

Retail Industry in India: The Reality Check- Review Article

Prof. Deepika Arora
wahiedepika@rediffmail.com

Abstract:

Retail is an integral part of the market for years. The presence of traditional mom and pop stores tells us about the existence of unorganized sector in India. The emergence of organized sector and its growth since 1980's is seen now as the Indian retail market is flooded with various industries trying to capture their piece of cake in the market, covering all market segments and simultaneously paving a way for many others to make the today's world more competitive. Retailers offering multi-brand products sprung up in the 1990s. Various types of shopping Centers started coming up from 1995 onwards. The year 2000 saw the establishment of super markets and hypermarkets. The big international retail industry is waiting for India to open up FDI in the retail sector.

At present Organized retail captures around 6 per cent of the total market, but it seems that by 2015 its share would increase to 25 per cent. Various structural, social, demographic and macroeconomic factors are driving the growth of this industry.

The paper aims at finding out the challenges that are faced by the organized retail and how these challenges change to opportunities when they move from one sector to another. The paper would discuss as to how the organized sector is growing at leaps and bounds and the unorganized sector is lacking behind.

Keywords: unorganized, organized, retail, challenges and formats

Introduction:

Retail has been a buzzword for centuries. But the look of it has changed largely in the post independence period. Most part of the Indian retailing has been unorganized, and untouched by corporate business principles. Lopsided economic development is transforming India from an agrarian economy to a service oriented post-industrial society. The Indian retail industry is highly fragmented. According to AC Nielsen and KSA Technopak, India has the highest shop density in the world. In 2001, it was estimated that there were 11 outlets for every 1000 people. Since the agriculture sector is over-crowded and the manufacturing sector stagnant, millions of young Indians are virtually forced into the service sector. Census 2001 provides us the most authentic data on people involved in retail. According to it, there were 269 lakh 'main' and 24 lakh marginal workers in wholesale and retail trade. That is, nearly three crore people dependent on trade, 1.1 crore in the urban and 1.9 crore in the rural areas. Of the total, nearly 1.7 crore are not even matriculates. Thus, the livelihood of more than 30 million is involved and if we count the dependants, in the form of children and others, at least 120 million will be impacted by the retail revolution created by the large corporations.

As far as the count goes, there is more than one retailer for every hundred persons which clearly shows that how this form of self-employment is coming up, inspite of limited capital and space. One of the single largest component in terms of contribution to the gross domestic product of services sector is Trade/retailing. It accounts for 14 per cent of the service sector, i.e., double of banking and insurance

sector which is the next largest economic activity. The total number of retail outlets (both food and non-food) was 8.5 million in 1996 and 12 million in 2003, a 41 per cent rise.

Organised retailing still contributes to only about 2% of the total retailing in the country. It employs roughly 0.5 million people vis-à-vis the unorganized sector that accounts for 39.5 million. One should try and understand the aim or objective of why organized retail came into being. They were started for providing an ideal shopping experience for the consumer based on the advantages of large-scale purchases, consumer preference analysis, excellent ambience and choice of merchandise. But to increase viability there should be formats, designs, facilities or product portfolios which can become the success formula between chains. For a long time, the corner store was available to the consumer in both urban and rural areas but now new international formats of retailing are coming up.

The Indian retail industry is currently estimated to be a US\$ 200 billion industry and organized Retailing comprises of 3 per cent (or) US\$6.4 Billion of the retail industry. With a growth over 20 percent per annum over the last 5 years, organized retailing is projected to reach US\$ 23 Billion by 2015. In figures the Indian Retail Industry is one of the tenth largest retail markets in the world. The preferential shift of the Indian consumer in their Choices, Value for Money, Brand have changed the entire face of Retail Industry in India. The Indian retail industry had been owner -run " Mom and Pop outlets" has now witnessed the giant sized Retail chains, like Pantaloon Retail, RPG Retail, Shoppers Stop, Westside (Tata Group),Lifestyle International and many more.

Retailing is at its inception in our country and the benefits of retailing would be visible only after an equitable scale is reached. Success at store level depends to a large scale on the store size, walkthroughs, bills per customer annually, average bill size and revenue earned per square foot. However success in the retailing sector would critically depend on the strategic management involved in targeting and positioning of the stores, marketing, site selection and strategizing among others. Most importantly merchandise management forms an important element with vendor selection, inventory managing and pricing which forms the crux of management. The one thing that will give a great push to the industry would be the store management, which will involve layout, display, and customer relationship management.

Sure ways to take Retailing to a new paradigm

- **Shoppertainment:** to make shopping an experience, the concept of shoppertainment came into picture. The term is commingling of shopping, entertainment and eating. It is basically targeted to make shopping an entertainment for the families. As the marketer understands that the customer is not just looking for satisfaction but delight, which is also the need of the hour.
- **E-tailing:** It is the selling of retail goods on the Internet and the short form of "electronic retailing". Looking at the present scenario, the number of double income families is increasing and the need and demand of the modern, educated consumers is also increasing. In order to fulfill the increased demand of these nuclear double income families who have a busy schedule and very little time for marketplace- a new concept called e-tailing was thereby introduced. This allowed the some of the busy customers shop sitting at their workstations.

Objective

The objective of the paper is to make a comparative analysis of the organized and unorganized retail sectors keeping in mind the choice of customers from traditional retail stores to modern retail outlets.

Ho: organized sector will take over unorganized sector

Methodology

Methodology of the paper is totally secondary in nature. The paper is based on secondary sources. This paper is a literature review on organized and unorganized sector and their relative scope with the growing edges of competition. The material is sourced from newspapers, journals, Internet etc.

Literature Review

After farming, retailing is India's major occupation. Infact retail is a buzzword for today and tomorrow. This is one sector, which has made us think or go back to mythology wherein one has heard of the story of Sagar Manthan a fight between goodness and evil. But it is up to the economy to decide who (organized and unorganized sector) falls in which category. The Indian retail trade has been seen to be the fastest growing in the world (Technopak 2006). There are numerous estimates of the size of the retail sector. Crisil estimates that the size of the retail sector was at Rs 10 trillion in 2006. Crisil estimates that the penetration of organised retail into this market only amounts to 1 per cent. AC Neilson estimates the size of the Indian retail market to be 250 billion dollars and adds that only 23 per cent of 23 major cities have "modern stores" [Sridhar 2007:38].

This is one of the major sectors that has provided employment to 40 million people, the reason being the growth of the middle class and their pattern of expenditure. The advancement of the middle class has not assisted those at the bottom of the ladder. "The gains of faster growth have been largely captured by the privileged, as the "poor barely manage to continue their slow exit from hunger and misery" Dreze (2004). The growing visibility of the new Indian middle class has resulted in what Kothari (1993) has called the growing amnesia towards poverty and the poor in "liberalising India".

Although new in India, the shopping mall has been in existence around the world for several decades. There has been some past research work on shopping malls as a total unit. But the amount of scholarly literature available on malls is very limited. Fienberg and Meoli (1991) note that one would be "hard pressed to find scholarly treatment to malls" in the academic journals. In the field of retail research, the emphasis has primarily been upon the store rather than the mall as the unit of analysis. However the importance of mall in retail research studies cannot be marginalized. The mall provides the basic environment that attracts customers, keeps them shopping and brings them back again (Kowinski, 1985). The mall has been looked upon as consumption sites and parallels have been drawn from an ecological habitat. (Bloch, 1994). Findings from their study suggest that malls have transformed from being strictly purchase sites to being centers for many activities. A few research studies have examined the retail patronage at the mall level. A number of studies have described the demographic and psychographic characteristics of mall patrons (e.g. Bloch, 1994; Jarboe and Mc Daniel, 1987). Other studies have pointed towards the importance of the effect that shopping center image (Finn and Louviere, 1996) and the level of liking for a shopping area (Nevin and Houston, 1980) may have on patronage.

One of the criticisms of malls in western countries is that they lead to the replacement of the traditional main street and its subsequent decline (Lowe 2000; Baker2006; Guy 2006; England 2000). Retail developments along with gated communities, redeveloped market places and casinos have changed the face of western cities as public or civic spaces have been replaced with private space owned by developers (Voyce 2006: 275). When consumers are inside such places they could be anywhere in the world, as all these types of places seem to be the same whether they be downtown centres, airports or shopping malls [Augé 1995; Ritzer 2004].

Analysis of paper

Term retail for explanation is divided in two sectors one is organized and the other is unorganized. Both the sectors are always debatable as some people are in favour and some are against it.

Everyone is seeing the glorious future of retail. Unorganized sector is the strength of the nation because it is the only sector, which provides maximum employment. Despite being a traditional concept many retail enthusiasts have also gone to the extent of writing an obituary for the unorganized sector because of the fact that they are not ready to work on their inherent strength and are unwilling to innovate, survive and flourish.

Existence of unorganized retail formats

Formats do not just exist in organized retail the presence of these is also there in unorganized sector. They can be categorized into the following groups:

- Push-cart vendors
- Hawkers.
- Corner stores
- Stores in residential buildings.

Development of Retail Formats in organized sector

Capturing the new market segment and thereby simultaneously adding more number of customers to the company's profile stands out to be one of the difficult and most aspired need of the retailer. Getting new customers and retaining the old ones is another difficult task faced and possessed the retailers. To minimize the risk of losing the customer, a retailer not only needs to understand the varied needs of the diversified customers but he should also implement the remedial strategies at the same time.

A broad classification may include some of the below mentioned formats:

- **Malls**

The mall mania is spreading fast. It is spreading from Metro cities to smaller cities and to keep it going it has to spread its wings to the rural market also. Large malls are coming up with huge retails spaces for stores as well as for leisure and entertainment. With this new format coming up in the retail space it is a mix of the right tenant and the location will decide the success of the mall.

- **Department Store**

An exclusive arrangement, which offers an exclusive arrangement for the assortment of goods and services, is a Department Store concept. These goods and services are arranged in different departments for the purpose of efficient buying and promotion. They also target to create the ease in shopping for the customer in the best possible way. Shoppers' Stop is the first one to open a department store in the early 1990s and currently operates 19 stores in 10 different cities in India. The store besides targeting different

lifestyle retailing, also creates a sense of unity in diversity by splitting into different segments or departments such as apparel, accessories, home décor, gift ideas and other services.

- **Hypermarket**

Emergence of Hypermarkets have brought a revolution in the retail industry. These are the biggest crowd pullers. The reason behind this is that the first time customers get converted to repeat customers. These then finally turns them into high value customers. Hypermarkets offer consumers the widest merchandise mix under one roof. They also create and provide various brand choices for superior value. Hypermarkets also focus on tailor made demands and cater to the needs of the wide customer profile design products accordingly.

- **Supermarket**

Considerably smaller in size, the supermarkets largely concentrate on selling food related products as compared to hypermarkets. They hold a different value proposition. The supermarkets offer fewer assortments but their focus is on specific product categories. A super market normally sells frozen foods, cosmetics, utensils, grocery, fresh vegetables, fruits, , toiletries, cutlery, stationery and gift items.

- **Convenience Stores**

A Convenience store offers customized service to the shoppers due to the advantage of its location.

- **Discounters**

Lower prices and a wide assortment are the key attributes of a discounter. Though in the long run its success depends on the consistent value delivery to the consumer and the operational efficiency.

- **Branded Store**

Creating a niche for the customers with a new market segment can be a dream of any aspiring retailer. This idea should get restricted merely to make your own brand, which is not only acceptable but also demanded by the major customer ratio. The competitors either try to beat each other in the same market segment or viciously run for the niche. This fight thus has got the branding system as the simple and convenient way out for the majority of the players in the retail scenario.

- **Category Killer**

Category Killer is a kind of discount specialty store where a wide variety of merchandise is offered in less variety. In India, Mega-Mart is one sort of category killer, which sells apparel products.

- **Dollar Stores**

Dollar stores emerged with the concept of psychological and penetrating price mechanisms with varied range of products, all placed at the same price. Keeping in mind the purchasing behaviour of Indian consumers, such concepts have been nicely designed and implemented to make the majority customers buy, who else just might be the part of window-shopping.

Understanding unorganized sector:

Unorganized sector stands for Mom & Pop stores that are unique in their own way.

Factors responsible for success of unorganized retail

- Personal touch
- Care and concern
- One to one relation.

- Credit facility

The mom and the pop stores are successful because they understand their customer requirement. The KIRANA storeowner knows which brand of soap and salt is used by which household in the locality. Whenever the customer visits his store the KIRANA storeowner takes care of most of his needs. The storekeeper gives a personal touch to his shopping and as a customer you trust him. The neighborhood store makes shopping experience very comfortable. He treats the consumer like a king and offers free delivery of heavy baggage full of groceries to the houses. Compared to this the bigger chains have a cold behavior to offer. All that the staff of an organized retail chain worry about is how to sell you more than what you need and also what you don't need.

Competition faced by unorganized sector on various forefronts

- **Price**

Indian customers are very price sensitive and an increase in price by one rupee from one retailer to another causes a feeling of being cheated by the retailer. This is the forefront at which unorganized sector faces problems. The existence of disparity in prices leads to preference of organized retail in comparison to unorganized retail. It is one challenge, which is very difficult to be handled, and shows no solution to unorganized retail.

- **Variety**

The areas or spaces in which most of the organized retailers operate are quite bigger than these unorganized retailers. So the advantage is in the hands of organized retail as they can keep lot of variety for the customers whereas the mom and pop stores operate with low working capital and selective stock in their store.

- **Time**

Today's one thing, which is available in short, is time. The customer of yesterday is very different from the customer of today. The lifestyle has changed and life has become very busy.

So the customer hardly gets any time for shopping. This is what the organized retail understood that people have money but no time. So he offered them one stop shop where the customer can buy anything under the sun.

- **Employment opportunities**

Employment generation is one of those areas wherein the organized sector still needs to fight a tough competitive battle with the unorganized sector in retail. The fact file suggests that there are approximately 40 million people employed in this sector, which is a great challenge for the organized sector to create ample employment opportunities for the same. Direct employment of such huge number of people is a big threat for the organized retail. Although one cannot ignore the better job enhancement facilities and the kind of quality employment, which is a monopolistic factor enjoyed by organized sector alone, the dislodgement and unemployment effect could be far greater than the employment effect.

The debate still cannot hold on the negative implications but needs to understand the fact that now the people who take care of the routine needs of the customers are better skilled and trained as compared to the unorganized sector. If mass employment is in the hands of unorganized than quality employment is in the hands of organized retail.

Why organized retail is a threat?

“Advantage of one, and threat for another” Indian retail is estimated to be worth Rs 12,60,000 Crore. Of these, 97% is unorganized retail made up Mom & Pop stores, Kirana stores, Paan shops, etc. Only about 3% is in organized retail with players like Pantaloon, Shopper’s Stop, Subhiska, Food Baazar etc. And other major players including Reliance and MNC giants like Wall Mart. And the organized retail segment is estimated to capture 15% of the retail market by 2015. This means that the organized sector will gulp away somewhere around Rs 110000 Crore of business from small stores in the vicinity. Organized retail is spreading like fire in metros and towns. In a country of over 12 million unorganized retail outlets, this could be a devastating blow to employment.

Challenges before Organized Retailing in India

- **Restricted FDI**

Organised retailing in India is yet to get an industry status. On the other hand, it is also important to note that the lack of FDI can deprive the industrial status for the access to foreign technologies.

- **Uniform taxation is missing**

The various State tax barriers limits retail activity and turns out to be a major hindrance to the growth and development of this Industry. A central tax system for this industry is more relevant as the regional disparities in procurement, production of commodities is quite high.

- **Infrastructural facilities are lacking**

The basic infrastructural facilities are quite poor and very few reliable logistics solution providers are there. This forces retailers to set up their own infrastructures. It proves to be a major hurdle in the success of organised retail in India.

- **Low investment needs of unorganized sector in retail**

Low investment needs push unorganized sector of retail to a clear dominant zone.

- **Small operational Size**

Small size retail outlets rule the Indian scene. India has the second largest population in the World and is amongst one of the fastest growing economies in the world. It has a huge potential for organized retailing but due to various political reasons it has not got its due weightage by the government.

- **Employment generation**

The 24* 7-working environment predominantly registers the major work force to be less suitable for this demanding industry. The labour rules needs to be clearly defined and modified to suit to the varying needs of retail segment.

Impact of organized retail

- Manufacturing in India has seen a negligible growth since the economy has opened up. This has lead to unemployment and huge setback to the existing industries.
- In the absence of the traditional system, and the presence of one mega retail outlet in the vicinity, the number of choices offered by the retailer will be the only option left with the customer. Cartels are price-hiking mechanisms, which can then be a regular visionary phenomenon posed by

the retailer and bearded by the customer. But the customer will have no other option but to procure goods from the only available option at whatever prices they set.

- As every food is promised by the retailer to be provided to every customer even from the remote areas to the remotest areas, the only signaling fact, which is hidden behind the comfort sorted, is the increase in logistics and distribution arrangements. Such increase will directly contribute to the environmental pollution or the increase in customer's own commuting time.

Illusion to Dilution in Retail

Myths	Realities
Prices of different items are less in corporate retail.	The rates at which the vendors sell are less as those in the corporate retail shops.
Corporate retail is throwing away middlemen.	They are becoming the new mega middlemen and creating monopolies by becoming the wholesaler, distributor and the retailer.
They are creating employment. The employment potential projected is 2 million jobs	They are robbing livelihoods many more times than the number of jobs they are going to create. For creating 2 million jobs they are going to destruct 40 million livelihoods in retail sector.
Farmers are getting better deal. Corporations are friends of farmers and consumers.	Corporations are buying from existing mandis and not straight from farmers at this point of time, so there is no question of farmers getting a better deal. In future when the corporation will have control over the whole supply chain of food, farmers will have no place to sell other than these corporations. Then our farmers will face monopsony as the farmers of the west are facing now.
Corporate retail sell fresh.	The hawker sells much fresher than any of these shops. Long distance supply chain and refrigeration means stale fruits and vegetables.
Corporate retail is promoting local economy.	They have destructed local economy wherever they have gone, and is doing the same in India. Attacks on the reliance stores in Ranchi and Indore are preemptive action by people dependent on local economy.
Corporate entry will make the supply chain	The supply chain gets more centralized, and

more efficient. They are more scientific than the existing system.	the average distance traveled by food increases manifold. In scientific, social and ecological terms this is inefficient compared to our hawkers.
There is huge consumer demand for corporate retail.	The corporations are pushing the agenda, never have people in India demanded for corporation led retail.
Corporation led shops sell cheap and consumers save money shopping there.	Corporations are propagating the habit of wasteful consumerism among the Indian consumers.
There is room for all, as Indian economy is growing at an enormous pace.	The corporate retail chains cannot prosper without killing the small businesses. The experience of west shows us the truth.

Source: Navdanya/ Research Foundation for Science, Technology and Ecology

Conclusion

Will organize sector takeover unorganized sector or will it be the other way round, is still a debate which might never conclude but there are sure ways to mark the understanding to what the ultimate choice of the customer is.

The positive and negative aspects of both the sectors in retail are similar to the two sides of the same coin and cannot exist in absence of each other as clear dominance of one over the another will ruin the very essence of the retail business activity. In simple words there could be nothing, which has all the good and vice versa. Simultaneous existence of the boons and curses gives rise to the competitive mechanisms and the reality is that the customer is always benefited from the competition. Monopolistic dominance of one sector over the other can create as many negative implications as one desires to have to criticize it. But in the competitive world it is rather impossible to rule out the one in opposition totally.

The paper has been worked to develop a better understanding on the organised and unorganized sectors in retail. Both the sectors in retail face number of challenges and possess the implications on negative ends too. Owing to the deep roots of unorganized retail in India, several myths and realities have been associated with the current situation of organised retail now posing threat to the unorganized retail in the country. There are various generic case folios wherein the unorganized sector has to face a tough competition from the organised sector. Both the sectors in retail have their varied format structures. The organised sector with the new paradigms such as shoppertainment and etailing aspires to mark up a niche in the retail market segment.

Both the sectors in retail in the absence of clear dominance over the other leave it purely in the hands of the customer to decide which is their cup of tea. The task cannot be left barely in the hands of the customer and so the policy makers need to smartly take up the decisions in the right aspired direction.

Managerial implication

India is a very sensitive country as it has stood over the years for its history, culture and ethics so moving ahead with the strong mind or being biased towards one school of thought will not help organized retail to grow in this country. There are certain key aspects that still need to be considered for operations.

- 1) Best way to fight organized retail would be the Supportive partnership in which the focus would be on collaboration rather than conflict.
- 2) The concept of rationalization should be considered by unorganized retail to make the customer insensitive towards the price that they are charging.
- 3) India's political system has always been point of discussion wherein all the political parties play a very important role without which a decision can never come to an end. It is very much evident in case of FDI in retail sector wherein Bharti and Wal-Mart had set everything to go but a decision from the government to restrict FDI in this sector gave a major blow to the giant players.
- 4) FDI is not the only area in question but the internal political system of the country also bears a debate on the organized retail. The best example is Reliance Fresh which could not exist in all the states because of political pressure and had to close down its presence in some states.
- 5) If organized sector wants to take a lead in India it will have to take care of maximum number of people as far as employment is concerned, otherwise the success would be in question as unorganized sector provides maximum employment to people.
- 6) Whether it is organized or unorganized sector the price is paid by the customer. If one looks at the products today one can say that they are becoming very expensive day by day. To solve this problem of increasing prices government should play an important role in reducing the burden on the shoulders of the customers. For this the focus should be on following points:
 - a. Labour laws should be amended and incentives should be raised.
 - b. Property should be made available at reasonable prices.
 - c. Uniform taxation to be introduced to relax the laws that are restricting the inter-state flow of goods.

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