

## **CO-EXISTENCE OF ORGANISED RETAIL SECTOR AND UNORGANIZED RETAIL SECTOR IN ECONOMY : GLOBAL AND INDIAN SCENARIO**

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**Abstract :** Retail business sector is one of the biggest sectors in many national economies of the globe. It is leading sector in respect of commodities and services market. It is also always growing, developing and expanding sector of economy. Today this sector has become very complex and critical due to drastic changes in various fields, such as commerce, industry, technology, marketing, advertising etc. Initially, the whole retail business was in unorganized form. During the development of retail sector the modern form of retailing is segmented from unorganized retail sector having special features of its own. Organized Retail is a modern form of retail. It is usually owned or franchised by a central entity or a single store, that is larger than some cut off point. In modern era, both global and national economies, total retail business is divided in "Organized Retail" and "Unorganized Retail." This research paper focuses on emerging issues in Organized and Unorganized retail sectors with certain objectives, such as to understand the concepts of organized retail sector and unorganized retail sector, to study and highlight growth and development of organized and unorganized sectors, to study emerging retail formats adopted in an organized retail sector, to study mutual impact of organized and unorganized retail growth in India as well as different countries of the world. The researcher tries to give his own suggestions and observations after the study.

**Keywords:** Co-existence, Global And Indian Scenario, Unorganized Retail, Retail Sector

### **[I] INTRODUCTION**

#### **What is Retail?**

Retailing is an old and traditional type of business emerged from ancient age. Since then it has been contributing a big share in economic, commercial, and industrial development of the globe. The word "Retail" is derived from the French word "tailler" which means "to cut off, clip, pare, divide." On this basis the term Retail is explained as 'the business (retailer/ concern) which purchases goods and services on large scale and sells in small quantity to the final consumers through different channels of distribution to earn profit. According to Philip Kotler, Retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family or household use. Today retail means not only small scale business but also includes many large scale business organizations which are engaged in selling goods and services to the final consumers. In past few years many developments occurred in commercial, industrial, economical, technological, cultural background of the countries due to development of organized retail. Moreover in the last decade of 20th century after globalization free trade policy is adopted by many countries. In India the organized retail sector is developed after the globalization of Indian economy in 1991. This change resulted in bifurcation of Retail Sector into Organized Retail and Unorganized Retail.

#### **i JORGANIZED RETAIL:-**

Organized Retail is a modern form of retail. It is usually owned or franchised by a central entity or a single store, that is larger than some cut off point. A big business run by an individual is also treated as

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organized retail business. Organized retail is a trade in which business activities carried by retailers holding licenses. These retailers are registered traders under the provisions of concerned law / Act applicable to it. Such retailers include corporate backed hypermarkets and big retail chains as well as large business owned by individuals. It is started first in developed countries; such as USA, Germany, France, Japan etc. It uses modern retail formats, such as hypermarkets, supermarkets, superstores, discount and convenience stores, multiple shops etc. It is nothing but a developed, emergent and systematic form of retail business. Organized retailing is based on the principles of unity. The uniformity and standardization are the key attributes of organized retail formats.

### ii] UNORGANIZED RETAIL :-

Unorganized retail is a traditional form of retail. It does not follow the prescribed norms and the modus operandi which is standardized and centralized, hence they are not registered traders according to any law/ act. It is based on the principle of singularity. Mostly retail trade in developing and underdeveloped countries is in unorganized form which can be categorized as 'Independent' and 'Mom and Pop' stores commonly. It includes old retail formats. Generally small shops, grocery shop, stalls etc. are examples of unorganized retail.

In modern age both, organized and unorganized retail trades found in most of the countries throughout the world. But the ratio between these two sectors in each country varies according to their economical, industrial, technological and commercial growth and development. Following Tables will show the proportion of organized retail and unorganized retail in selected countries in the world.

### [II] GLOBAL RETAIL REVIEW:-

Emerging retail economies contribute to about one-third of the world's population, i.e. 2.6 billion people. It is estimated that by 2030 the number of emerging markets are said to increase by another 1.3 billion as per the Boston Consulting Group. In contrast cities developed markets will add only 100 million new residents in the next 20 years as the middle class in the emerging markets expand the power to spend would also go up. It would result in the need for new infrastructure to come up. It will bring large retailers [organized] to position themselves to capture the opportunity and will allow them to tap into larger profit pools, grow faster and use emerging market cities as a catalyst for innovation.

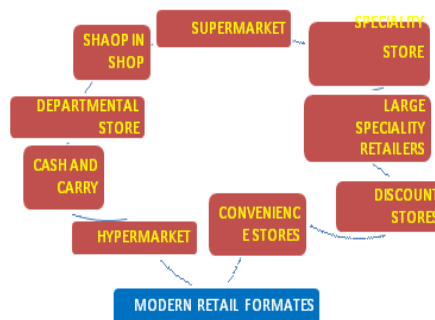


Figure 1 Source: Compiled by Author: From Impact of Organized Retailing on the Unorganized Sector Mathew Joseph, Nirupama Soundararajan, Manisha Gupta, Sanghamitra Sahu, September 2008 INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS

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Name of Country	Per Capita Retail Sales (? pa)	Organized Retail (%)	Unorganized Retail (%)
1) U S A	448785	85%	15%
2) Germany	229905	80%	20%
3) France	320580	80%	20%
4) UK	353295	80%	20%
5) Japan	416205	66%	34%
6) South Korea	186480	15%	85%
7) Czech Republic	148545	30%	70%
8) Russia	87300	33%	67%
9) Hungary	106920	30%	70%
10) Malaysia	56880	55%	45%
11) Poland	141750	20%	80%
12) Brazil	68400	36%	64%
13) Thailand	46935	40%	60%

**TABLE;- 1 ORGANIZED AND UNORGANIZED RETAIL IN SELECTED DEVELOPED COUNTRIES:**

Source: Compiled by Author :from India Retail Report 2009.

**TABLE: 2 ORGANIZED AND UNORGANIZED RETAIL IN SELECTED DEVELOPING COUNTRIES:-**

Name of Country	Per Capita Retail Sales (? pa)	Organized Retail (%)	Unorganized Retail (%)
1) Philippines	26595	35%	65%
2) Indonesia	29925	30%	70%
3) Vietnam	13905	22%	78%
4) China	26955	20%	80%
5) India	12915	4%	96%
6) Pakistan	18110	1%	99%

Source: Compiled by Author: From India Retail Report 2009.

In highly developed countries such as USA, Germany, France and United Kingdom organized retail is in the range of 80 to 85% of total retail but an existence of unorganized retailing is only covered with the range of 15 to 20% of total retail. In case of remaining countries (in Table 1) which are semi developed countries (such as Japan, South Korea, Russia, Malaysia etc.) there are many variations found between the proportion of organized and unorganized retail sector.

In developing countries unorganized retail is the leading retail sector. Some of them such as Philippines, Indonesia have scored satisfied ratio of organized retail which is targeted by some semi developed countries. In India, progress of organized retail is very poor. However, during past few years organized retail market of India has been experiencing satisfied growth with large scale retail outlets.

It is seen that the growth and development of organized retail in any country is not only depends upon economical factors but also depends upon overall growth and development segments of the country. i.e Geographical location, population, educational growth, natural resources, political influences etc.

### [IV] INDIAN RETAIL

Indian retail sector is also divided in organized retail and unorganized retail. In past few years, Indian retail sector has been experiencing tremendous growth in the organized segment. Major domestic retailers started with long term, ambitious plans to expand their business across various cities and modern formats. Retail industries such as Tata, Reliance, Adani Enterprises and Bharti have been investing

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considerably in the booming Indian retail market. Other many transnational brands have also entered into the market to setup retail chains in collaboration with large Indian companies

### **.I] CURRENT SCENAERIO OF ORGANIZED RETAIL AND UNORGANIZED RETAIL IN INDIA :**

The Indian retail sector is highly dominated by unorganized retailers. It has around 13 million retail outlets which are capturing 95% - 96% of the total retail sector but while comparing on the basis of rural and urban area, organized sector is being more effective with potential supply chains in urban area. In prime cities such as Mumbai, Calcutta, Chennai, Delhi, Hyderabad, Ahmadabad etc. the total turnover of unorganized retailer is declining after new arrival of large chain shops but in rural area due to non availability of potentials, organized retail is not succeeding over unorganized retail. However going ahead globalization, high economic growth, and improved life styles will provide potentials to grow organized retail sector in India.

**TABLE 3 : YEARS-WISE [%] SHARE OF ORGANIZED & UNORGANIZED RETAIL IN INDIA**

YEAR →	2005	2007	2010	2012	2015*	2020*
Organized Retail →	3.6	4.1	5.0	8.0	21.0*	24.0*
Unorganized Retail →	96.4	95.9	95.0	92.0	79.0*	79.0*

\* = Expected. Source: FICCI (2011), Sector Profile ,December 7, ( for 2010 to 2020)

### **ii ]REASONS FOR GROWTH IN INDIAN ORGANIZED MARKETS :**

The Indian retail sector has gone through major transformation over the last decade with a noticeable shift towards organized retailing. According to ranking by AT Kearney US based global management consulting firm, India is the fourth most attractive country for retail investment among 30 flourishing markets. The growth factors in Indian organized sector are various. These factors can be divided as customer oriented factors and organizational factors.

#### **a) CUSTOMER ORIENTED FACTORS:**

Such as increase in the young working population, hefty pay packets emerging, nuclear families in urban area, Rise in the number of women working, more disposable income and customer aspiration, western influence growth in expenditure on luxury items, growing liberalization of the FDI (foreign direct investment) policy, increasing urbanization, rising affluence amid consumers.

#### **b) ORGANIZATIONAL FACTORS:**

Some organizational factors are also have been playing significant role in the growth of organized retail in India. Many Indian companies have entered the retail industries in India. Reliance Industries is planning to invest US\$ 6 billion in organized retail sector in India by opening 1500 supermarkets and 1000 hyper markets. Bharti telecoms is planning a joint venture worth £ 750 millions with Tesco, which is a global retail giant. Pantaloons is planning to invest US\$ 1 billion with the view of increasing its retail space to 30 million square feet. Global retail giants are also entering in Indian retail industry for Eg. Wal-mart, Tesco, Carrefour SA, Metro AG etc.

All above factors has been contributing towards massive growth in Indian retail industry but for further growth both Indian retailers and the Indian government will have to work together.

**GROWTH IN INDIAN ORGANIZED RETAIL SECTOR (2015)**

Figure 2

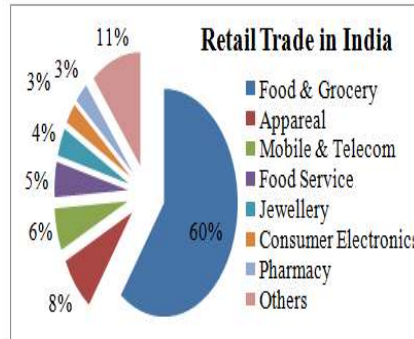


Figure 3

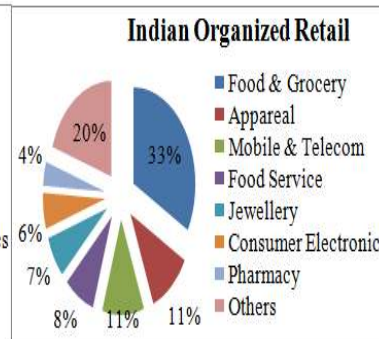


Figure 4

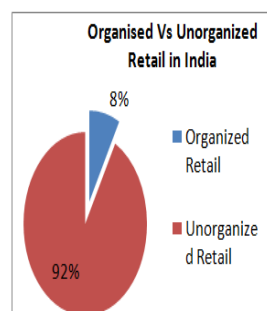
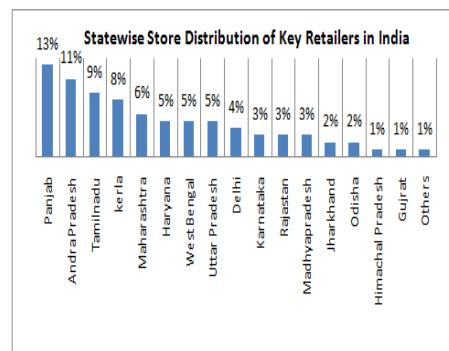


Figure 5



[Note For Figure 4: Retailers include future group, Reliance retail &( Bharti Retail) Source: For Figures 1,2&3-India Retail Report 2013 Source For Figure 4- Compiled by Author: From India Retail Report 2013: KPMG in India Analysis as on 5th Sept.2014

**OBSTACLES/CHALLENGES FACING ORGANIZED RETAIL SECTOR IN INDIA:**

In India organized retailing is largely the urban phenomenon. It accounts for 4.6% of total retail the pace of retailing in India is still slow due to following reasons.

- 1)Retail is not at recognized as an industry in India.Hence people are still reluctant to invest in retail sector.
- 2)Always increasing prices of real estate reduce profitability of organized retailers.
- 3)India still continues suffer from lack of basic infrastructure such as poor roads, power shortage , lack of warehousing facilities, difficulties in communication etc.
- 4)Organized retailers have to face multiple tax system as the sales tax rate vary state to state.
- 5) India is a vast country and most of the population is scattered in rural area Hence it becomes difficult for retailer to cater the needs of all consumers in the country.
- 6)Organized retail sector has not given prominence in India,hence many funds are diverted towards other sectors like as banking, insurance, transportation etc.
- 7) The Indian retailers have difficulty in finding trained /skilled professionals and also have to pay more in order to retain them. It also reduces profit.
- 8) A political change in state and central governments puts a lot of political risk on investment in retail.
- 9)In India organized sector retailers have to bear considerable risk due to currency fluctuations.
- 10)Foreign Multinational Corporations(MNC) retailers would have to go through different lengthy legal

procedures while setting business

**[V]MY VIEWS & OBSERVATIONS:**

- 1) Today, organized retail is a segment of economical development, therefore Governments of (especially) developing and underdeveloped countries have to frame their economical policies in such a manner that unorganized retailers will be motivated to form jointly modern retail chains, so as to improve global as well as various national retail sectors.
- 2) In Indian retail sector about 92% of the total retail is captured by unorganized retail sector and only 8% part comprises organized retail. There is a lot of scope for Indian retailers to turn towards organized retail formats.
- 3) Latest Indian Foreign Direct Investment policy will bring many foreign single brand and multi brand retailer in India it is expected that Indian trade will reach a whopping ₹ 47 lakh crore by 2016-2017 as it expanding at Compounded Annual Growth Rate (CAGR) of 15%. Indian organized sector will increase and will reach 24% of the total retail growth by 2020.
- 4) India is facing the big problem of unemployment. The increasing organized sector will bring a lot of employment opportunities for Indian young people.
- 5) Society will be benefited with many advantages like as better product choice, single roof purchasing, branded article etc.
- 6) Single and multi brand foreign retailers may create cut throat competitions among foreign and domestic retailers. It will be beneficial to domestic retailers as they will get motivated for modernization of their business.
- 7) There is a threat to organized retail from e-commerce, as now a days, people prefer to e-shopping or online shopping than visiting the retail outlets as per observations of AT Kearney Global Consulting Team.

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