



## THE SUSTAINABILITY OF MODERN RETAIL VIA COMPARATIVE ANALYSIS OF ORGANIZED AND THE UNORGANIZED SECTOR

<sup>1</sup>Alka Munjal, <sup>2</sup>Anil Kumar & <sup>3</sup>Pradeep Narwal

<sup>1</sup>Director ASB, Amity University, Noida. UP

<sup>2</sup>Research Scholar, Singhania University, Rajasthan

<sup>3</sup>Assistant. Professor, ABS, Amity University, Noida.

### ABSTRACT

The Indian retail sector in today's scenario is very different from other countries. It is one of the sectors which is very new to our culture and has already seen a lot of happening for itself the development, Fast Growth Great potential, Innovations, Differentiating Formats, Wrong forecasting, Economic slowdown, Huge investments, The consumer keenness for the sector. The retail sector is divided into two parts 1) Organized \ Modern Retail 2) Unorganized \ Traditional retail. The traditional sector is the backbone of the retail industry which cater to approximately 94% of the share in the current scenario this sector is prevalent in the form of the mom and pop shops, convenience stores, departmental stores since ages where as the organized retail entry in the Indian market is relatively new and it has evolved itself since the 1980's and the now the share is around 6%. It consists of Super markets, departmental stores, Hyper Markets. These sectors have a great potential as per the overall industry is considered retail is considered amongst the fastest growing sector in India. It already has achieved so much in 7 years of time which took U.S 30 years of time to do the same thing. Retail has the maximum potential and has the maximum retail outlets in the world. As per the progress is considered it has a great potential there is the full rural market which is ready to be explored with the right strategic mix. The biggest challenge in the modern retail is to generate footfalls and to have high revenues to cover high costs. From this theory itself while researching on modern retail the objective's of this research were framed

**KEYWORDS** Organized Retail, Traditional Retail, Super markets, Hyper Markets, Departmental stores.

### INTRODUCTION

Traditionally retailing in India can be traced to :

- Initial period--- weekly Haats (still prevalent in villages, towns & cities)
- The emergence of the neighborhood 'Kirana' stores catering to the convenience of the consumers
- Era of government support for rural retail: Indigenous franchise model of store chains run by *Khadi & Village Industries Commission*
- 1980s experienced slow change as India began to open up economy.

Beginning of Modern retailing In India:

- Textiles sector with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim first saw the emergence of retail chains.
- Titan created an organized retailing concept which was successful and established a series of showrooms for its premium watches
- The latter half of the 1990s saw a fresh wave of entrants with a shift from Manufacturers to Pure Retailers for

e.g. *Subhiksha* and Nilgiris, Food World, in FMCG; Planet M and Music World in music; Crossword and Fountainhead in books.

- After 1995 onwards retail saw an emergence of shopping centers, mainly in urban areas, with facilities like car parking targeted to provide a complete destination experience for all segments of society.
- Emergence of hyper and super markets trying to provide customer with 3 V's - Value, Variety and Volume.

The retail industry in India continued in the form of *Kiranas* till 1980. Soon, followed the modernization of retail in India, many companies started pouring in the retail industry in India like Bombay Dyeing, Grasim etc. Retail sector in India can be widely split into the organized and the unorganized sector.

The Unorganized sector is predominant, and the Organized sector is Growing due to

- Factors behind the change of Indian Retailing industry: Economic growth , urbanization , consumerism ,Brand profusion, availability of real estate
- **RETAILING ENVIRONMENT:** Economic environment, legal environment—Foreign direct investment (FDI) restrictions, property regulations, real

estate, labor laws, Technological environments, competitive environment.

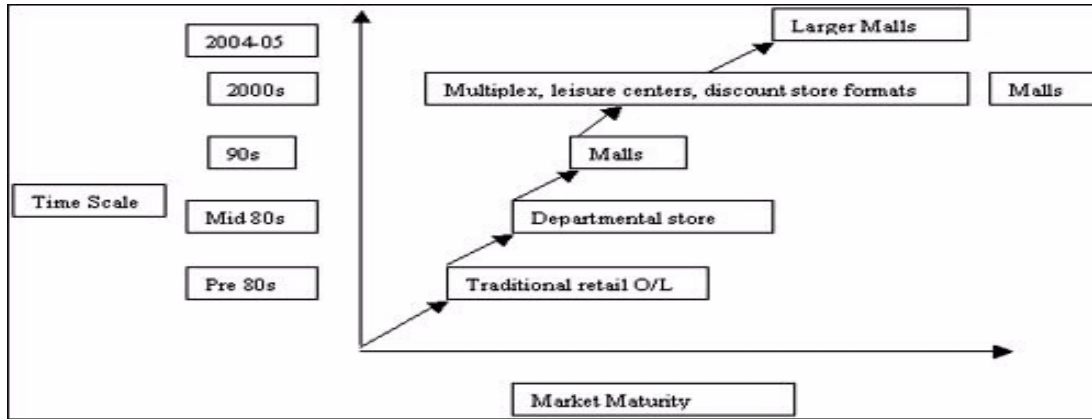
**OBJECTIVES OF THE STUDY**

To know the sustainability of modern retail and Analyze it's growth and Future potential

**Sub objectives:**

Gaining Consumer Insight about Organized and Unorganized Retail

- ◆ Customer Preference towards Organized or Unorganized. Retailer's Insight
- ◆ On the Impact of Sale and Strategy Followed For curtailing the competition



**THE PRODUCT LIFE CYCLE FOR RETAIL**

**Introduction:**

An introduction is the opening phase of a market and is one that is just entering Global Retail Development Index (GRDI). This index is based on more than 25 macro-economic and retail –specific variables for instance, the country risk includes parameters like political risk, economic risk, performance risk, financial risk and business risk. The attractiveness of market covers retail sales per capita, urban population, laws and regulations and business efficiency.

Retailers should monitor and performing high-level assessments is very important at this stage., they should plan for their entry strategies. In late 1990's India is a good example in the opening stage, while in 2007; Kazakhstan was the country in introduction stage. Strategy suggested: Penetration strategy is suggested at this stage that is low price and high promotion.

**Growth:**

In growth stage, the market is developing quickly and also ready for modern retailing, such as India. Retailers entering this stage have the best chance for long-term success. At this stage Retailers should enter through local representations, sourcing offices and new stores.

**Strategy suggested:**

The strategy of adopting quality and styled products with new models and shift of advertising from product awareness to product preference .The idea behind adopting this strategy is to strengthen against competitors.

**Maturity:**

In this stage the market is still big and growing, but the space for new entrants will become tighter and retailers

should act quickly at this stage because retailers at this stage have limited time to explore, and also their margin for error is thin. They should act according to the established rules and should be open to face the competition from international retailers. The stage of maturity lasts longer than the previous two stages.

**Strategy suggested:**

Enter new market segments that is either enter new geographic areas or introduce new and innovative products and offers.

**Decline:**

The window of opportunity is closing fast and modern retail share is reaching 40 to 60 percent. The opportunity is closing the existing retailers can enter with new formats such as discount models or non-food formats such as consumer electronics and apparel.

**DEFINITION OF UNORGANIZED RETAILING**

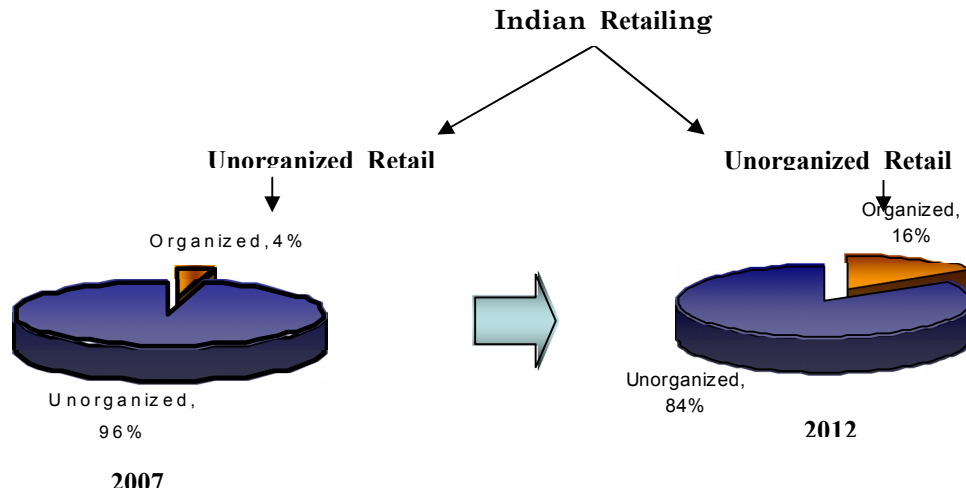
“Unorganized retailing” is defined as an outlet run locally by the owner or caretaker of a shop that lacks **technical and accounting standardization**. The supply chain and sourcing are also done locally to meet local needs. Its organized counterpart may not obtain its supplies from local sources

**In the year 2004, ratio of organized-Unorganized retail was 3:97 which is expected to be 9:91 by 2010.**

India is witnessing a frenetic pace of retail development over the past five years. According to the estimation’s of Goldman Sachs Indian Economic growth could actually exceed that of China by 2015. The Country has potential to deliver the faster growth over the next 50 years.

India has been recognized as a nation of *Dukandars*, having –approximately 12 million retailers. Obviously retailing is in our blood –either as a shopkeeper or as a shopper. The estimation’s that are being projected on Indian Retail market

is estimated to grow from the current US \$ 330 billion to US \$ 427 billion by 2010 & \$ 637 by 2015. Retail which contributes 10% of our GDP is the largest source of employment after agriculture.



**UNORGANIZED RETAILING IN INDIA**

The unorganized retail sector basically includes the local kiranas, hand cart, the vendors on the pavement etc. In India, under the foray of retail unorganized is the dominating. This sector constitutes about 98% of the total retail trade. In the retail sector Foreign Direct Investment in is expected to shrink the employment in the unorganized sector and expand that in the organized one. The retail business in India contributes around 11 percent of GDP. And out of this, the share of organized retail sector is only for about 3 percent, and the remaining share is contributed by the unorganized sector which is mostly a family owned business in India. The challenge that the organized sector is facing is from the competition from unorganized sector, Organized Sector and also due to recession in the recent times.

**ORGANIZED RETAILING IN INDIA**

In late 1990's the retail sector has witnessed a level of transformation. Retailing in India is being perceived as an attractive commercial business for organized business i.e. the pure retailer is starting to emerge now. Right now the share of organized retail business in India might be very small but it has tremendous scope and a viable future. As per the difference in the consumer buying behavior, the figures indicate Organized retailing will grow faster than unorganized sector and the growth speed and will be responsible for its high market share, which is expected to be \$ 17 billion by 2010-11. Cities like Mumbai, Delhi, Chennai, Kolkata, Bangalore and Kanpur show good prospects, The projection’s also indicate to the fact that organized sector is expected to grow faster than GDP growth in next few years driven by favorable demographic patterns, changing lifestyles, and strong income growth. The categorization done under organized retail sector includes

many of the formats such as supermarkets, hypermarkets discounted stores and specialty stores, departmental stores.

**Changing competitive Equation**

$$\text{Value} = (\text{Price} + \text{Quality} + \text{Benefits} + \text{Convenience} + \text{Service} + \text{Ambience})$$

**CHALLENGES OF RETAILING IN INDIA**

In India the Retailing industry has a long way to go, and to become a truly flourishing industry, retailing needs to cross the following hurdles:

- The first challenge facing the organized retail sector is the competition from unorganized sector.
- Automatic approval is not allowed for foreign investment in the retail sector.
- Taxation policies favor small retail businesses.
- There is a huge problem of Lack of trained work force.
- People are not specialized and have a low skill level for retailing management.
- Internal complexities of retailing- rapid price changes, threat of product obsolescence and low margins.
- Taxes to be paid by the organized retail are huge, which are negligible for small retail business.
- Nostalgia- Indian shopping habits are no different. In India people tend to associate qualities with parameters like honesty, fair price, good behavior in regards to the shopkeepers with whom they have been dealing right from childhood. They find no reason to go to a distant megastore without any genuine reason.

- Information Technology- This is a major problem and India must act fast if it wishes to create a smooth field for organized retailing.

Cost of business operations is very high in India.

#### **GROWTH DRIVERS IN INDIA FOR RETAIL SECTOR**

- Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes.
- Liberalization of the Indian economy
- Increase in spending per capita Income.
- Dual income in families also helps in the growth of retail sector.
- Shift in consumer demand to foreign brands.
- For Consumer its is just like an entertainment to shop in these environments.
- Through the Internet Indian consumer are becoming more accessible to the growing influences of domestic and foreign retail chains. The Reach of satellite T.V. is helping in creating awareness about global products for local markets.
- The increasing share of young population in total population of India.
- Availability of quality real estate and mall management practices

Foreign companies' attraction to India is the billion-plus population

#### **LITERATURE REVIEW**

**Mathew Joseph, Nirupama Soundararajan, Impact of organized retailing on unorganized sector,(2008).** India should not be afraid to encourage modernization in the retail sector. It is surprising why there are doubts about the resilience of the traditional Indian retailer. The report of ICRIER on the "Impact of Organized Retailing on the Unorganized Sector" provides clear evidence of the competitive spirit of the kirana stores.

- 1). Access to credit for kiranas to expand and compete.
- 2). Enhances the formation of retail cooperatives to help increase kiranas' bargaining power and exploit the advantages of bulk buying.
- 3). Indian Organized Retail Market

Indian organized retail market is growing at a fast pace due to the boom in the **India retail industry**. Retail market in Indian organized sector in future is expected to cross Rs. 1000 billion by 2010. The Indian organized retail market growth is mainly due to the change in the consumers behavior. This change in the consumer buying pattern has come due to increased income, changing lifestyles, and patterns of demography which are favorable. In India Retail market in the organized sector is growing can be seen from the fact that 1500 supermarkets, 325 departmental stores,

and 300 new malls are being built. Many Indian companies are entering the **Indian retail market** which is giving Indian organized retail market a boost.

A. Kearney', **INDIAN RETAIL STORY FROM MYTHS TO MALLS,(2006)** :

Traditional markets are transforming themselves in new formats such as departmental stores, hypermarkets, supermarkets and specialty stores.

#### **OVERVIEW**

India is witnessing an unprecedented consumption boom. The economy is growing between 8 to 10 percent and the resulting improvements in income dynamics along with factors like favorable demographics and spending patterns are driving the consumption demand. Retail Industry of India is ranked among the ten largest retail markets in the world. The shift of attitude of the Indian consumer in terms of "Choice Preference", "Value for Money" and the emergence of organized retail formats have transformed the According to the report of Global Retail Development Index (GRDI), India is on the first position, continuing for two years (2005 and 2006), among 30 countries as the world's most attractive market for mass merchant and food retailers seeking overseas growth.

#### **The Research Articles includes**

After analyzing the retail industry, we can conclude that the organized retail has opportunities to grow in India in spite of the kirana stores because these kirana shops will also get benefit of the growing economy. The argument that the kirana shops will be affected by these malls is only myth. The organized retail is attracting more and more Indian as well as foreign players of the retail industry. As our study shows that a major portion of the organized retail will be developed in small cities and towns, this opportunity has not been encashed by kirana stores and they are unable to meet the requirements of the customers. Therefore both the malls and kirana stores can play simultaneously in India so no need get afraid due to the malls. The driving factors being the Consumers, Rural retail, innovative Retailing Techniques, Talent of the employees.

#### **RESEARCH METHODOLOGY**

There is large no. of Retail companies in the market it was done to find out the comparison between the organized and the unorganized what are the impacts that are visible over each other and what is the future that exists in the two it also has a element of consumers attached into it which provides an insight on there preference, to find the defining strategies used, the methodology used is interview and survey method.

#### **DATA COLLECTION METHOD:**

For this research study, primary data as well as secondary data was collected

**Primary Data** has been collected through mall intercepts. For this purpose both **questionnaire** and **one-on-one**

**interview** was considered with the consumers, Retailer's of the Outlets. **Secondary data** has collected from magazines, newspaper, Records and websites.

### SAMPLING TECHNIQUE

For this survey **Convenience Sampling** is used through mall intercept technique. A sample of 200 people was selected around the area and interviewed according to the questionnaire.

The survey tried to find out their preferences & tastes, their purchasing habit, what they prefer organized or unorganized retail, there spending pattern and what would they like to see in the future.

Retailers are also interviewed to find out the strategies that the outlets are following whether they have been impacted by the modern retail or not to find out what are they doing to sustain their customer and what new changes they are bringing in to gain competitive advantage from other competitors

### RESEARCH INSTRUMENT

Research instruments, for the purpose of primary data collection were Questionnaires. The Questionnaires were designed in two sets, one is for customers and another is for Retailer's.

- ◆ The first set in the survey is to find out their preferences & tastes, their purchasing habit, what they prefer organized or unorganized retail, there spending pattern. What would they like to see in the future?
- Second set is all about knowing retailers and what they are trying to find out the strategies that the outlets are following whether they have been impacted by the modern retail or not to find out what are they doing to sustain their customer and what new changes they are bringing in to gain competitive advantage from other competitors

### LIMITATIONS OF STUDY

- ◆ The sample size may not adequately represent the national market
- ◆ The Rural market is not taken into consideration in this sample

### DATA ANALYSIS

For the analysis of data collected through survey work, a series of steps were followed which are given in a chronological order

- Each questionnaire was punched into SPSS AND MS-EXCEL sheet thus forming a data base (punching)
- Further the data was analyzed by using diagrams, graphs, charts etc.
- The graphic rating scale and ranking method was used to measure the response and attitude of the customer.

Finally, an effort was made to extract meaningful information from analyzed data, which acted as a base for the recommendations.

### FINDINGS FROM THE QUESTIONNAIRE ANALYSIS:

- ◆ The majorities approximately (75%) of the outlets that are prevailing in the retail sectors are the general store in the unorganized and the same above (75%) consists of super markets\Departmental stores\ Specialty store in the Organized retail.
- ◆ Majority of the outlets in Unorganized fall are the mom and pop shop's, the Kirana stores and there size is less than 100 square feet and a few departmental stores are less than 200 square feet. Whereas in organized the size of the outlets vary from 200-25,000 square feet depending upon the type of format Specialty store super markets, Hyper markets etc.

### PSEUDO EFFECT

The Perception and the mindset of the type of the store in India is totally different from the International Standard's. There are no standard Specification's in India .A large general store in India could be a Departmental store where as according to the International Standards a departmental store is of more than 10000square feet having more than 5000 SKU'S , whereas convenience store range from 2500-5000 square feet.

- ◆ From the findings it was evident to see that as we are moving from unorganized to the organized and the store size of these outlets is increasing there is a overall increase in the capacity and S.K.U's (There is a direct relation between the store size and the SKU'S) and also as we are increasing with the size of the outlets there is a shift in the format and as we are increasing in the size, we are moving from Unorganized towards the Organized Sector (There is a inverse relation between the Size And the format).
- ◆ We also could see that the major impact of the sales has been on the organized rather than the unorganized and it is due to the to recession and economic slow down and due to the tough competition that they are facing the unorganized retail so as to generate and increase the footfalls of the outlet/store.
- ◆ We could analyze from the research that to nullify the impact of modern retail they are trying to follow strategy of providing the customer's with a convenience via free home delivery at low prices .They also want to implement new technologies and there costs are already too low. Whereas, The strategies that are being followed by the organized retail to gain more footfalls is to attract the customer's through a Display eye catchy offers and that too at a low price so that they could make the bulk purchases. They also offer the convenience of one stop shop with a well defined technology, but in doing so there costs are very high.

**NOTE:** To generate more revenue the organized retail has to internally focus upon the cost but this should not be done at the stake of customer's.

## FINDINGS FROM THE CUSTOMER ANALYSIS

- ◆ A large number of the customer's fall under the category of "well off".
- ◆ Approximately 65% customers prefer to Organized retail over Unorganized.
- ◆ We were shock to know that the consumers were spending pattern has differed and is more in organized rather than unorganized and the reasons for this that were given were :
  1. Bulk Purchasing
  2. Impulse\Greedy Buying
  3. Promotional OffersAll these lead them to make more purchases then they intend to make.
- ◆ From the customer insight we got to know the customer spending pattern which indicates a high amount that is spent by individuals in the category of food, apparels and the general segment This also depicts where the retailer's should focus upon and gives an insight of customer appeal and there liking or preference.
- ◆ The analysis also showed that the customer's are saving more in the unorganized retail than the organized retail.

## LIMITATIONS

This survey is being done at a really small scale and only in one small region The survey is being conducted on the customer's and retailer's of urban area so the true picture of the rural market cannot be taken into consideration, where the real scope and the Future on Indian Retailing Lies.

## CONCLUSION

- ◆ From the research we can conclude it by saying that in India there are no specifications or any prescribed standard of calling a retail outlet organized or unorganized in India. The mom and pop shops also call there large stores as the departmental stores but in reality they are not, the interesting find was that there is direct relationship between the Size of the outlet and the SKU'S, and we found out that the larger the size the more number of SKU'S in that store and there is an inverse relationship in regards to the size of the outlet and the retail format, as we start increasing the size of the outlet there is shift in the format from the unorganized to the organized.
- ◆ The past researches tell us that the organized has impacted the unorganized but when our survey was done it was found out that organized retail is the one in today's scenario which is facing a lot of competition because of the high costs in this recessionary period and an economic slow down face and from the unorganized retail as there biggest challenge lies in building in the footfall of the stores .and generate larger share of revenue's.
- ◆ The income patterns of the customers are improving and increasing which in turn has made a shift in the buying behavior the customer preference now is moving more towards the organized where they actually tend to spend

more and the consumption patterns has also increased but now that they could afford to spend more.

- ◆ But at the same time it should not be forgotten that the unorganized sector is no where to go because it has a linkage with its customers in India since the very beginning. Our lifestyle does not permit us not to have a Kirana store near our house due to the utmost ease, convenience.
- ◆ The growth lies in items and there is a huge growth which could be forecasted in various categories where the customers spend the most and the 1<sup>st</sup> one is food according to a report in 2008 which stated that the middle class Indians are the ones who consumed the maximum amount of food in the world, this stated fact clearly proves the point that the overall preference is food and apparels.
- ◆ There is a huge potential and growth opportunities that lie for the organized sector, but it would not lead a major impact on the unorganized because the mindset of the Indian consumer is such that we can't think our life's without having a kirana store near our vicinity.
- ◆ It was quiet shocking to know that the customers actually save more in the unorganized retail rather than organized retail because they tend to spend more due to Bulk Purchasing, Impulse\Greedy Buying and Promotional Offers.  
This leads to higher spending done by the customers.
- ◆ The customers want to see more outlets being opened therefore it clearly states the amount of growth that is prevailing out there.

The fact to the whole scenario is that when asked whether in case of a franchisee of organized being offered to the unorganized retailers would they be interested in it and that responded by saying no to it because they do not have time they are having large revenue earnings from their business.

## FUTURE SCOPE IN RETAILING

### FOR UNORGANIZED RETAIL:

- ◆ The unorganized retailers should follow these strategies to compete with the organized sector:
  - a. Cost
  - b. Customers services
  - c. Adding More SKU'S
  - d. Increasing the size and the value
  - e. Improving Display.
- ◆ They can offer cash discounts to customers on bulk purchases
- ◆ Enticing weekly or monthly scheme's for groceries and other items and promoting it through leaflet or pamphlets.

### FOR ORGANIZED RETAILER'S

- ◆ The audience are very young and they are the one's who should be targeted as they are the future of retailing but at the same time women are the driving force of the family therefore they should not be forgotten and a right mix has to be achieved to cater to this segment.

- ◆ The youngster's are the ones who spend more and there income levels have also increased therefore they should be targeted in a way as to what are the things that appeal them.
- ◆ Choosing the right kind of promotional mix and the strategies because the target audience is very young and inquisitive therefore we have to spread awareness like fire, choose the technological aspect to your greatest strength
- ◆ E-tailing :Online booking of the goods could be done to provide maximum convenience to the customers
- ◆ The organized retailers should follow these strategies to compete with the unorganized Sector :
  1. Providing catchy offers
  2. Increase consumer awareness through media
  3. Adding value (Through price, services, Offers)
  4. Generating stimulus through schemes
  5. Providing recognition to the customers (through Loyalty Programs).
- ◆ Offering of different and innovative formats to meet the customer demands..
- ◆ Promotion of private label product as they provide high returns.
- ◆ The customer needs have changed with time and there consumption patterns have increased
- ◆ Promotion of Innovative retail outlets and the concept of franchisee for the brands which are well established
- ◆ Focus on luxury retail.
- ◆ Tapping of rural market which provides a whole new and untapped market out there which could be captured to the core of its potential by the right strategic planning

#### REFERENCES:

- [1] P.G.Chengappa, Lalith Achoth, Arpita Mukherjee, B.M.Ramachandra Reddy and P.C.Ravi, Evolution of Food Retail Chains: The Indian Context, 5-6th Nov. 2003,
- [2] www.ficci.com
- [3] [http://www.ibef.org/artdispview.aspx?in=63&art\\_id=21574&cat\\_id=376&page=2](http://www.ibef.org/artdispview.aspx?in=63&art_id=21574&cat_id=376&page=2)
- [4] [http://www.ibef.org/artdispview.aspx?in=63&art\\_id=21574&cat\\_id=376&page=3](http://www.ibef.org/artdispview.aspx?in=63&art_id=21574&cat_id=376&page=3)
- [5] India's Marketing White book (2006) by Business world
- [6] <http://www.scribd.com/doc/9378066/Retail-Market-Presentation>
- [7] <http://www.scribd.com/doc/5600761/RETAIL>
- [8] <http://www.scribd.com/doc/6923992/RETAILSCENARIOININDIACIIRReport>

#### REFERENCES OF LITERATURE REVIEW

- [1] <http://ideas.repec.org/p/ind/icrier/222.html>  
Mathew Joseph, Nirupama Soundararajan" Impact of Organized Retailing on the Unorganized Sector" File URL:[http://www.icrier.org/publication/Working\\_Paper222.pdf](http://www.icrier.org/publication/Working_Paper222.pdf)
- [2] India's Marketing White book (2006) by Business world ARTICLE IN THE BUSINESS TIMES DECEMBER 14 2008
- [3] <http://www.businessstandard.com/india/storypage.php?autoo=327675>
- [4] <http://www.scribd.com/doc/6379307/Retailing-Kirana-Store>
- [5] <http://www.scribd.com/doc/7278631/Retail-Consumer>
- [6] <http://business.mapsofindia.com/india-retail-industry/indian-organized-retail-market.html>
- [7] <http://indiafmcg.blogspot.com/2007/08/indian-retail-story-from-myths-to-mall.html>
- [8] <http://indiaretailnews.com/knowledge/108-strategy/4606-the-future-of-organized-retail-in-india>
- [9] <http://www.merineews.com/catFull.jsp?articleID=125090>