

IMPACT OF ORGANIZED RETAILING: AN ANALYTICAL DISCOURSE

Dr. Rochita Burman

Amity Business School, Amity University, Kolkata, West Bengal, India.

Corresponding Author Email: rochitaburman@gmail.com

ABSTRACT

The retail sector in India is rapidly expanding and modernizing keeping pace with the economic growth of the country. The overall retail sector is expected to grow at a compounded rate of 15% amounting to INR 47 trillion in 2016-17. Some of the key drivers to the retail consumption in India are increasing urbanization, increasing disposable incomes, favorable demographics and nuclearisation of families. Organized retail is estimated to grow at a CAGR of 24% and attain a 10.2% share of total retail by 2016-17. There have been continuous debates on the impact of the growth of organized retail on traditional retailers. In favor of organized retailing it has been argued that growth of organized retailing, will yield efficiencies in the supply chain, enabling better access to markets, to producers (including farmers and small producers) and lower prices to consumers. In the context of divergent views on the impact of organized retail, this analytical study has been conducted to assess the impact of the organized retail on the different aspects of the economy and suggest certain strategies for marketers and policymakers to catalyze and project the benefits of Organized Retailing.

Keywords: *Organized Retail, E-Retailers, Grocery Stores, Hypermarkets.*

INTRODUCTION

Retailing in India contributes 22 percent of the country's GDP and therefore is one of the major pillars of the economy. The current market size of Indian retail sector is about US\$ 520 billion (IBEF, 2017a). The overall retail sector is expected to grow at a compounded rate of 15% amounting to \$950 billion by 2018. India is the 5th largest retail market in the world and ranks 4th among the 30 countries that were surveyed in the Global Retail Development Index. Organized retail is estimated to grow at a CAGR of 24% and gain a share of 10.2% of total retail by 2016-17 (AT Kearney, 2015). India, with a large market base of 1.28 billion people, is one of the fastest growing retail markets. India's retailing industry is primarily unorganized in nature. India's retail and logistics industry employ more than 40 million Indians approximately 3.3% of Indian population i.e., it contributes to 8% of the total employment. The size of modern retail in India is expected to double to Rs 171,800 crore (US\$ 25.7 billion) from Rs 87,100 crore (US\$ 13 billion) in three years driven by omnichannel retail (IBEF, 2017a).

Organized retailing, in India, refers to all trading

activities undertaken by the licensed retailers, that is, those who are registered for income tax, sales tax etc. These include the corporate-funded hypermarkets and retail chains, publicly-traded supermarkets, and also the large privately-owned retail businesses.

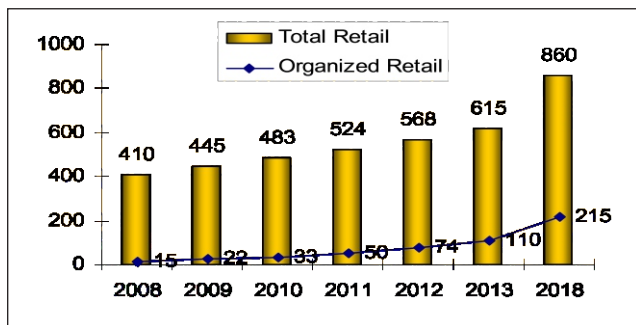
On the other hand, unorganized retailing refers to the traditional formats of retailing related to low costs, for example, the grocery stores also coined as the local mom & pop stores, owner operated general stores, convenience stores, shops selling betel nuts & cigarette, pavement vendors and hawkers etc.

Organized retail is at a very nascent stage in India and accounts for just 4% of the total retail market. As per the statistics available, there are over 14 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m²) in size. Relationship management with reference to unorganized retail shops typically offers no after-sales support or service. Finally, most transactions at unorganized retail shops are cash based transactions.

For every 1000 people in India, there are approximately 11 shops. One of the most prominent phenomena is that of the majority of the unorganized retail shops in India employs family members, they do not have adequate

means to procure or transport products at wholesale level in high volume, have minimal quality control and product screening technology for fake-versus-authentic goods and have almost negligible training on safe and hygienic storage, packaging or logistics. The unorganized retail shops source their products from a chain of intermediaries who add up a markup price to the cost price as it moves from farmer or producer to the consumer. The unorganized retail shops typically have minimal efforts towards the customer.

Figure 1: - Total vs. organized retail



Source: www.planetretail.net

To clearly understand the development of organized retail in the country, let's have an overview of the segmentation of the organized sector it is shown in the figure 1. The organized sector can be broadly divided into two segments: Value retailing, (primarily food and groceries) which is typically a low margin-high volume business and lifestyle retailing, (apparel, footwear, etc) a high margin low volume business. The sector is further divided into various categories, depending on the types of products offered to the target market. Food retailing accounts for 70% of Indian retail, but it has very low penetration by organized retail. Organized retail has a 31% share in clothing and apparel and continues to see a rising growth in this sector. The home & household segment is growing consistently at 20 to 30% per year. The relatively low contribution of other retail categories is a clear indication of the opportunity for growth of organized retail in these segments, especially with India being one of the world's youngest markets.

Through the 1990s, India introduced a mass-scale free market reforms, including some related to retail. However, between the years 2000 to 2010, consumers in selected Indian cities have gradually begun to experience the quality, choice, convenience, and benefits of organized retail industry.

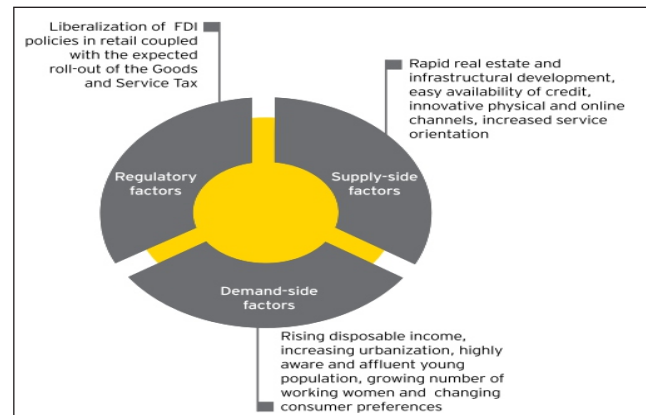
The retail sector is experiencing exponential growth, with retail development taking place not just in major

cities, but more dominantly in Tier-II and Tier-III cities. Some of the key drivers to the retail consumption in India are increasing urbanization, growing economic prosperity & increase in disposable incomes, favorable demographics, nuclearisation of families and transformation in consumption patterns (Deloitte 2011).

(A) Dominant Drivers of Organized retail growth:

- **Favorable demographic profile:** Of the total population of 1.28 million, 60% of it is below 30 years of age.
- **Increase in DINKS:** There has been a consistent increase in instances of Double Incomes in most families coupled with the consistent rise in the purchasing power.
- **Evolving consumption pattern of urban and rural consumers.**
- **Changing Consumer Perception towards credit services:** Increasing use of credit cards for purchase activities of goods and services.
- **Increased Urbanization:** Increase in urbanization has led to higher trading area density thus enabling retailers to use fewer numbers of stores in order to target the same number of customers. Thus, it also enables the retailer to achieve economies of scale due to aggregation of demand.
- **Ease of transportation:** With an overall improvement in the infrastructure related to transportation and increased automobile penetration, it has become easier to cover distances than ever before. Now a customer has the resources to travel miles to reach a particular shop if he or she perceives value in shopping from a particular location.
- **Growth in Tier II and Tier III cities.**

Figure 2. Factors contributing towards organized Retail Growth



Source: <http://www.iamwire.com/2014/11/declining-profits-retail-retailers-embrace-e-commerce/104205>

According to recent statistics, organized retail is estimated to grow at a CAGR of 24% and attain a 10.2% share of total retail by 2016-17. With this expected increase, it is highly improbable that the rising demand would be effectively met by solely the unorganized sector (Bajaj, Tuli & Srivastava, 2006). International experience clearly shows that in almost all emerging economies, governments have turned towards effectively applying policy measures to improve the operating conditions for the unorganized sector it is shown in the figure 2.

Figure 3: Growth in Retail penetration - Total vs. Organized



Source: *The Great Indian Bazaar (Organized Retail Comes of Age in India)* by Mckinsey & Company (2008)

Mass Grocery Retail (MGR) sales in India are expected to undergo a voluminous growth over the forecast period. It is predicted that sales through MGR outlets are likely to rise by 218% to reach US\$27.67bn by 2015 it is shown in the figure 3. This is assumed to be the consequence of India's dramatic & significant shift from small independent traditional retailers to large, modern, and organized retail outlets. (Verma, 2013)

With the overall objective of analyzing the paradigm shift in the consumer behavior towards organized retail and the impact of organized retail on different segments of the supply as well as the demand side, a research had been undertaken.

B. Objectives of study

The research has been conducted with the following objectives:

- ▶ To analyze the impact of organized retail on consumer buying behavior.
- ▶ To analyze the impact of organized retail on traditional retailers, manufacturers, and intermediaries.

METHODOLOGY

The data for the research has been collected from primary sources. Data from the following sources have been collected.

- ▶ The survey had been conducted based on questionnaire method for consumers. The sample size considered for the same was 1,010.
- ▶ The survey had been conducted based on questionnaire method for traditional retailers. The sample size considered for the same was 500.
- ▶ The survey had been conducted based on questionnaire method for intermediaries. The sample size considered for the same was 100.

The survey was confined to two major categories of product groups: - Food & Grocery and Textile & Clothing. The survey area selected for the research were cities of Uttar Pradesh, that is, Ghaziabad, Noida, Lucknow, Kanpur, Agra, Varanasi, and Bareilly.

In order to assess the consumer's perception with respect to organized retailing, the questionnaire was designed to judge the consumers on varied parameters ranging from-

- The share of wallet that the consumers would spend on purchase from organized retail outlet in comparison to unorganized retail shop with special reference to the abovementioned categories.
- Questions pertaining to the distance that the consumer is willing to travel in order to purchase from an organized retailer.
- The major product related, price related and outlet related benefits that the consumers perceive from shopping at organized retail outlet.
- Customer profile has been analyzed to assess the consumer buying behavior on demographic parameters like age, gender, educational qualification, occupation, household income, family structure and companion of shopping.

Traditional retailers were questioned thoroughly on parameters like the type of outlet, ownership factors, and product categories, the type and profile of the customers that they deal with, impact on turnover and profit due to the emergence of organized retailers.

Further, I've tried to analyze the impact on each type of product category that the retailer's deals into, the different facilities that the traditional retailers have extended to their customers after the advent of

organized retailers like accepting credit cards and providing home delivery. Questions related to the strategies that retailers are implementing for dealing with competition and lastly the perceived impact of organized retail on their overall business

The intermediaries were questioned on different topics like the variation in the sales and annual turnover due to the rise in the organized sector, the measures that have been taken to overcome competition etc.

RESULTS AND DISCUSSIONS

The survey revealed certain facts about the retail scenario in India. It is evident that the emergence and growth of the prominent organized retail sector players have been phenomenal in metropolitan cities and mini metros. Now that they have gained stability in metros organized retail has started making inroads into Tier II and Tier III cities which currently accounts for a smaller proportion of operational shopping malls in India. The potential of these cities in terms of retail real estate is immense and both national and international retailers are lapping on this opportunity and expanding businesses in these cities thus fuelling the demand for organized retail. Though, in these cities organized retailers face major constraints in the form of fragmented market, infrastructure constraints, high distribution costs due to large geographical area and absence of national distribution nodes and networks. Still, it is inevitable that once the organized retail potential in metros reaches a saturation point, the next phase of retail real estate growth will happen in these smaller cities of India. In particular, Tier 3 cities would see the curve rising steeply as the growth would be driven by cost advantages in terms of lower land prices and therefore lower rentals (Ernst & Young, 2014).

The major catalysts adding fuel to the growth of organized and making it the preferred choice of consumers to name a few are economic liberalization that has facilitated the entry of multinationals into the cash-and-carry model of business and single brand retailing and changing customer profile. The Indian consumers have seen an upsurge in their income levels and have developed a strong sense of brand consciousness especially among India's middle and higher income groups. Looking into the socio-cultural aspect, there is a clear rise in the women workforce, a number of nuclear families, a general improvement in education levels. The changing role of women has led

to a major change in the buying behavior of the Indian consumers whereby women play a more proactive role in shopping for the family and thereby leading to choose convenience over any other factor as the most important. Thereby, giving rise to the mall culture where varied products and services are available under one roof.

Another factor that has changed the consumer buying behavior is the increase in the overall household income. Since more urban women are seeking employment it leads to dual income families thereby increasing the overall disposable income of the family which in turn spawn's consumerism. Moreover, in households with working women, there is a major change in the lifestyle of the family in matters like food habits and clothing as there would be a greater focus on convenience and comfort. Over the years, this has led to a change in the size and composition of the shopping basket. Today's consumer wants to have convenience in their shopping coupled with speed in the retail operations along with entertainment options readily available. This is one of the major factors contributing to an increase in the footfall at malls with multiplexes.

It is a fact that consumer choices and preferences and consumer behavior plays a dominant role in shaping market trends and same has been influential in the evolution of organized retailing in India. It is worth mentioning that in the case of organized retailing; there has been a reciprocal effect in shaping the consumer behavior, not only in terms of choice of products and services but also in terms of the overall shopping experience. The consumer's perception has changed in terms of the shopping experience as they are now habituated by the services rendered by organized retailers, in terms of, enhanced shopping experience, better packaging, hygienic environment and value-added services. This has posed to be a major source of competition to the traditional retailers. As a counterattack, many of the traditional retailers have adopted better practices in product packaging, shelf spacing, visual merchandising, and display. Organized retailers, in response, are resorting to providing home delivery, offering deep discounts and implementing loyalty programs.

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The research revealed certain key consumer trends like the factors that attract consumers to unorganized retailers are credit sales, loose items, bargaining, convenient timings, home delivery, proximity, and goodwill. Moreover, it is observed that the unorganized retailers who are doing business in the vicinity of organized retailers have been adversely affected in terms of their volume of business and profit. However, the adverse impact on unorganized retailers tapers off over a period of time. There is clear evidence of a competitive response from traditional retailers who are making all possible efforts to meet the threat from organized retailers. For example, as a result of competitive response, these retailers are maintaining adequate employment levels. While the grocery stores are trying to increase credit sales to retain customers, their own reliance on institutional finance remains very low.

With the overall upsurge of organized retail growth in the country, the consumers tend to have gained the most. The emergence of organized retail outlets has benefited the consumers through the availability of better quality products, one-stop shopping solutions, choice of additional brands and products, lower prices, family shopping, and fresh stocks. The major benefactors are lower income consumers who seem to have saved more from purchases at organized outlets.

The study reveals the effect of organized retail on intermediaries and manufacturers to be as follows. Intermediaries do not seem to be adversely affected so far although there are signs of their losing business in products such as fruit, vegetables, and apparel. Farmers

have benefited through direct procurement by organized retailers as this seems to be an alternative channel for selling their products with better revenue realization. Organized retailers are investing heavily or through third-party logistics companies to modernize the distribution system by investing in temperature-controlled warehouses, cold-chain transport, etc. Large manufacturers have started feeling the pinch through price pressure and competition from private labels of organized retailers. Small manufacturers, in general, are yet to feel any major impact of organized retail as a large number of traditional/unorganized retailers continue to constitute their consumers. However, they are most optimistic about future expansion of their business with the spread of organized retail.

India is at the crossroads with respect to the organized retail sector. Several emerging market economies have adopted and reaped the benefits of organized retail. India, however, has joined the organized bandwagon a little late and there are still many scenarios to be analyzed to realize the overall impact of organized retail. The research suggests a balanced approach to retail and suggests that the government needs to play a major role in shaping its future course.

There is no doubt that traditional retail has been performing a very vital function in the economy and is a significant source of employment. However, it suffers from huge inefficiencies as a result of which consumers do not get what they want, and farmers often get prices for their produce much below the fair price.

In contrast to the unorganized sector, organized retail provides consumers with a wider array of products, lower prices, and a conducive & pleasant shopping environment. It gives farmers an opportunity to sell their produce at better prices. The traditional retailers are facing and trying to cope with their share of competition from organized retail. However, in this struggle, they seem to be handicapped by a lack of access to formal credit from commercial banks. Thus, analyzing the business environment of developed nations it is imperative for the government to play a dominant role in modernizing the unorganized sector and improving its competitiveness. Although it's also mandatory to realize that a policy of protection for the traditional retailers by restricting organized retail would inevitably harm the growth prospects of the country by foregoing the enormous benefits that are generated by organized retail (IBEF, 2017b).

Strategies to strengthen Organized Retail: Some Proposals

After analyzing the current organized retail scenario there are certain strategies that are worth mentioning and if implemented by organized retailers could further strengthen their position.

- Decode consumer behavior as India has a diverse customer base.
- Entering into alliances and leveraging expertise as it could possibly bring in the much-needed capital and expertise.
- Private labels are the current trend. As Private labels enable retailers to offer quality products and earn higher margins at the same time.
- Build a competent supply chain management system i.e. warehouses, cold chains and third-party logistics.
- Venture into under-penetrated markets: Rural Retailing. Major domestic retailers have started setting up farm linkages. Few examples include, DCM's Hariyali Kisan Bazaars, Pantaloon Godrej's joint venture Aadhars, ITC's Choupal Sagars, Tata's Kisan Sansars and Reliance Fresh are some of the established rural retail chains.
- Retailers will adopt and experiment with technology.
- Social networks will serve as shopping platforms.
- Brands will double down on Corporate Social Responsibility.

CONCLUSION

In India, modern retailing has been predominantly identified with an affluent lifestyle, thereby excluding a larger and important chunk of the consumer base. Organized retail in order to appeal to the various classes of the Indian society needs to identify with the different lifestyles and socioeconomic strata and generate strategies in response to their respective requirements and shopping patterns. Organized retailers clearly portray this trend with the advent of stores with an essentially 'value for money' image. Consumer expectations from the organized retail stores are high in terms of providing a better shopping experience, recreation, friendly interactions and a wide choice of products and services and at the same time providing "value for money". In order to flourish and prosper in the Indian market, it is essential for organized retailers

to live up to the consumer expectations. For the same, it is important that the retailers must have a thorough understanding of the consumer purchase decisions and the factors affecting their store choice. (McKinsey report, 2013).

Retail strategic planning and retail management decision making can be effective if it inculcates the valuable insights provided by consumer behavior. It is of great importance for the retailer to realize that the purchase of product involves various motivational, psychological, cultural and economic factors. Consumer buying behavior is an amalgamation of various internal and external factors, the type of purchase, the stages of the purchase process and also the users of the purchase.

With the full throttle entry of e-retailers in the country the debate now seems to have been shifted from organized retail versus unorganized retail to traditional retail and e-retail. E-retail has grown at an exponential rate in just a few years. Online retail expects a phenomenal increase in revenues from the present \$5 billion market of Indian online retail to \$50 billion by 2020 Traditional store-based retailers are now placing more emphasis on their electronic channels and evolving into multichannel retailers for four major reasons. First, the electronic channel gives them an opportunity to overcome the limitations of their primary existing format. Secondly, it gives them an opportunity to reach out to new markets. Third, providing a multichannel offering builds "share of wallet." Fourth, an electronic channel enables retailers to gain valuable insights into their customer's shopping behavior (Levy & Weitz, 2009).

With the advent of online retailers like Flipkart, Snapdeal, Jabong, and Amazon the entire picture of retailing has changed. However, it seems to be quite early to conclude that online retailers are the winners in this war between online and organized brick & mortar retailers. If we look into the key trends that seem to support e-retailing the following would be worth the mention: - favorable demographics, growing internet penetration, in particular, m-commerce and a huge market base (rural market) that still remains untapped.

Improving the overall experience is the need of the hour. Regardless of whether we're talking about traditional brick-and-mortar retailing, organized retailing, or the recent times e-retailing, the retailers per se will have to evolve their offering to meet the needs, wants and desires of consumers.

"It is not the strongest specimen that survives, even not the most intelligent one, it is the specimen that can adapt to change most."

Charles Darwin.

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