

# A Comparative Study of Organized and Unorganized Retail Sector in Karnataka State - A Case Study

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## **Introduction**

India started its journey since ancient time. In ancient India there was a concept of weekly fair, where all the buyers and sellers gather in a big market for purchase and sale of goods under barter system. This retail journey in India takes lot of time to transform into modern retail. Apart from these two concepts i'e ancient retail concept and the modern retail concept are smell modern kirana / mom and pop shops or Baniya ki Dukan. Even then retailing is dominating in India.

Retailing in India is going through an evolutionary stage and is one of the largest sectors in the global economy. The current estimated value of the Indian retail sector is about 500 billion USD and expected to reach 1.3 trillion USD by 2020. India is termed as the nation of shopkeepers with about 15 million retail outlets of all kinds and is dominated by small neighborhood grocery stores termed as kirana stores<sup>1</sup>.

According to Philip kotler “Retailing includes all the activities involved in selling goods or services to the ultimate consumers for personal, non business use. Selling to the final consumers whether it is by a manufacturer, a wholesaler or a retailer is retailing irrespective of the fact that the goods or services are sold by a person, or by mail, by telephone, vending machine or internet or where they are sold in a store on the street or in the consumer’s home<sup>2</sup>.”

Indian retail has traditionally has been an unorganized sector, where retailers lacked the means as well as the will to develop or expand. Retail could also never enjoy the support of the Indian consumer, who treats shopping as a form of leisure, enjoying the thrill of discovering bargains and discounts deals in his own time. The western attitude of splurging, indulging and shop-till-you drop has slowly entered the country and led to organized retailing. In most of the countries it is the organized retailers who dominate the sector in India, the unorganized retailers command about 4% of the market share.<sup>3</sup>

The retail sector has played a phenomenal role throughout the world in increasing productivity of consumer goods and services. The retail industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. The India retail industry is gradually inching its way towards becoming the next boom industry<sup>4</sup>.

According to a survey by A.T.Kearny, an overwhelming proportion of the Rs 4,00,000 crore retail markets are unorganized in India and only Rs 20,000 crore segment of the market is organized. The sector is highly fragmented with 97% of its business being run by the unorganized retailers like the traditional family run stores and corner stores. This sector is the largest source of employment after, agriculture Indian retail

sector contributes nearly 10% of Indians GDP. Indian retail is dominated by a large number of unorganized retailers consisting of the local Kiran Stores, chemist footwear shops, apparel shops, pan and beedi shops, hand cart hawkers, pavement vendor's etc<sup>5</sup>.

The word retail is derived from the French word "retailer" meaning to cut a piece off or break bulk. It includes all the activities directly related to the sale of goods and services to the ultimate consumer for personal and non-business use<sup>6</sup>.

Retailing is a business activity involving selling goods and services to consumer for their personal use. It covers entire range of goods and services from apparels, food products furniture, garments, household gadgets to automobiles, medicines apparel, movie tickets stationery all types of services including banking and insurance service. Thus retailing is the last link in the distribution process during which goods and services are sold to final consumers

### **Evolution of Retailing in India**

In olden day's economy was said to be barter economy. So barter is considered as one of the oldest form of retail in India. Most of the retailing may be inform of Haats, Mandis, Melas in India and also in other countries.

The single largest retail chain in India is the public distribution system. Popularly known's as PDS or "Rationing system introduced by the Britishers during the world war II. Public distribution system was first started in Bombay in the year 1939. Latter system was extended to other cities and towns. After the world war II, this system was abolished. After Independence Indian Government re-introduced public distribution system in the year 1950.

The evolution of retailing also took place in form of canteen stores department (CSD) post office in India (service) Khadi and village industries (Established after Independence) presently KVIC's are more than 7050 stores throughout India. The co-operative movement ignited and the Indian govt established Kendriya Bhandars in 1963.

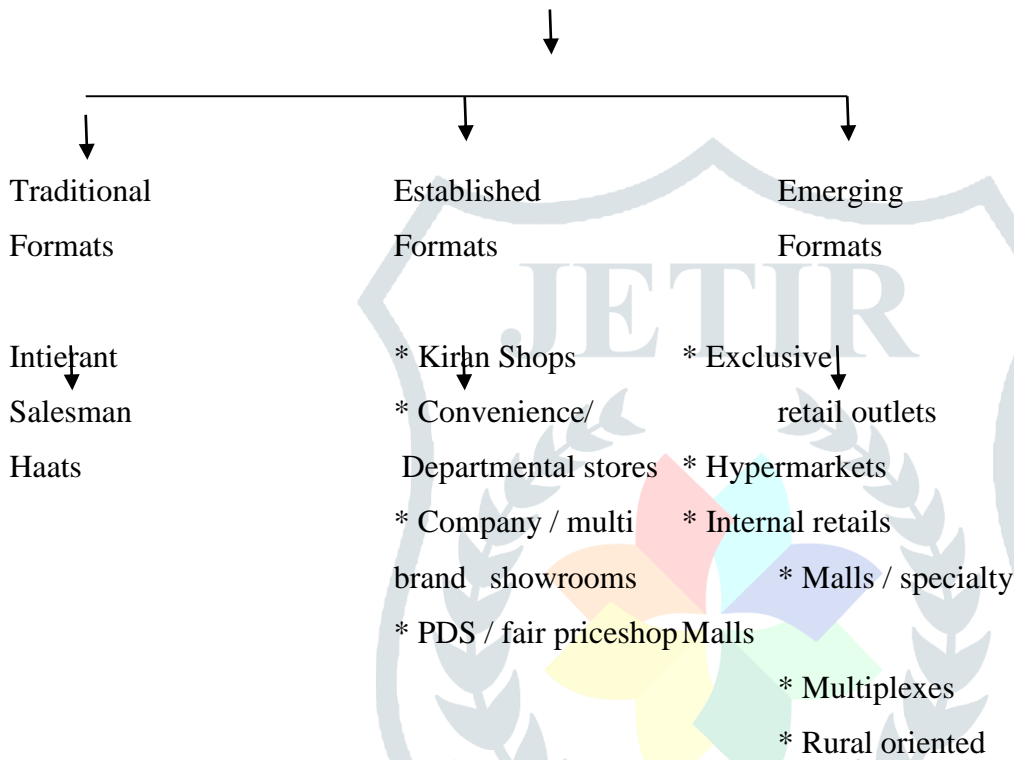
Since from introduction of New economic policy in 1991 called LPG (Liberalization Privatization and Globalization) with new economic policy most of the restrictions on private companies were lifted and the license RAJA helps in promoting economic progress from state led to becoming market friendly.

Independent retail stores existed in India such as Akbarallys Viveks and Nalli's. First organized retailing noticed in textile organizations. Such as Raymond's set up retail stores in fabric. Today Raymond's distribution network accounted to 20000 retailers and 429 showrooms across the country. Some other textile manufactures set up their retail store were ;

- Reliance – set up vimal showrooms
- Garden silk mills – garden varali.

The growth of text tile retailing, readymade branded apparel, leads to existance of Madura Garments, Aravind Mills etc with this new age of departmental stores find its place in blooming way in India in 1990s. This was the beginning of new retail era in India. The concept of retail as entertainment came to India with the advent of malls. The development of Malls took place both in metro and cities and towns.

Evolution of Retail in India



**Comparison between organized and un-organized retailing**

Criteria	Organized Retailing	Unorganized retailing
Ownership	Corporate Business	Household business
Size of operation	Comparatively large	Small store
Nature of Employment	Hared persons	Generally family members
Product availability	Wide range of branded and non branded product	Selective range of branded and non branded products
Selling Price	MRP	Price less than MRP
Store ambience	Excellent	Poor
Promotions	Joint promotions	Company promotions only

Tax Payment	Greater enforcement of taxation mechanism	Evasion of taxes
Market experience	Short Term	Long Term
Locations	Distantly located	Round the corner located

### SWOT analysis of organized stores:

#### STRENGTH :

- a. Technology intensive
- b. Able to forecast consumer demand
- c. Shorten lead time to reduce inventory holdings and save cost
- d. Customer has variety of choices
- e. Emerging retail formats which provide product service and entertainment at one place.
- f. Indian consumers have high disposable incomes which led in to high consumption levels.
- g. Large number of earning young population.
- h. Growth of real estate and improvement in infrastructure.
- i. Huge agricultural sector offering and abundance of raw material.

#### How retailing affects the economy? :

Most of the business activities in India will affect the economy one or the other ways. On the same line retailing too affects the economy in a variety of ways.

#### 1. Contribution to National Economy :

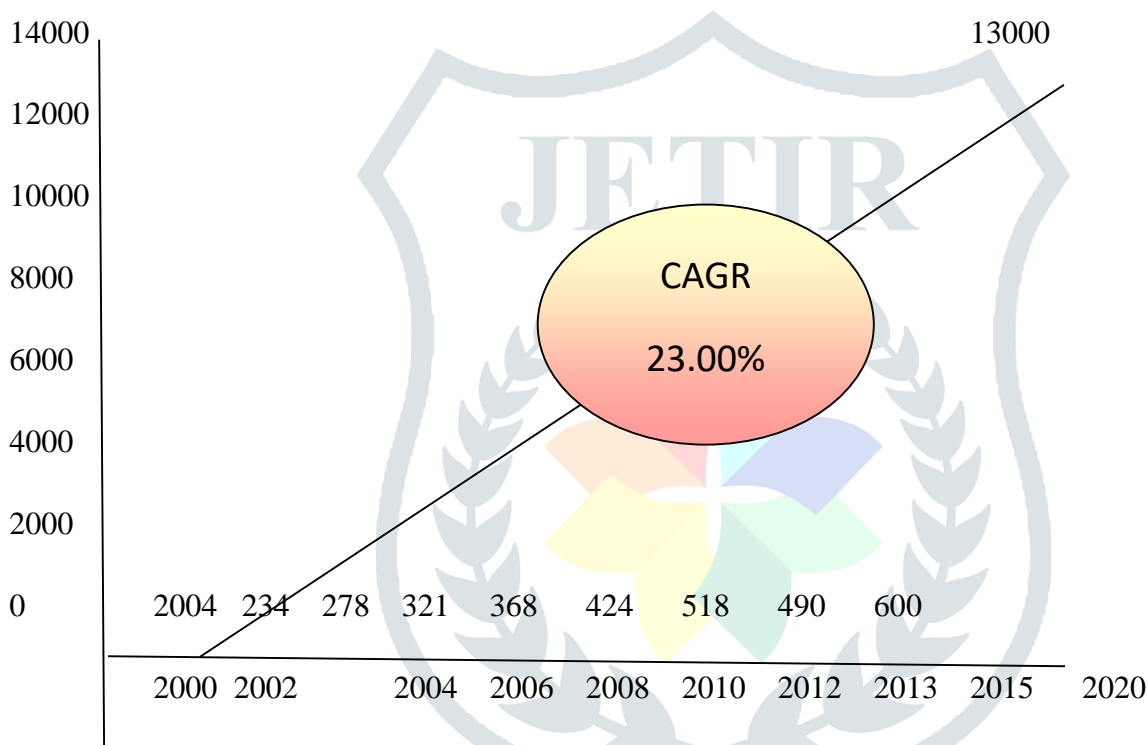
Retailing business activity will directly contributes to national economy by way of providing employment opportunities to the people and helps to enhance the income level of people. It leads to high consumption, more amount of activities thus money revolve and reuse helps to improve economic conditions of the nation as well as standard of living of the people. Thus retailing helps to generate taxes which may be an additional income to the government and directly helps for national development, Possibilities of foreign direct investment especially in the retailing sectors. Growing disposable income in the country is resulting in increasing consumer spending habits<sup>14</sup>

**Organized retail in India**

Organized retailing is emerging and despite the slump the market is growing commendably. As economic growth brings more of Indians people into the consuming classes and organized retailers more and more existing shoppers. Organized retailing refers to the trading activities undertaken by licensed retailers that are those who are legally registered for sales tax now it is GST (goods and service tax) and income tax etc. These organized retailing includes the corporate backed hyper market and retail chain and also privately owned large scale retail business.

**Retail in India :**

Market size over the past few years (USD billion)



Source : BGG retail 2020. Earnest and young, deloitte india relationship.com  
Economist intelligence unit, Euro monitor tech science research

Note : E-Estimation CAGR compound annual growth rate.

Source : India retailing.com

By 2018, the india retail sector is likely to grow at a CAGR of 13% to reach US\$950 billion

**Key drivers of the Indian Retail Industry**

- Emergence of nuclear families

- An increase in the double income household trends.
- Large working population
- Reasonable real estate prices
- Increase in disposable income and customer aspiration
- Demand as well as increase in expenditure for luxury items
- Growing preferences for banded products and higher aspirations.
- Growing liberalization of the FDI policy in the past decade.
- Increasing urbanization
- Rising affluence amid consumers.

#### Bottle necks :

- A long way to meet international standards
- Lack of efficient supply chain management
- Lack of required retail space
- No fixed consumption pattern
- Shortage of trained man power
- Lack of proper infrastructure and distribution channel.

#### Indian Retail Market (overall by category)

Category	2006	2011	2019	CAGR 2011-16 %
Food and Grocery	217	325	425	5.50
Apparel	25	35	50.2	7.50
Jewellery and wathes	16.5	25.6	44.2	11.50
Consumer electronics and I.T	16.5	22.7	42.8	13.50
Pharmacy	08	13.9	23.4	11.00
Furnishing and furniture	6.5	9	17	13.5

Restorents and Food joints	4.6	8.8	15.8	12.50
Foot wear	3.6	4.5	8.3	13.00
Beauty services	0.6	1.3	3	18
Health / Fitness Servies	0.4	1	2.5	20
Others	11	23	42.5	13.5
Total US \$ Bn	310	470	675	7.5

Source : Technopak Analysis

From the above table it is asserted that food and grocery constitutes the bulk of Indian retailing and its share is estimated at US\$325Bn in 2011 (69% of the overall retail) and is projected to grow US\$425 Bn by 2016 (63% of the overall retail) at CAGR of 5.5%).

Apparel market is estimated to the extent of US\$35Bn by 2011 and is projected to grow to US\$50 Bn by 2016 at CAGR of 7.5% followed by clothing and footwear, its contribution constituted to the extent of US\$5.5Bn in 2011 and is anticipated to grow to US\$8Bn by 2016, at CAGR of 8.5%. this has been followed by others like furniture, furnishing apparels and services.

The share of organized retailing remains low but in few categories it is quite high the details of the above indiate that apparel market constituting at US\$5.5Bn in 2011 and excepted to grow to US\$8% by 2016 at CAGR of 8.5%. the responses of the organized food and grocery retail market in India constituting at US\$9Bn in 2011 and is grown to US\$34Bn by 2016, at CAGR of 30%. The food and grocery has the highest share of organized retail.

### Indian Organized Retail Market

Category	2006	2011	2019	CAGR 2011-16 %
Food and Grocery	2	9	34	30.00
Apparel	3.5	5.5	8	8.5
Jewellery and wathes	1.0	2.5	7.5	25
Consumer electronics and I.T	1.5	4.0	18.0	35.00
Pharmacy	0.2	0.8	0.45	41

Furnishing and furniture	0.4	0.7	1.2	12
Food and breweries	0.5	1.5	6.0	30.00
Foot wear	1.0	1.7	3.8	17.5
Beauty services	0.2	0.2	0.5	20.00
Health / Fitness Servies	0.1	0.2	0.6	25.00
Total US \$ Bn	10.00	26.00	84.0	26.00

Source : Technopak Analysis

### Reasons for retail setor boom in India :

The most important factors responsible for retail growth in India are ;

- Leberalisation of the economy
- Upword mobility of middle class
- Shifting consumer demands and
- Expansion of ICTs (AT kearney report 2017)

Leberilization of the economy since the 1990s is one of the predominant factor for transformation of a new organized form of retailing in India. Import of leberalisation in retailing is positively affected in the following way ;

- Employment
- Income level of middle class
- Huge disposable income
- Increasing onsumption of high end products

### REVIEW OF LITRATURE

- **Kushwaha.S and GuptaM.K.(2011)<sup>1</sup>**

The author in his article “Customer perception in Indian retail industry”, has observed the perception of consumers in organized and un-organized retail sector and the factors such as, cleanliness, Distance, Price, quality, safety and space for shopping are the main determining factors for unorganized retail sector.

- **Ali, Kapoor and Murthy(2010)<sup>2</sup>**

The author in their study “Buying behavior of consumers for food products in an emerging economy” had made some revealing facts about the buying behavior of consumers. The shopping behaviour of



consumers was largely influenced by their, Income; Educational Background. The author has rightly observed that the age and sex of the consumers had no greater impact on the consumer buying behavior.

- **Adil Zia and Khalid Mohammad Azam (2013)**<sup>3</sup>

Unorganized Retail Shopping Experience in India “, An Empirical Investigation.

In their paper” un-organised retail shopping Experience in India” An Empirical Investigation the authors have made an attempt to identify the key factors influencing the customers of un-organised retail set up. Further the authors have observed that all the fifteen factors such as Helpfulness, Acknowledgement place to enjoy, shopping time, store service quality, complain Handling, Returns and Exchanges, shopping convenience, physical aspects, Reliability, Transactions, “Merchandise” has highest impact on shopping experience.

- **Er.R.Shenbagasuriyan and DR.G.Balachander(2016)**<sup>4</sup>

Their research study on A comparative study on consumer perception towards organized retail sectors with un-organised retail sector, reveals that most of the consumers are not aware of the organised retail sector and majority of consumers are shopping their needed products in the street stalls, nearby their house.

- **Chen kevin and Adrew.W.Shepherd(2017)**<sup>5</sup>

Their research study on “Changes in food retailing in Asia” reveals that the issue of modern food systems, organization, and effects on fruit and vegetables farmers and traditional marketing system prevailing in Asia. Their research paper further attempts to provide good understandings of the causes and challenges associated with the development of agricultural food supply chain in Asia

### **Impact of competitors on business:**

The responses of respondent retail business outlets(un-organized retailer and organized retailer) that there is economical impact of entry of organized retailers on un-organized retailers with special reference to district of Haveri. The following table provides the details.

**Un-organized retailers and impact of its competitors**

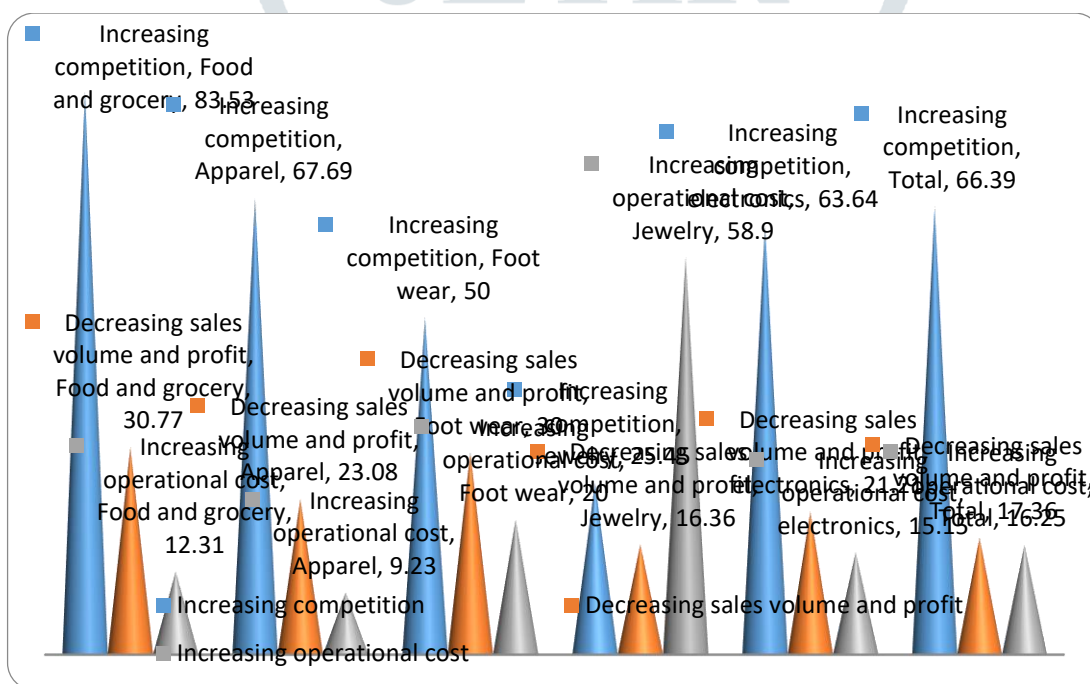
Retail segment	Increasing competition		Decreasing sales volume and profit		Increasing operational cost		Total
	No	%	No	%	No	%	
Food and grocery	142	83.53	20	30.77	08	12.31	170
Apparel	44	67.69	15	23.08	06	9.23	65
Foot wear	20	50.00	12	30.00	08	20.00	40
Jewelry	14	25.45	09	16.36	32	58.9	55

electronics	21	63.64	07	21.21	05	15.15	33
Total	241	66.39	63	17.36	59	16.25	363

Source :Field survey

Maximum number of 241 respondent of un-organized retailers covered by the study have shown a sense of indifference to entry of organized retailers Income has direct impact on store choices people having less income prefer to go to neighborhood shops for purchasing while organized retail outlets are preferred by people having higher income as they are retail outlets are preferred by people having higher income as they are retail outlets are perceived expensive by people having less income. Large number of respondents 241 constituting 66.39% said about increasing competition with organized retailing in all the segment and consumption, pattern, round about 18% of un-organized respondents said about fall in profit margin and proportionate decrease in sales volume also .A small number of respondent number 59 accounting for 16.25% expressed that there is every possibility of increase in operational cost (increase in promotional activities, increase in convenience ,infrastructure income size of the store)

### Un-organized retailers and impact of its competitors



### Organized retail and its impact of competitors

The responses from the respondents covered by the study indicate that competitors directly impact on organized retailers. The following table provides details.

#### Organized retail and its impact of competitors

Retail segments	Increasing competition		Decreasing volume and profit		Increasing operational cost		Total
	No	%	No	%	No	%	

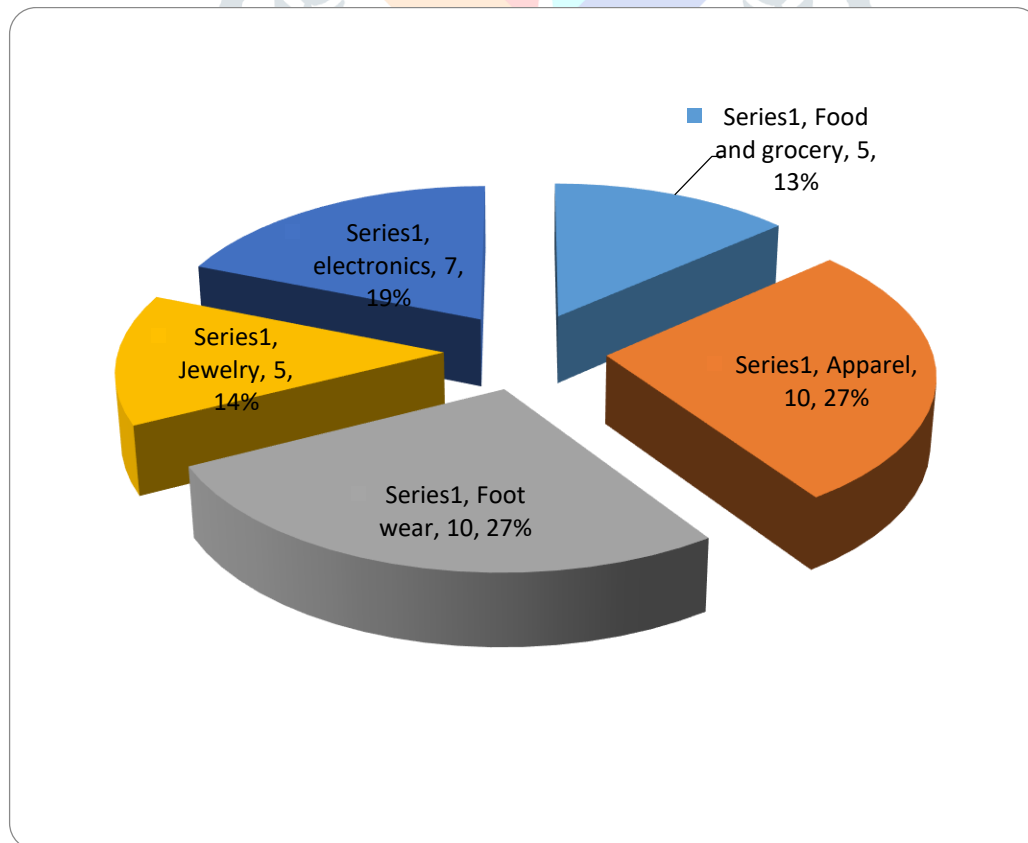
Food and grocery	03	60.00	02	40.00	00	00.00	05
Apparel	06	60.00	04	40.00	00	00.00	10
Foot wear	07	70.00	02	20.00	01	10.00	10
Jewelry	02	40.00	02	40.00	01	20.00	05
Electronics	04	57.14	03	42.86	00	00.00	07
Total	22	59.46	13	35.13	02	05.41	37

Source : Field survey.

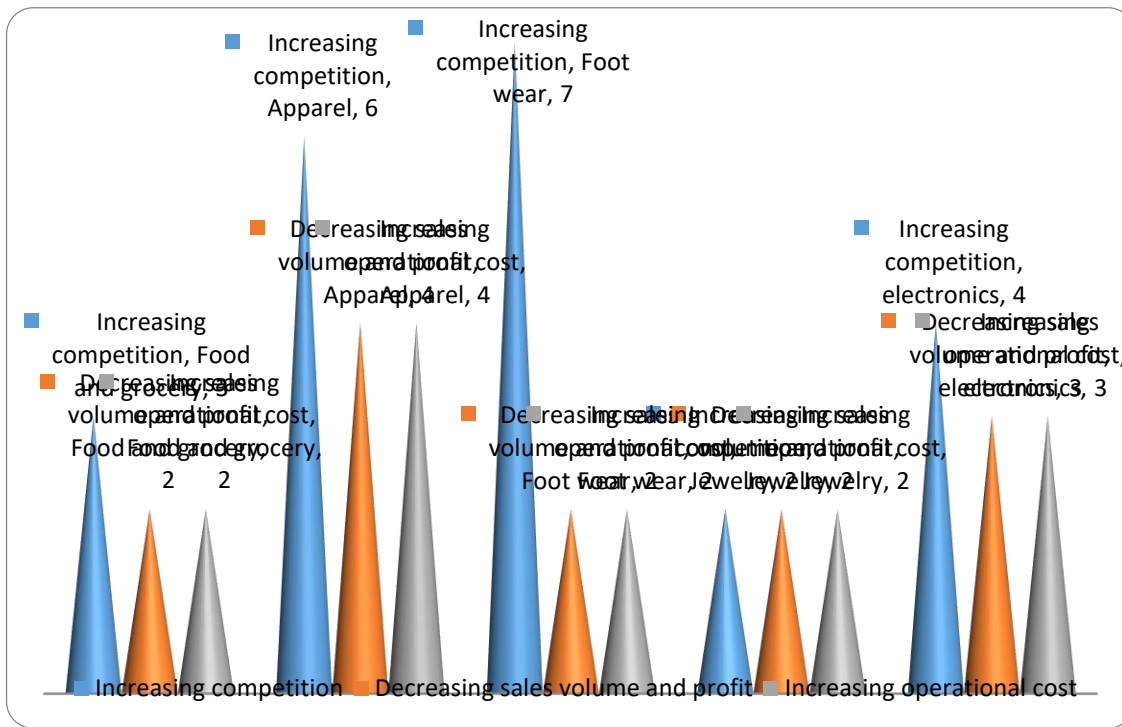
Un-organized retailers faces threat from organized retailing on grounds like improper parking facility, improper shelf space, selling of counterfeit products, unavailability of branded items, lack of knowledge of retailers and non-availability of desirable products.

Traditional retailing has a low cost structure, mostly owner operated has negligible real estate, less labour cost no taxes to pay and consumers familiarization to compete with un-organized sector ,organized retailers has to reduce the price in spite of increase in competition, Decrease in profit and increase in operation cost.

### Organized retail and its impact of competitors



### Organized retail and its impact of competitors



Source: Field survey.

### Strategies that will be adopted by the unorganized retailer to overcome to the competitive

#### Environment :

Majority of the respondents unorganized retailers face competition from the organized on due product quality, lower price, one stop shopping, choice of more brands and products, While proximity to residence, good will, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery etc are the competitive advantages of unorganized retailers. Unorganised retailers are required to overcome the competition could adopt strategies like Diversifying business, Tie up with company, store expansion etc. The following table provides the details.

#### Strategies adopted by the unorganized retailer to overcome competition:

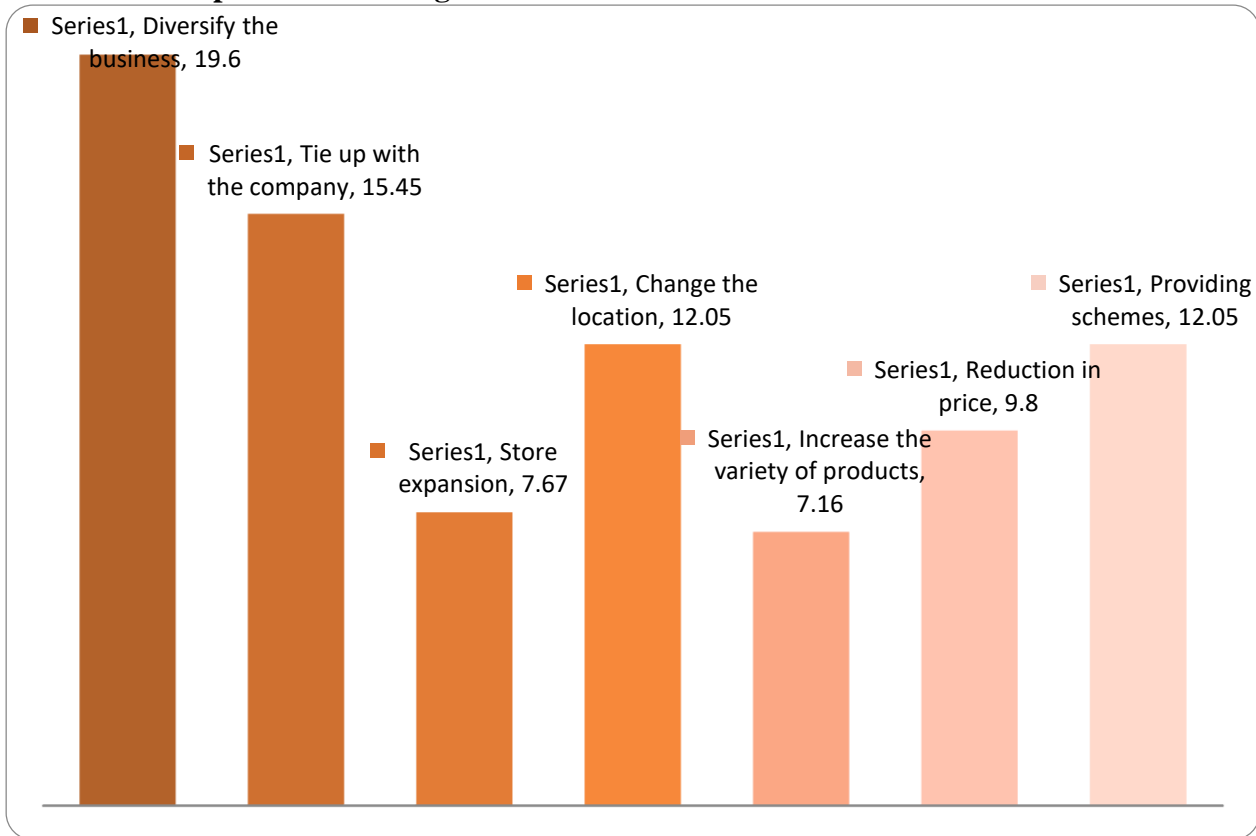
Strategies	Total number of Rank	Percentage of Responses	Ranks
Diversify the business	260	19.6	8
Tie up with the company	205	15.45	6
Store expansion	102	07.67	2
Change the location	160	12.05	4
Increase the variety of products	95	07.16	1
Reduction in price	130	09.80	3
Providing schemes	160	12.05	5
Club with three or four retailers	215	16.22	7
TOTAL	1327	100.00	

Source : Field survey

It is evident from the study reveals that unorganized retailers could adopt most favorable strategy to overcome the competitive environment, is increase in variety of products followed by store expansion, reduction in price, change in the location, providing schemes, tie up with the company, club with three or four retailers and the last is diversify the business.

**Strategies adopted by the unorganized retailer to overcome competition:**

**Factors responsible for the growth of modern retail:**



The key growth driver of the organized retail sector in India are the result of large young working population with medium age of 24 years. Comfortable life, travel and leisure are given importance due to increasing population. The major cause of growth in India is rising disposable income in middle class and lower middle class because of increase in employment opportunities for young adults in I.T. High population density in the metropolitan cities and surrounding tier I and II cities. Change in consumer’s buying behavior, convenience and Comfort is of prime importance shoppertainment etc.

The reasons cited by the respondent’s retailers are depicted in the following table.

**Factors responsible for the growth of modern retail: Responses from un-organized retail**

Retail segment	Increasing income		Use plastic money		Young population		Changing taste preferences		total
	No	%	No	%	No	%	No	%	
									No

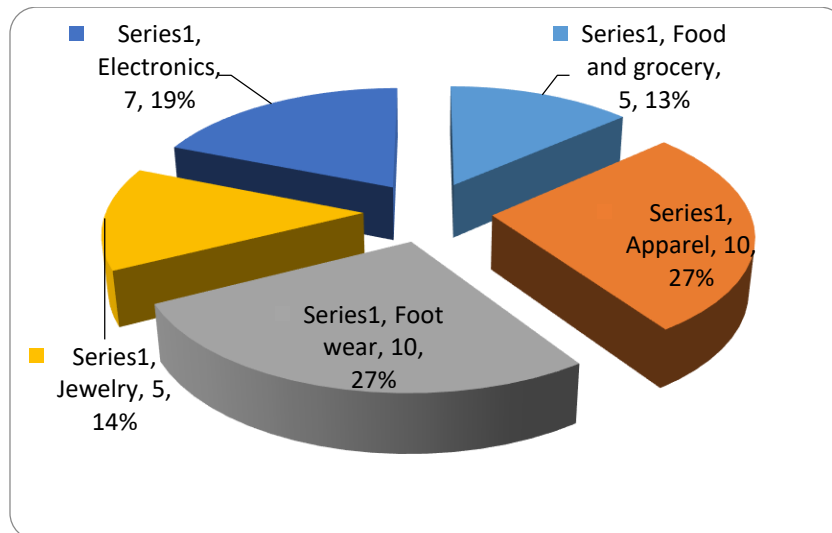
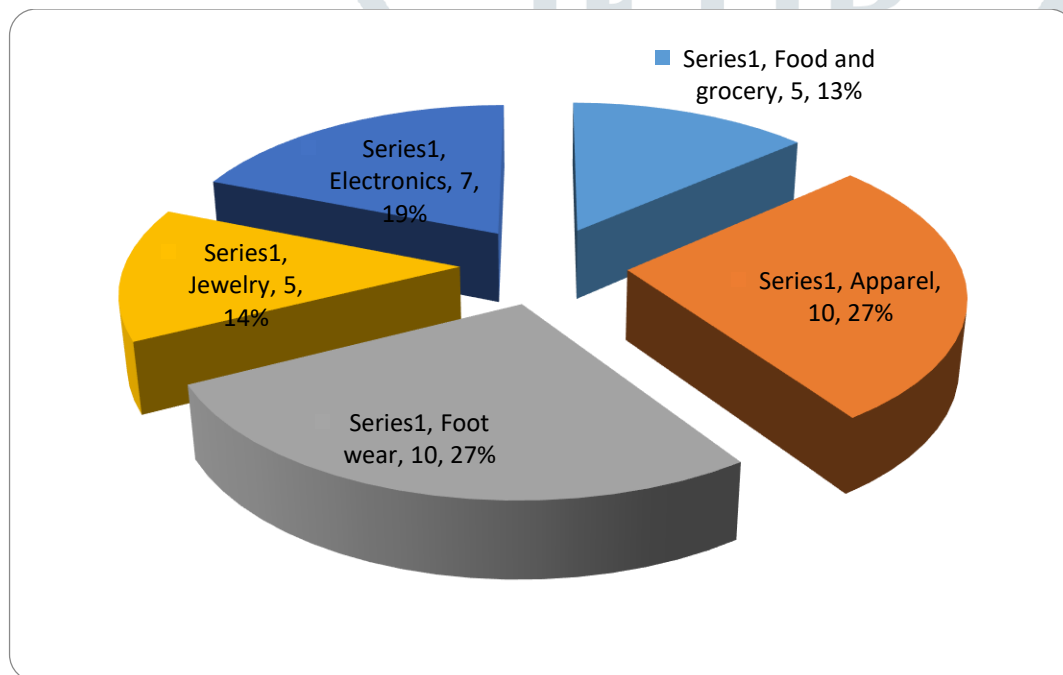
Food and grocery	06		05		92		67		170
Apparel	02		02		45		16		65
Foot wear	07		03		17		13		40
Jewelry	03		02		15		35		55
Electronics	02		17		10		04		33
Total	20		29		179		135		363

Source: Field survey

### Response of organized retailers about factors responsible for growth of retailers:

Retail segments	Increasing income		Use plastic money		Young population		Changing taste preferences		total
	No	%	No	%	No	%	No	%	No
Food and grocery	03		01		01		0		05
Apparel	03		02		02		03		10
Foot wear	03		01		01		05		10
Jewelry	01		02		00		02		05
Electronics	01		01		04		01		07
total	11		07		08		11		37

Source: Field survey

**Response of organized retailers about factors responsible for growth of retailers:****Response of organized retailers about factors responsible for growth of retailers:****Summary of findings:**

- 1.1 Retailing in India is growing through an evolutionary stage and is one of the largest sector in the global economy. The current estimated value of the Indian retail sector is about 500 billion USD and expected to reach 1.3 trillion USD by 2020.
- 1.2 The western attitude of splurging, indulging and shop till-you-drop has slowly entered the country led to organized market who dominate the sector. In India the unorganized retailers command about 94% of the market share.
- 1.3 According to a survey by A.t.Kearny, an over whelming proportion of the 4,00,000 crore retail markets are un organized and only 20,000 crore are organised retail segment.

- 1.4 Maximum of 97% of the retail business being run by the unorganized retailers, like the traditional family run stores and corner stores

Conclusion:

The word retail is derived from the French word “retailer” meaning to cut a piece off or break bulk. It includes all the activities directly related to the sale of goods and services to the ultimate consumer for personal and non-business use<sup>6</sup>.

Retailing is a business activity involving selling goods and services to consumer for their personal use. It covers entire range of goods and services from apparels, food products furniture, garments, household gadgets to automobiles, medicines apparel, movie tickets stationery all types of services including banking and insurance service. Thus retailing is the last link in the distribution process during which goods and services are sold to final consumers

