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Unorganized Retail industry at its Inflection point

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ABSTRACT

Unorganized retailing is one of the easiest ways to generate self employment as it does not require high investment in land and capital and also the operating costs are low owing to the cheap labor. Unorganized retail is still predominating over organized retail stores due to various benefits it offers such as home delivery, credit facility, proximity, lower costs, small transaction and personal relations. Unorganized retail is the most prominent form of retailing in India. Unorganized retail accounts for more than 96% of the total retail sector. Organized retail which constitutes 4% of the total retail market will grow much faster than traditional retail. The younger generation of today has become more selective in their purchasing and demands more lifestyle products such as perfumes, watches and jewelry. This growing consumerism will be a key driver of organized retail. Modern retail and conventional retail trade can coexist in India as both have their own competitive advantages. As Indian economy is steadily growing and there is a rise in consumption & income levels, both the retailing formats can simultaneously grow for years to come.

KEYWORDS:

Unorganized Retailing

Unorganized retailing refers to the traditional forms of low-cost retailing such as local kirana shops, general stores, mobile and hand cart vendors, convenience stores, paan/beedi shops etc. Technically an unorganized or a conventional retail outlet is defined as an outlet run locally by the owner or caretaker of a shop that lacks technical and accounting standardization. Mostly the sourcing is done locally to meet the local needs of the consumers.



Conventional stores or small kirana stores are one of the easiest ways to generate self employment as it does not require high investment in land and capital and also the operating costs are low owing to the cheap labour. Conventional stores are still pre-dominating over organized retail stores due to a number of reasons. In smaller towns and urban areas, most of the small kirana stores have been running for over a generation. These are family owned stores run by the owners themselves where they offer a variety of merchandise. Such kirana stores have their own set of management systems and principles and they are efficiently serving the customers by providing them the required merchandise and the service. As such the customers are not very willing to switch from their existing kirana shop or a conventional store.

Unorganized retailing is the most prominent form of retailing in India. Large self service supermarkets and stores had tough time getting success in India because of the nature of market conditions and the consumer behavior. It was a tradition to buy cereals, grains, pulses and cooking oils once a year in bulk and stock at homes. Even now many traditional families prefer buying weekly or monthly stock from local Kirana stores because of many benefits offered by them.

There are not many barriers to entry in conventional form of retailing. Mostly this industry is run by people commonly referred as 'Baniyas', who lack professional education, experience and exposure. This is the reason that the overall productivity of this sector is very low – only 4% of the US retail productivity. There is also a lack of knowledge of inventory and supply chain management. No standardization is followed.

A Glimpse of Retailing in India

Retailing is one of the fastest growing sectors of the Indian economy. It accounts for 14 to 15% of the country's GDP. The Indian retail market is estimated to be US$450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people[1].

The Indian retail has undergone a drastic change in last few years. The whole idea of shopping has changed in terms of the format and the buying behavior of the consumers. The Indian retail industry is expected to grow by 25% annually pertaining to a number of reasons such as increase in the purchasing power and disposable income of the people, changing lifestyles of the consumers, favourable demographic patterns and increased development of retail infrastructure. The Indian retail sector provides employment to around 8% of the total Indian population.

The Indian retailing industry is still dominated by unorganized players. Unorganized retail accounts for more than 96% of the total retail sector. However, there has been a continual growth in the organized retail also. An increasing youth population, rise in nuclear families, increasing working women population, rise in the disposable income and increasing opportunities in the services sector are some of the key factors leading to the growth of the organized retail.

With the boom in the Indian economy in last few years, a number of organized players have entered the market on big scale. India has become a highly preferred destination for international players owing to diverse demography and thus presenting opportunity for everyone. Though the current scenario is not very great owing to the global slowdown, the long-term retail outlook still remains very strong. A large, young and increasingly brand and fashion conscious population has spurred the growth of Indian retail. "Retail growth of 14 to 15 percent per year is expected through 2015. Modern retail remains limited (7 percent in 2012), but it is expected to grow as the country urbanizes and retailers make new investments."[2]

Global players are also making their way into Indian retail sector with the government allowing 100% foreign direct investment in a single

brand for the first time. Many single branded retailers have started their retail operations in different sectors; Kenneth Kole, Brooks Brothers etc in apparel and beauty, Starbucks, Dunkin Donuts etc. in food, IKEA in furniture etc. In 2012, the country saw $25.5 billion in FDI inflows, with investors still anticipating enormous potential. British beverage company Diageo bought a controlling stake in United Spirits, India's biggest liquor company, for $2 billion in November 2012. With access to the world's largest whiskey market, this purchase enabled Diageo to meet its goal of getting half of its revenue from emerging markets by 2015. In 2012, Starbucks opened its first Indian stores, while IKEA announced plans to invest $1.9 billion in its first 25 stores across India. [3]

In multi-brand retail also, the government has allowed 51% FDI, though with some strict conditions about investments, raw-material sourcing, store locations etc. A number of multi-brand retailers are taking interest in the same, however, they are also following the wait and watch approach until the policy implications are clear.

Apart from the retail growth in metro cities, the retailers are also eyeing Tier 1 and Tier 2 cities owing to the comparatively cheaper real estate prices. Players such as Bharti-Walmart and Carrefour are increasing their presence in such cities.

The future of the Indian retail industry looks very promising with food and mobile retail dominating the trade. The mobile phone retail industry in India is approximately around US$ 16.7 billion and it is promising a growth of more than 20% annually.

Unorganized Retail Still the Lifeline of Indian Economy

The Indian retail industry is divided into organized and unorganized sectors. "The Organized retailing refers to the trading activities undertaken by licensed retailers, that is, those who registered themselves for sales tax, income-tax, etc. These include the corporate -backed hypermarkets and retail chains and also the privately owned large businesses. Whereas, Indian retail is dominated by a large number of small retailers consisting of the local kirana shops, owner-manned general stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. which together make up the so-called "unorganized retail" or traditional retail."[4]

The unorganized sector virtually dominates the retail industry. However, the share of organized sector is expected to grow gradually in the near future with the spread of organized retail in Tier 2 and Tier 3 cities. The chart[5] below shows the past and the future expected growth of organized retail.



Lately, there have been some concerns about the future of the conventional retail stores or Kirana stores with the increase in the number of organized retail stores. Also, with the government allowing FDI in single and multi-brand retail, there is a speculation that Kirana shops will be forced to shut down. Contrary to this conception, the current scenario shows that the small mom and pop stores continue to be the major supplier of FMCG goods. These types of stores have existed since long times and still continue to be the preferred option for the India consumers. In India, conventional form of retailing still continues to be the single largest outlet for sale of FMCG goods. Presence of such stores within the residential localities gives them an upper hand over bigger stores which are mostly located at far off locations due to their bigger size and higher real estate costs. Any item, irrespective of the quantity, can be delivered at the doorstep of the consumer without much hassle and delivery charges.

The organized retail has been around for some time now. However, this has not yet led to the closure of Kirana stores with the organized stores opening in the neighborhood areas. In last few years, both modern retail and traditional retail have co-existed and have continued to grow. Due to real estate constraints, modern retail is expected to grow more in suburbs and outskirts of the city whereas conventional stores will continue to be the convenience store next door. Both type of retail formats provide different value propositions to lure the customers. Modern retailers provide discounts on bulk purchases while conventional retailers provide convenience and flexibility.

The organized retailers are still facing severe competition from their unorganized counterparts. Conventional stores work on a low cost format and are mostly owner operated. The real estate and labour costs are also minimal. Moreover personal relations and intimacy with the consumers and their deep understanding of the consumer mentality gives traditional stores an edge over modern stores.

Traditional retailers are also upgrading themselves with the time to sustain in the market. Use of IT systems to track the customer database and behavior, phone marketing, credit facility and home delivery services are helping traditional players to retain and expand the customer base. For example, many grocery retailers have created an online presence to cater to working class of the population. Delligrocery.com offers free home delivery of grocery in NCR region if the bill is above Rs.2000.

Kirana stores have also started buying in bulk from organized players to avail volume discounts and earn higher margins. Sale of private labels is also mostly through Kirana stores, which has again created a competition for the organized players.

The conventional stores operate in a unique way in terms of dealing with the consumers which makes them still preferable format as compared to the organized counterparts. They understand the psyche of the consumers they cater very clearly and are also partially responsible for shaping it. The mantra for success for conventional retail format is 'Convenience'. The following are the reasons for the growth of the unorganized retail stores:

Home Delivery

Since there is ample presence of corner stores and street vendors in each area of the town, the shop owners normally cater to the consumers in their area of operation only. This makes it very easy for them to provide home delivery services without taking any extra charge from the customer. A customer can just make a call and narrate his required items list to the shopkeeper and within some time the required items will reach them at their doorstep along with the hand-written bill. This process is followed for almost all products where there is absence of variety and lack of brand awareness and loyalty. Retailers also feel comfortable providing such services with easy labour availability.

Credit Facility

Unorganized retailers have a limited and loyal clientele, normally from the same area from where they operate. Personal relations with the customers built over a period of time along with small purchases in terms of value, allows the conventional retailers to sell goods on credit. The bills are often settled at the end of the month.

Also for seasonal workers, who are unemployed for some time of the year, the credit facility acts as a great boon as they clear their bills when they get their salary.

Proximity

Unorganized retail stores are found at almost every nook and corner of India. One need not travel a far distance to purchase daily required items such as groceries, clothing etc. Street vendors go door-to-door selling a variety of goods. It makes it very convenient for the customer to receive his purchase almost immediately. Moreover, the proximity of the unorganized retail stores meets the just-in-time requirements of the Indian consumers who prefer to buy goods when actually required rather than buying in bulk in advance.

Lower Costs

The unorganized retail stores can run on very low operating costs. A major reason being the low cost of real estate as most of the retailers operate from their residences. Also the lack of technology usage and

other selling methods enable them to sell their products on lower rates as compared to the bigger outlets. Another reason for low operating costs is that the family members themselves work in such stores rather than employing other staff for the same.

Small Transactions

A majority of Indian population is below poverty line and they are working on daily wage basis. They go to a kirana shop daily to buy wheat, flour, rice etc. to consume on a daily basis. The bigger stores do not entertain such small purchases and as such, this class of population is left with the only option to shop from such unorganized stores.

Personal Relations

India is a place where personal and social relations matter more than anything else. A customer would like to purchase from a shop where he is attended personally and given more respect even at the cost of compromising on variety. The customer feels comfortable and at-home at such unorganized stores

Organized Retail – not to be underestimated

Irrespective of the fact that traditional form of retailing is still the preferred option for Indian consumers, there are many challenges faced by such stores. Organized retail, which constitutes 8 per cent of the total retail market, will grow much faster than traditional retail. It is expected to gain a higher share in the growing pie of the retail market in India. Various estimates put the share of organized retail as 20 per cent by 2020[6].

Organized retail will bring with it rapid economic development which will have a positive impact on the retail industry. Consumers today have become more brand conscious due to more exposure to the western countries. Organized retail stores will be the key point of sale for more affluent and demanding customers. An increasing youth population, rise in nuclear families, increasing working women population, rise in the disposable income and increasing opportunities in the services sector are some of the key factors leading to the growth of the organized retail.

Traditionally the price was the major factor influencing the purchase patterns of the consumers. However, the younger generation of today has become more selective in their purchasing and demands more lifestyle products such as perfumes, watches and jewelry. This growing consumerism will be a key driver of organized retail.

The organized retailers are able to offer lower prices due to economies of scale. Their huge investments in technology enable them to track consumer behavior and offer products accordingly. Many customers have started preferring modern stores over traditional stores due to a number of reasons such as large variety of products under one roof, hygienic products, shopping ambience and buying convenience.

Global players are also making their way into Indian retail sector with the government allowing 100% foreign direct investment in a single brand for the first time. Many single branded retailers have started their retail operations in different sectors; Kenneth Kole, Brooks Brothers etc in apparel and beauty, Starbucks, Dunkin Donuts etc. in food, IKEA in furniture etc. In 2012, the country saw $25.5 billion in FDI inflows, with investors still anticipating enormous potential. British beverage company Diageo bought a controlling stake in United Spirits, India's biggest liquor company, for $2 billion in November 2012. With access to the world's largest whiskey market, this purchase enabled Diageo to meet its goal of getting half of its revenue from emerging markets by 2015. In 2012, Starbucks opened its first Indian stores, while IKEA announced plans to invest $1.9 billion in its first 25 stores across India. [7]

FDI will have a number of positive effects on the Indian retail industry. The retail sector will become highly organized which will require more and more workers, thereby increasing the employment. For instance, in USA 80% of the retail sector is organized and it employs 13-16% of the total workforce of the country. FDI will lead to a healthy competition in the market and as such will eventually lead to the reduction or control in prices of goods. Big retailers such as Walmart, Target and others already have been operating in many countries for over 30 years; but they have not yet monopolized the market; rather they have been successful in keeping a check on the food inflation by following healthy competitive practices. The intermediaries operating in Mandis do not have clear pricing structure and there is no transparency. According to a survey, out of the price the final consumer pays, an average farmer gets only one third of the total price; rest all go to the intermediaries. FDI will evict the mandi system and the intermediaries, thereby benefiting the farmers and the producers. This will also keep a check on the prices of commodities. For example, according to the Business Standard, Wal-Mart has introduced 'Direct Farm Project' at Haider Nagar near Malekotla in Punjab, where 110 farmers have been with Bharti Wal-Mart for sourcing fresh vegetables directly.

Conclusion

The changing tastes and lifestyles of the consumers have made it imperative for the traditional retail to restructure itself to withstand the competition and meet the consumers' demands and expectations. The traditional retailers have to understand and accept the changing trends. They should come forward and embrace this new management system; then only they can keep flourishing.

Small retailers should form a group and consolidate their buying from manufacturing companies directly to gain economies of scale and efficiency in operations. Also retailers' cooperatives should be formed for better governance of the traditional retail.

The government should control the entry of foreign players by making it very gradual and with social safeguards so that the effects of labour dislocation can be analysed and respective policies can be fine tuned.

Takeover, merger or buy-out of very weak and small retailers can also be considered. Other small stores should focus on upgrading their service levels, systems and operations. Minimum required investments should be made in technology to keep up with the modern retail.

The modern and retail trade can both coexist in India as both have their own competitive advantages. With Indian economy growing annually, rising consumption and increasing income levels, there is a room for both the formats for years to come. In Indonesia, even after the emergence of supermarkets, 90% of fresh food and 70% of entire food is still controlled by traditional retailers. In Japan, organized retailers co-opt several kirana stores and hawkers drawn from the pool of traditional retailers and are upgraded with capital infusion and trained to meet the demands of customers[1].

Even in the rural areas, where many big organized players are planning to make an entry, tying up with local shops and kirana stores is a better option to quickly capture the pie of the growing market. There is a huge untapped market in rural areas and offers a great potential. Currently, the Indian rural stores are in the form of Haats and Melas or small shops within the residences. These shops are individual or family-owned and are very personal and have strong relationships with the local people. This is the reason many large consumer product companies use this network of shops as their final point of sale to the consumer. These stores also offer credit facilities to the customers and work on a very low cost model enabling them to sell products on a reasonable price. Many large companies such as Coke, Pepsi, ITC etc are selling their products through these stores.