

# Organized Retail: A Set Back for India's Unorganized Retail

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**Abstract** - Indian Retail Industry is considered to be the fifth largest in the world and one of the fastest growing industries in India. From traditional retail outlets and hawkers (local market) to supermarkets or hypermarkets, Indian retail sector has different shades. 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. Objective of study is to study the role of organized and unorganized retail and to find out problems faced by unorganized retail. The study reveals that unorganized sector is facing the problem of lack of capital, less ability of risk taking and opposition from foreign direct investment. Organized sector is benefitted with trained sales force. They have huge investment. Home delivery, different brand under one roof, attractive packaging are the reasons for the growth of organized retail which differentiate organized retail sector from unorganized retail sector.

**Keywords** – retail, organized retail, unorganized retail.

## I. INTRODUCTION

India is at the crossroads with regard to the retail sector. Indian Retail Industry is considered to be the fifth largest in the world and one of the fastest growing industries in India. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion. From traditional retail outlets and hawkers (local market) to supermarkets or hypermarkets, Indian retail sector has different shades. There is no doubt that traditional retail has been performing a vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies as a result of which consumers do not get what they want, and farmers often get prices for their produce much below what is considered fair. 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. All these make up for the low productivity of the unorganized retail sector in India.

In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. It gives farmers a better alternative channel for selling their products at a better price. Organized retailing was absent in most rural and small towns of India in 2010. Supermarkets and similar organized

retail accounted for just 4% of the market. Before 2011, India had prevented innovation and organized competition in its consumer retail industry. On 11th January, 2012, India approved increased competition and innovation in single-brand retail to attract investments in production and marketing, improve the availability of goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises through access to global designs, technologies and management practices.

The competition from organized retail has affected the business of traditional retailers but they are making efforts to stay on. In their struggle to face this competition, they are handicapped by a lack of access to formal credit from commercial banks. As in other countries, government policy can and should play an important role in modernizing the unorganized sector and improve its competitiveness.

### Objectives of study

- To study the role of organized and unorganized retail.
- To study the problems faced by unorganized retail.
- To study the government role and initiatives in these sectors.
- To find out the impact of organized retail on unorganized retail.

### Advantages of Unorganized Retail Sector

Unorganized retail sector or traditional retailing is available at 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 are also available in unorganized retailing.

### Advantages of Organized Retail

Organized Retail revolves around different formats like 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 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.

### Problems Faced by Indian Retailers

Organized retailers see 'Competition from Unorganized Retail' as their biggest challenge. Lack of Technology Adoption, Inefficient Supply Chain Management, Lack of Infrastructure and Logistics, Understanding customer, High Cost of Operation, Scarcity of Skilled Workforce, Price War, Frauds in Retail, Ever-increasing customer demand are considered as major challenge in Indian Retailing Sector. Cultural Diversity, E-Retailing, Escalating land and rental prices, Power Supply Problem in India, are considered as moderate challenge for Indian retailer.<sup>1</sup> Indian consumers are showing rapid changes by shifting their buying attitude from unorganized outlets to organized outlets.<sup>2</sup>

## II. LITERATURE REVIEW

**Outlook (2000)** shows that increasingly consumers prefer "All under one roof" destination for shopping as well as eating out and entertainment. These findings together indicate an excellent potential for a mall with the following features. A superior well-managed leisure experience. Targeted at all members of the household. Comprising of shopping, dining and entertainment all under one roof. A wide range of products and services.

**Malliswari, M.'s (2007)** study about "Emerging trends and strategies in Indian retailing" indicates that the demanding ascertain Indian consumer is now sowing the seeds for an exciting retail transformation that he already started bringing in larger interest from international brands /formats. With the advent of these players, the race is on to

please the Indian customer and its time for the Indian customer sit back and enjoys the hospitality of being treated like a King.

**Ashokan, C. (2008)** in his study "Profile and perception of retail consumers" analyzed the consumers' perception towards retail in Palakkad, Kerala. Visiting retail outlets has become a group activity. Most of the shoppers are influenced by as well as accompanied by colleagues, friend and relatives. Majority of the people who visit do not shop at all. The hang around meet friends, do window – shopping and spend time leisurely.

**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.

**Ramanathan & Hari(2011)** observed from their study that due to the recent changes in the demographic system of consumers, and the awareness of quality conscious consumption, consumers preferred to buy different products both from the organized and unorganized retailers.

**Kalpna Singh (2014)** The size of India's retail industry is expected to more than double to \$1.3 trillion by 2020. Further organised retail's penetration in India's total retail is on increase. Organized retail whose share in total retail was 8% in 2012 is expected to assume 24% share of total retail market in India in 2020.

## III. FUTURE OF INDIAN RETAILING

Different factors are responsible for drawing a customer in a retail store (organized or unorganized). Status, range of merchandize, shopping environment, parking space, entertainment and variety of modes of payment are the factors responsible for patronage towards an organized retail store.<sup>3</sup> Customers like to buy fruits & Vegetable from air-conditioned supermarkets because of its quality products but due to the high prices they still feel conservative to buy these kinds of products either from the local mobile vegetables seller or from the nearest sabji market. Proximity is a major comparative advantage of unorganized outlets.<sup>4</sup> India's retail market is expected to increase by 60 per cent to reach US\$ 1.1 trillion by 2020, on the back of factors like rising incomes and lifestyle

<sup>1</sup> Ashu Nagpal and Bineet Sinha(2017). International Journal of Management and Applied Science, ISSN: 2394-7926 Volume-3, Issue-9. Challenges Faced by Indian Organized Retail Outlets: A Descriptive Study of Delhi / NCR.

<sup>2</sup>Raghavendra R.H (2016). An Overview of Unorganized Retail Sector In India. <https://www.elkjournals.com>.

<sup>3</sup> Srivastava M. (2016).Consumers' Perception Towards Organized And Unorganized Retail: A Comparative Study Done In Pune City, India International Journal Of Research In Commerce, It & Management.

<sup>4</sup> Talreja M. and Jain D. (2013). Changing Consumer Perceptions Towards Organized Retailing From Unorganized Retailing – An Empirical Analysis. International Journal of Marketing, Financial Services & Management Research. ISSN 2277- 3622 Vol.2, No. 6, June (2013)

changes by middle class and increased digital connectivity. While the overall retail market is expected to grow at 12 per cent per annum, modern trade would expand twice as fast at 20 per cent per annum and traditional trade at 10 per cent. Organized Retail Market contributes 93 per cent of the total sector and Unorganized Retail Market contributes the rest 7 per cent of the sector. India's Business to Business (B2B) e-commerce market is expected to reach US\$ 700 billion by 2020. India is expected to become the world's fastest growing e-commerce market, driven by robust investment in the sector and rapid increase in the number of internet users. Various agencies have high expectations about growth of Indian e-commerce markets. Revenue generated from online retail is projected to grow to US\$ 60 billion by 2020. Organized retail penetration is expected to increase 10 per cent in 2020. India is expected to become the world's third-largest consumer economy, reaching US\$ 400 billion in consumption by 2025.

#### Government initiatives to improve retailing industry in India

The Government of India has taken various initiatives to improve the retail industry in India. Some of them are listed below:

The Government of India has introduced reforms to attract Foreign Direct Investment (FDI) in retail industry. The government has approved 51 per cent FDI in multi-brand retail and 100 per cent in single brand retail under the automatic route which is expected to give a boost to ease of doing business and Make in India, and plans to allow 100 per cent FDI in e-commerce. India will become a favorable market for fashion retailers on the back of a large young adult consumer base, increasing disposable incomes and relaxed FDI norms.

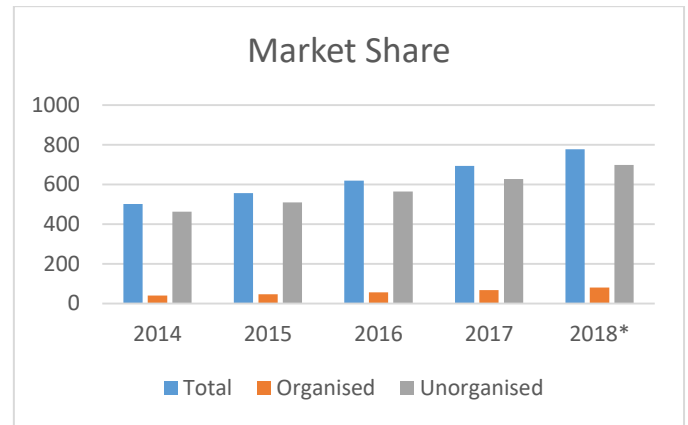
The Government of India may change the Foreign Direct Investment (FDI) rules in food processing, in a bid to permit e-commerce companies and foreign retailers to sell Made in India consumer products.

Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India.

#### Market Share of Organized and Unorganized Sector

Market Type	2014	2015	2016	2017	2018*
Total	501.69	556.76	619.39	694	777.14
Organized	39.26	46.82	55.84	66.6	79.43
Unorganized	462.43	509.94	563.55	627.4	697.71

Table-1



Graph-1

Table 1 and graph 1 shows that share of organized sector is increasing since last four years. 69.63% increase in organized sector has been observed in 2017 in comparison to 2014, whereas, only 35% increase has been observed in unorganized sector. It is also observed that at the end of year 2018, there will be 19.26% increase in organized sector, whereas 11.20% increase in unorganized sector.

#### Factors that differentiate the organized retail outlets with unorganized retail outlets.

Factors	Percentage of Ranks	Ranking
Coverage's of stores as per your convenience	9.1	8
Sales force dealing with customers	10	7
Price charged by stores	12.3	4
Discounts schemes & gifts	16.7	1
Advertising & promotion tool	16	2
Home delivery	10.6	6
Multiple choice of products	14	3
Infrastructure	11.1	5

Table-2

Table 2 depicts the ranking done on the basis of factor which differentiate organized retail outlets from the unorganized retail outlets. The first factor the 1st rank is given to the factor discounts schemes and gifts followed by advertisements and promotion tools, multiple choice products, price factor, infrastructure, home delivery, sales force dealing and coverage of stores as per convenience respectively.

#### Depicting how much organized retail affect the sales of Small scale retailer store

Options	Respondents=40
Huge affect	21
Partially affected	11
Not affected to the extent	6
Not affected at all	2

**Table-2**

Table 2 shows that 21 respondents are of the opinion that organized retail makes a huge impact on unorganized retail, whereas 11 respondents are of the opinion that it affects partially. 6 respondents says that it is not affected to the extent and 2 respondents are of the opinion that it do not affect at all.

**Showing the activities that differentiate the organized retail from unorganized retail.**

Activities	Percentage of responses	Rank
Large space	16.3	2
Variety of products	19.1	1
Schemes and coupons	15.1	3

Quality of products	13.7	4
Long openings hours	7.6	7
Attractive prices	12.2	5
Conveyance	8.5	6
Provides customer services	7.5	8

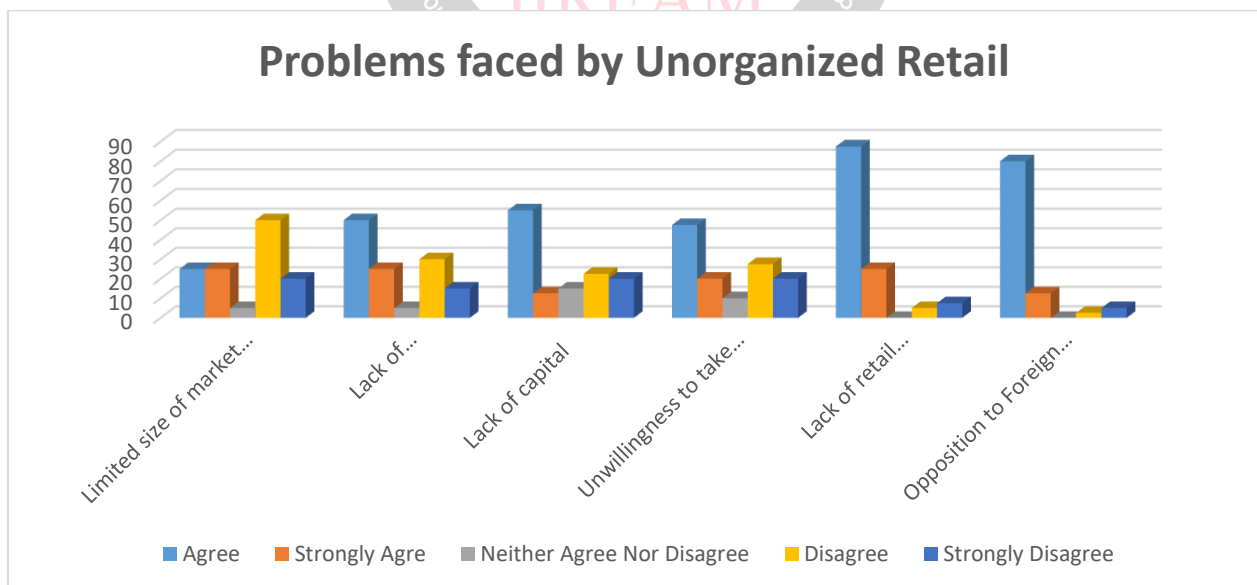
**Table-3**

Table 3 reveals that the rank given to various activities, which the unorganized retailer thinks that differentiate them from organized retailers. The lowest rank is the best activity or important activity the considered. Variety of product is at top followed by large space, schemes, attractive prices, conveyance, long opening hours and providing services to customers.

**Problems faced by Unorganized Retail**

	Limited size of market and scale of operations	Lack of standardization, technology and process	Lack of capital	Unwillingness to take business risks	Lack of retail inclusiveness	Opposition to Foreign Direct Investment
Agree	10	20	22	19	35	32
Strongly Agree	10	10	5	8	10	5
Neither Agree Nor Disagree	2	2	6	4	0	0
Disagree	20	12	9	11	2	1
Strongly Disagree	8	6	8	8	3	2
Total	40	40	40	40	40	40

**Table-4**



**Graph-2**

Table 2 and Graph 2 reveals that unorganized retail sector faces various type of problems. Only 50% respondent agree that size of market is limited for unorganized retailers. Lack of capital is a huge problem for unorganized sector. Foreign

direct investment is a big challenge for unorganized retailers.



#### IV. CONCLUSION

The study reveals that Indian retailing sector has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly US\$ 3,600 billion by 2020 from US\$ 1,824 billion in 2017. It accounts for over 10 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment. Emergence of Organized sector has become a big challenge for unorganized sector. Unorganized sector has to face various problems like less ability of risk taking, opposition from foreign direct investment, lack of capital etc. Home delivery, different brand under one roof, attractive packaging are the reasons for the growth of organized retail which differentiate organized retail sector from unorganized retail sector. Unorganized sector is a big opportunity for small entrepreneurs. Government should take initiatives to protect small entrepreneurs. They are facing with the problem of lack of capital. Loan should be given at subsidized interest rates. Protection from Foreign Direct Investment should be given by fixing the share of foreign investors.

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