it was considered as an important driving force for the retail industry. The revolution in terms of life styles, tastes, higher disposable income and need for convenience etc. attracted the big giants towards this sector which invested in food retail sector in the country and now 'Food Retail' has become the largest segment of the retail sector of India. Street vendors and pushcart vendors are hugely into fruit and vegetable selling. This data indicates that substantial part of food and grocery retail in India is of unorganized nature.

ADVANTAGES OF UNORGANISED RETAIL SECTOR

The advantages for unorganized retail sector or traditional retailing are low cost structure, low real estate and labour costs. Moreover, proximity of the location, credit sales, convenient timings, facility of home delivery and close familiarity with almost all regular customers; all these add to the positives of this sector. Kohli and Bhagwati (2011) observed that the strengths of traditional retailers lie in terms of the user friendly services provided by them. They accept product returns, exchange damaged goods, give credit to regular customers, suggest the products to the customers according to their likes and dislikes, recommend new products to them, and also at times allow bargaining on MRP.

ORGANISED RETAIL

The term 'Organized Retail' revolves around different formats of its kind such as hypermarkets, supermarkets, superstores, discount and convenience stores, specialty stores, department stores etc. Future group, Tata group, Reliance group all have entered in retailing over the last decade. They have established and are in continuous efforts to expand, their organized retail chains. They have entered into food and grocery retail and rigorously trying to attract more and more consumers with the help of pricing mechanism (lower prices) along with different schemes and offers. Moreover, global players have always been willing to invest and operate in Indian retail market.

LINK BETWEEN ORGANISED AND UNORGANISED RETAIL

ICRIER conducted a study in India to understand the impact of organized retailing on unorganized sector. Study was conducted in different parts of the country and came up with some important observations. The main objective was to find out the effect of organized retailing on the sales, employment and closure rate in unorganized retail sector. It was observed that unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers. This adverse impact on sales and profit weakened over time. There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. Study observed the competitive response from traditional retailers through improved business practices and technology up-gradation. Hence, study did not find any major impact of organized retailing on unorganized retail sector. Also in case of Indonesia it was found that supermarkets were not the main cause of the decline among traditional markets. In fact, traders, market managers, and representatives of the association of traditional traders in Indonesia explicitly stated their confidence in unorganized retail sector. However, they also mentioned the need to improve the management practices of traditional market to ensure their survival.

SURVIVAL OF UNORGANISED RETAIL

For the survival of unorganized sector, it becomes extremely essential to take into consideration the mutual interdependence between consumer's needs and wants and sustainability of unorganized retail sector. There is not enough literature available on strategies already implemented by unorganized retail to compete with the organized retail. However, few studies suggest the strategies unorganized sector should be adopting to maintain its market share and give an insight on interrelationship between consumers' friendly services and success of traditional shops.

ROLE OF THE GOVERNMENT

ICRIER while analyzing the impact of organized retailers on unorganized retail also

recommended some steps or strategies to survive in this highly competitive market. It suggested that organized retailers together with kirana stores and hawkers should expand their business through the ways of franchises and partnerships. To achieve this, organized retailers will have to provide traditional retailers with sufficient amount capital. Additionally, provision of effective training facilities should be made available to the unorganized sector to deliver quality and satisfactory services to the customers. In Japan, modern big retailers have co-opted small traditional convenience stores and have upgraded them. This all is being done under franchise model. Study recommends similar pattern to be implemented by organized retail so that to include traditional stores in their development. They can have some outlets directly under company ownership and others under franchise. This will make these organized retail chains competitive and will also allow traditional retailers to be part of these chains. Government bodies along with civil society can play an important role here to look after the interest of the stakeholders. This can take place through innovative ideas which will be implemented with the help of significant resources. As number of organized retail outlets grows, government will be benefited in terms of tax collection as it is easier for government to collect tax from organized retail outlets rather than unorganized ones. This increased tax collection can be used for the up gradation and development of traditional retailers. China did the similar experiment under the 2006-launched 200 Markets Upgrading Programme.

FINDINGS

- ❖ Customer-relationship management is one of the most important features in today's business world. Unorganized retailers are already famous for offering personalized services.
- ❖ Credit sales, provision of product on demand, home delivery service all these are strengths of traditional retail which attracts customers towards them.
- ❖ If traditional retailers want to retain their strong foothold in the retail market, it is vitally important to understand the need of the residents in a particular community.
- ❖ The stores with clear and complete understanding of their consumer wants and changes that are taking place within the market will be able to cope up with the increasing competition .
- ❖ Traditional retail is the major source of employment in India after agriculture. In spite of this fact, this sector lags behind in terms of efficiency which affects the consumer satisfaction.

SUGESSTIONS

- ❖ It was observed that maximum middle class people take more visits in unorganized retail sector whereas second rank is given to lower class.
- ❖ To deal with the competition from organized retail, unorganized retail prefers the strategies like cost cutting and offering discount superior to strategies like increasing number of brands and better display.
- ❖ It is suggested that the unorganized retailers have to be very attentive and need to cope up well with the competitive retail market environment created by the organized retail outlets so as to maintain their business and to provide quality services to customers without any/much reduction in profit.
- ❖ It is recommended that unorganized retailers should start dealing in complete variety of products of different brands rather than keeping the business activity confined to limited variety of products or limited brands.
- ❖ In India, modern retail is expanding with consistent efforts. The study suggests that the government should opt for an approach which will aim at a simultaneous development of both, organized and unorganized sector.
- ❖ All the above studies emphasize on government's responsibility to provide enough protection and opportunities to unorganized retailers so as to make them more efficient and competitive. Innovative measures are suggested to have more inclusive approach towards traditional retailers.

CONCLUSION

Clearly, organized as well as unorganized retail sectors have their own sets of strengths and weaknesses because of which few experts feel that they will always co-exist and grow together at least for some generations to come. However, few studies have shown that organized retail has already started affecting unorganized retailers and few of the traditional retailers are going through hard times while struggling for their existence. As organized retail is consistently trying to expand, in long term, unorganized retail might have to face severe complications. Timely and in depth analysis of current situation is needed to deal with this issue of conflict between these two players of the retail market in India. More local level studies, with not only quantitative but also with qualitative analysis are required to be undertaken as

situation differ from one location to other. Government authorities can act upon accordingly as one single solution can not fit everywhere. Measures and innovative steps can be taken suitable to the needs and requirements of unorganized retailers situated at different locations.

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