

# Prospects of Un-organized Retailing in India

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**Abstract-** *The story of Indian Retail is very complicated. About 40% of the country's total GDP of \$1 trillion comes from retail sales to Indian consumers. The local unorganized stores account for more than 94% of the total retail sales of around \$400 billion. So the organized retail accounts for only 6% of total Retail sales. There are several challenges that Indian retailing has to face; prominent amongst these are: real estate issues, capital availability, legal frame works, human resource, and supply chain development and management. In spite of these conditions, the faster growth of organized sector may be attributed to the changes in the demographic structure and attitudes of the customers (fast life style changes) and improved supply chains. However, the current meltdown in world markets has worried all countries of the globe today. India is not an exception from it. The inflation or the economic slowdown is adversely affecting the retail industry. With this sudden development, consumers are gradually losing their interest in buying and availing services. In this article, for more focus and terseness, orientation is through Food & Grocery retailing in Organised and unorganised sector is taken. Later the main effort applied to focus on vital factors which are constantly encouraging the unorganised retailing in Indian market.*

**Key words:** *Unorganised retailing, Rural market, CRM, Credit Facility, Population, Auxiliary services.*

The share of retail trade in the country's gross domestic product (GDP) was between 8–10 per cent in 2007. It is currently around 12 per cent, and is likely to reach 22 per cent by 2010. The Indian retail market, which is the fourth largest retail destination globally (Table:1), was ranked Chile as the most attractive emerging market for investment in the retail sector according to the report of American Management Consulting Firm AT Kearney's seventh annual Global Retail Development Index (GRDI) in 2011. The last few years witnessed immense growth by retail sector, the key drivers being changing consumer profile and demographics, increase in the number of international brands available in the Indian market economic implications of the government increasing urbanization, credit availability, improvement in the infrastructure, increasing investment in technology and real estate building a world class shopping environment for the consumers. In order to keep pace with the increasing demand, there has been a hectic activity in terms of entry of international labels, expansion plans and focus on technology, operations and processes.

## Introduction

**Table 1**  
**Global Retail Destinations**

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	Rank	Rank	
Brazil	1	5	+4
Uruguay	2	8	+6
Chile	3	6	+3
India	4	3	-1
Kuwait	5	2	-3
China	6	1	-5
Saudi Arabia	7	4	-3
Peru	8	9	+1
U.A.E.	9	7	-2
Turkey	10	18	+8

**Source:** A.T. Kearney Global Retail Development Index, 2011

Moreover, India recently topped the Nielsen Global Consumer Confidence study, conducted by Nielsen, a market research company. The biannual report revealed that Indians are "the most optimistic lot globally who think that their country will be out of the economic recession very earlier than the other economies."

Commercial real estate services company, CB Richard Ellis' findings state that India's retail market is currently valued at US\$ 511 billion, and is poised to grow to US\$ 833 billion by 2013. The report further stated that organised retail that currently accounts for less than 5 per cent of the total retail market is expected to register a compound annual growth rate (CAGR) of 40 per cent and swell to US\$ 107 billion by 2013.

A report by global consultancy firm, AT Kearney said "The consumer spending in India has increased by an impressive 75 per cent in the last four years and will quadruple in the next 20 years, registering promising sector as Food & Grocery and Clothing & Footwear (Table 2)"

**Table2**  
**Promising Sectors - Indian Retail**

	2002-04	2004	2005	2006
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		05	06	07
Food & grocery	66.4	62.5	61.7	59.6
Beverages	2.0	2.7	3.1	3.6
Clothing & footwear	7.3	8.8	8.6	9.3
Furniture & appliances	4.8	5.8	6.2	6.8
Sports goods, entertainment, equipment & books	2.0	2.4	2.6	2.7
Personal care	3.5	3.8	3.9	4.2
Jewellery, watches, etc.	5.0	5.4	5.4	5.9
Non-institutional healthcare	9.0	8.6	8.5	8.0
<b>Total Retail</b>	100.0	100.0	100.0	100.0

**Source:** CSO, NSSO, and Technopak Advisers Pvt. Ltd

**Invincible Facts**

In a joint study recently conducted by ASSOCHAM and KPMG, the following findings were revealed:

- i. The total retail market size in India in 2008 was estimated at US\$ 353 billion.
- ii. The annual growth of the retail market in India is expected to be around 8 per cent.
- iii. The total retail market size in India is likely to touch US\$ 416 billion by 2010.
- iv. The present share of organised retail sector is estimated at 7 per cent.
- v. The estimated annual growth of organised retail sector is 40 per cent.
- vi. The size of organised retail sector by 2010 is estimated to reach US\$ 51 billion.
- vii. The estimated share of organised retail in total retail by 2010 is 12 per cent.

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- viii. The investment into modern retailing formats over the coming 4-5 years is expected to be around US\$ 25-30 billion.

### **Catalyst of Organised Retailing growth in India**

India has one of the largest number of retail outlets in the world. A report by 'Images Retail' estimates the number of operational malls to grow more than two-fold, to cross 412, with 205 million square feet by 2010, and a further 715 malls to be added by 2015, with major retail developments even in tier-II and tier-III cities in India. With the 30-40 per cent drop in retail rentals, Indian retailers are a happy lot. In fact, retailers are also foreseeing further drops in rentals in 2009 and they are optimistic about their expansion plans for this year. In West Bengal, leading retailers like the Future Group and Spencer's Retail, are expanding and upgrading their present stores in 2009. Others like Wills Lifestyle, Turtle Ltd, and Bisk Farm, are planning to set up new stores, particularly in the suburbs. Mahindra & Mahindra (M&M) has made a quiet foray into the retail sector with the soft launch of its specialty format Mom & Me to sell infant care and maternity products. The company has launched two outlets in Ludhiana and Ahmadabad.

#### **Pie chart 1**

**Projection of the Share of Organized Retail**  
(Source: Technopak Analysis)

#### **Pie chart 2**

**E-tailing:** The increase in personal computers (PC) and internet penetration along with the growing preference of Indian consumers to shop online has given a tremendous boost to e-tailing, the online version of retail shopping. An estimated 10 per cent of the total e-commerce market is accounted for by e-tailing. Several online retailers are reporting good business in categories like travel, art, books and music. E-tailing in lingerie and fresh fruit businesses is also doing well.

**Retail Franchising:** Along with e-tailing, another perceptible trend in the growth of organised retail market has been the concept of retail franchising. According to industry estimates, retail franchising has been growing at the rate of 60 per cent in the last three years and is set to grow two-fold in the next five years. And with immense potential seen in this segment, the US\$ 4 billion-franchising industry is likely to see an almost two-fold rise in the number of franchisees (from 0.2 million) by 2010.

### **Need of the study**

Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers. The adverse impact on sales and profit weakens over time. But, unorganized retailers have significant competitive strengths that include consumer (lower income consumers, rural consumers) goodwill, credit sales, and amenability to bargaining, ability to sell loose items, convenient timings, and home delivery. Hence, strengths of such retailers are enlighten to wish they should exist in Indian context and continue their livelihood businesses.

### **Objectives of the Study**

- 1) To identify the underlying factors of growth of retail sector, (Organised and Unorganised retailing)

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2) To vitalize the prospects of unorganised retailing in Indian market (Urban and rural markets)

### **Competitive analysis of Unorganized Retailing in India**

The unorganized retail sector is expected to grow at about 10 percent per annum to reach \$496 billion in 2011-12 despite the steady expansion of organised retailers. The report on the impact of organised retail on small shop owners, released in parliament by the Delhi-based think tank Indian Council for Research on International Economic Relations (ICRIER), said the retail business in the country would grow at 13 percent annually from \$322 billion in 2006-07 to \$590 billion in the year 2011-12. However, given the relatively weak financial state of the unorganized retailers and the space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand, the report said.

### **Portrait of Small Retailer**

Every Ideal Indian family's lucrative groceries provider who stay's away at a minute distance, more specifically one can say our neighbor, is none other than 'Mandi' or 'Kirana shop'. A typical Kirana shop, small room of the living house or a medium size shutter, well placed (definitely who not even aware of the marketing principle 'placing') in the busy area concentrated by traders like whole-sellers/retailers of all variety of goods or placed in a well population density living area. There is something which a Mandi fellow is adopted not now, after the organised retailing is aroused like a crest. It is a principle, unbelievably an old fashioned, traditional, may be practiced B.C. The principle behind of his incredible performance is nothing but 'maintaining a relationship with customer', in management accent the 'Relationship Management'. No need of any trace analysis to be conducted to prove this, why because definitely we, every reader of this article is experienced about it, since the day

he/she started trading at such stores. One can simply say that it's our neighbor retailer's intangible CRM. (i-CRM). We can firmly say that, it is intangible when contrasted with actual CRM, because, no hardware, no ERP package, no MIS and no reports. As we all know about Customer relationship management (CRM), it consists of the processes a company uses to track and organize its contacts with its current and prospective customers. CRM software is used to support these processes; information about customers and customer interactions can be entered, stored and accessed by employees in different company departments. Typical CRM goals are to improve services provided to customers, and to use customer contact information for targeted marketing.

Hence, it can be said that, there is only one matching view between them; it is the 'purpose'. Once we look into the relationship exists between the small retailer and customers, one can surprisingly astonished about the facts. That small retailer knows our family numbers names, our interests, our attitude, our lifestyles, our needs and comprising the all, one's purchasing behaviour.

As earlier said, he elegantly knows how to serve us by understanding what we as a customer needs, delivering the exact good with right quantity and quality as well as, when to disseminate the 'required' information of any schemes, offers, price - offs etc., If we look into the organised retail stores, we cannot identify such depth & warmth of relationship between customer and the executives. Some how it resembles the mechanical interaction, reasons are many. The total number of traditional retailers is estimated to be 13 million. The classification of the unorganized retail universe by category is shown below in Figure 2: Un-organised Retail Pie- India.

### **Categories of traditional (Un-organized) retailers**

- i. Fruit and Vegetable Sellers - Sells fruit and vegetables.

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- ii. Food Store - Reseller of bakery products. Also sells dairy and processed food and beverages.
- iii. Non -Vegetable Store - Sells chicken and mutton (supplemented by fish), or predominantly fish.
- iv. Kirana I - Sells bakery products, dairy and processed food, home and personal care, and beverages.
- v. Kirana II - Sells categories available at a Kirana I store plus cereals, pulses, spices, and edible oils.
- vi. Modern Independent Stores - Sells categories available at a Kirana II store and has self- service. Operates single or several stores (but not an organized chain of stores).
- vii. Apparel – Sells men’s wear, women’s wear, innerwear, kids’ and infant wear.
- viii. Footwear – Sells men’s wear, women’s wear, and kid’s wear.
- ix. CDIT (Consumer Durables & IT) – Sells electronics, small appliances, durables, telecom, and IT products.
- x. Furnishing – Sells home linen and upholstery.
- xi. Hardware - Sells sanitary-ware, taps and faucets, door fittings, and tiles.
- xii. General Merchandise – Includes lightning, stationery, toys, gifts, utensils, and crockery stores.

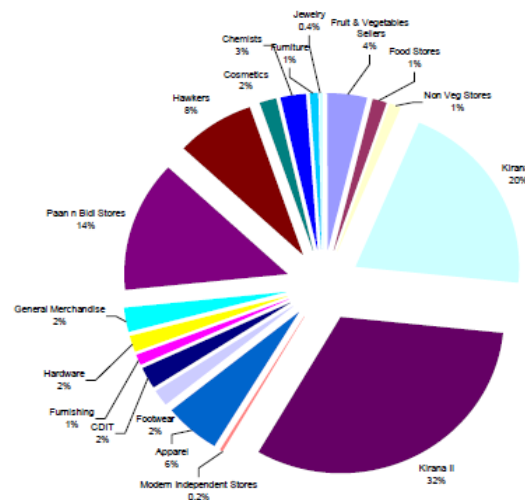
### The Vital strengths of Unorganised retailing in India

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. The last 3-4 years have witnessed the entry of a number of organized retailers opening stores in various modern formats in metros and other important cities. Still, the overall share of organized retailing in total retail business has remained

low. Major reason for such is the strength of unorganised retailing, getting practiced in India. It is part of culture, tradition and life style. Those Vital strengths are:

**Widespread:** Unbeaten caliber of small traders is they naturally widespread. In metros, urban, towns and rural, they are ‘everywhere’. Especially, it’s really wonder that they all form a network indirectly, which is very large and spread all across India. Very interestingly it is not really a network since each shop or store or small vendor is individual or family owned and has no connection with each other, however since large FMCG like Unilever, Procter & Gamble, Colgate-Palmolive, Coca Cola, Pepsi and ITC uses them as their final point of retail to the consumer.

Pie chart-3



Source: Technopak Analysis.

**Population:** India’s strength is its population and giant purchasing power of such really helped India to compete with the global recession and downtrends in all most all the business areas, exempting few areas. By 2050, India would overtake China to become the most populous country with a projected population of 1.658 billion people. According to the United

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Nation Population Fund (UNFPA)'s State of the World Population 2008 report, while India's 1.5 per cent average population growth rate, in comparison to china's 0.6 per cent for (2005-2010) will make it make it the populous country by 2050. India's population is likely to reach around 1.5 billion by 2025, according to a United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) projection.

Meeting the requirements of serving the huge potential buying capacity to organised retailing is merely non achievable target due to potential reasons. Here is one of the substantial evidence among those reasons is, DLF and other real estate developers have lagged behind by 54 per cent in their target to open retail space and Cash-strapped real estate developers failed to deliver 11 million sq ft of retail space in 2008, according to a study released by Cushman & Wakefield. Lot more are there, discussing about all those factors is totally a special discussion.

**Credit Facility:** Another important key factor, relates to the strong relationship between customer and shopkeeper, which is mutual beneficiary affair - 'credit facility'. The lower - lower class, lower -upper class, and also the lower - middle class are the beneficiaries of this facility.

The 2004-05 data on the distribution of population among these various groups classified on the basis of consumption expenditure show that 6.4% of the population is extremely poor, 15.4% is poor, 19.0% is marginal and 36.0% belongs to the vulnerable group. This means that together, a staggering 77% of the population lives on less than Rs 20 per day, which barely reaches up to the poverty line.

**Bargaining power:** Another important factor and fundamental right of a consumer, bargaining power is safe, more specifically its 'alive' while trading with unorganised retailers, where as it is vanished in the latest formats of retailing i.e., in the organizing retailing. The 'funda' of shopping and showcasing their bargaining skills

for the most of the women is only allowed while negotiating with the unorganised retailing only.

**Less Overheads:** For a shopkeeper the overheads are very less because the shop rent, electricity, employee wages, labour wages, transportation costs are nominal when compared to organised sectors, the margins are lucrative thus allowing the sellers to sell, at low price to the customer.

**Auxiliary Services:** Apart from the above, there are few other factors which are oxidants and also boosters to unorganised retailing. Another advantage of Kirana shops is their capability of providing so many auxiliary services to the customers. The services are like providing tea, snacks, photocopy, local telephone, STD/ISD, fax, courier bookings, travel bookings, newspapers, stationery and more. The latest service joined among them is one stop store for all the major mobile recharge coupons, which is helping a lot to the telecommunication firms by saving their setup costs as well as maintenance costs of opening their showrooms in each.

### **Dominance in Food & Grocery retailing**

The food business in india is largely unorganized adding up to barely Rs.400 billion with other large players adding another 50 percent to it. The all India consumption is close to Rs.9000 billion, with the total urban consumption around Rs.3,300 billion. This means that aggregate revenues of large food players is currently only 5 percent of the total Indian market, and 15-20 percent of total urban food consumption. Most food is sold by local marketers like vendors, road side push cart sellers, or tiny kirana shops.

### **For small retailers it is livelihood**

Over 13 million outlets operate in the country and only 4% of them being larger than 500 sq ft in size. Apart from them, there are uncountable vegetable sellers, fruit seller, Tea stalls, pushers, small vendors are doing business not for the

sake of management by objectives or money by objectives, its purely livelihood by objectives.

### Discussion

In addition to this, the unorganized retail sector of India is facing a fierce competition with global players entering the sector with their vast experience, sound financial back-up and strong brand image coupled with advanced technology in running the stores. Given that an overwhelming majority of India's population lives in rural areas, retailers are fast penetrating the hinterland. Rural India is experiencing the same changes as urban India - changing consumer preferences and consumption patterns, increasing exposure to different lifestyles and products, and increasing purchasing power. As much as rural India presents a great opportunity to unorganised retailers, there are still many challenges that have to be overcome.

### Conclusion

The business model for rural retail can be successful only when the profit and social motive for it to be acceptable. Information dissemination is crucial for rural retail ventures to succeed. The model should empower the rural consumer and at the same time take advantage of this empowerment through creation of demand for its own products and that of its partners.

However, so far as the rural share in consumer expendables like cooking oil, tea, electric bulbs, hair oil, shampoo, toilet soap, toothpaste, washing cakes and washing powder is concerned, their share on an average is much higher than consumer durables. Though the rural-urban differentials are not so pronounced in the case of durables, the rural market penetration is low with respect to urban areas. And in case of health beverages and cosmetics like shampoos, nail polish and lipsticks, large gaps exist. Hence these products provide substantial opportunity to enter the rural markets.

Definitely there is lot of money in rural India. But there are hindrances at the same time. The greatest hindrance is that the rural market is still evolving and there is no set format to understand consumer behaviour. Lot of study is still to be conducted in order to understand the rural consumer. Only FMCGs with deeper pockets, unwavering rural commitment and staying power will be rural race and hence should venture into this territory. Retail services in rural India have a tremendous opportunity for growth.

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