

# An Overview of Unorganised Retail Sector in India

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**ABSTRACT** - *This paper provides detailed information about the role of unorganized retailing industry in India. It examines the why unorganized retail sector dominating in India and what are the reasons for its dominance in India. It also provides with in depth study about the importance, opportunities and challenges of unorganized retail sector with comparison to organized retail sector in India. The paper also intends to study the unorganized retail sector in central India related to their preparedness towards succession planning. Also the paper tries to explore the family dynamics shared between the family members of the business. This study is also aimed at drawing the attention of policy-makers and marketers to the significant socio-economic role played by rural unorganized retailers, so that relevant steps may be taken towards sustenance and growth of this important entity. Finally concludes with the mark of Indian consumers' change of attitude towards organized retail sector.*

**Keywords:** *Family-Owned Business, Knowledge Transfer, Owner-Managers, Unorganized Retail Sector, Central India, Consumer purchase opinion.*

## I. INTRODUCTION

India started its Retail Journey since ancient time. In ancient India there was a concept of weekly HAAT, where all the buyers & sellers gather in a big market for bartering. It takes a pretty long times to & step to shape the modern retail. In between these two concepts (i.e. between ancient retail concept & the modern one there exist modern kirana/ mom and pop shops or Baniya ki Dukan. Still it is predominating in India, so the Indian retail industry is divided into two sectors-organized and unorganized. Retailing is one of the pillars of Indian economy and accounts for 14 to 15 percent of its 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.

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). The retail industry in India is highly fragmented and unorganized. Earlier on retailing in India was mostly done through family-owned small stores with limited merchandise, popularly known as kirana or mom-and-pop stores. In those times, food and grocery were shopped

from clusters of open kiosks and stalls called mandis. There were also occasional fairs and festivals where people went to shop. In the twentieth century, infusion of western concepts brought about changes in the structure of retailing. There were some traditional retail chains like Nilgiri and Akbarallys that were set up on the lines of western retail concepts of supermarkets. The government set up the public distribution system (PDS) outlets to sell subsidised food and started the Khadi Gram Udyog to sell clothes made of cotton fabric. During this time, high streets like Linking Road and Fashion Street emerged in Mumbai. Some manufacturers like Bombay Dyeing started forward integrating to sell their own merchandise. Shopping centres or complex came into existence, which was a primitive form of today's malls.

Since liberalisation in early 1990s, many Indian players like Shoppers Stop, Pantaloon Retail India Ltd (PRIL), Spencer Retail ventured into the organised retail sector and have grown by many folds since then. These were the pioneers of the organised Indian retail formats. With the opening up of foreign direct investment in single-brand retail and cash-and-carry formats, a new chapter unfolded in the retail space. Many single-brand retailers like Louis Vuitton and Tommy Hilfiger took advantage of this opportunity. The cash and-carry format has proved to be an entry route for global multichannel retailing giants like Metro, Wal-Mart and Tesco.

Retailing in India is predominantly unorganized. According to a survey by AT Kearney, an overwhelming proportion of the Rs. 400,000 crore retail markets are unorganized in India. In fact, only a 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. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10% of India's GDP. Indian retail is dominated by a large number of unorganized retailers consisting of the local kirana stores, chemists, footwear shops, apparel shops, paan and beedi shops, hand-cart hawkers, pavement vendors, etc. Retailing in unorganized sector is thus not a profit oriented vocation but a mere source of livelihood. Naturally, the capital investment is very low and the infrastructure is rudimentary. It is estimated that less than 4% of Indian retailers have shops larger than 500 square feet. There has been growth in organized retailing business in recent years Concerns have been raised that the

growth of organized retailing may have an adverse impact on retailers in the unorganized sector.

Unorganized retail sector it is defined as an outlet run locally by the owner or caretaker of a shop that lacks technical and accounting standardization. The supply chain and sourcing are also done locally to meet the local needs. Unorganised retailing, refers to the traditional formats of low-cost retailing, for example, the local Kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 percent of India's GDP

## II. REVIEW OF LITERATURE

M. Joseph, S. Nirupama, M. Gupta and S. Sahu (2008) attempted to rigorously analyze the impact of organized retailing on different segments of the economy. The findings of this study are based on the largest ever survey of unorganized retailers (the so-called "mom and pop stores"), consumers, farmers, intermediaries, manufacturers, and organized retailers in addition they reviewed international experience, particularly of emerging countries of relevance to India, has also been carried out as part of the study.

S. P. Thenmozhi and D. Dhanapal (2011) identified the Retail service quality factors and explores the impact of Retail Service Quality on Customer satisfaction and loyalty in unorganized retail outlets and sample of 463 customers at selected kirana stores (unorganized retail format) of Tamilnadu in India were selected for the study on the basis of non-probability convenience sampling. The study also analyzed the association between demographic profile of the customers and their perception on retail service quality

Tazyn Rahman (2012) study revolved around the opportunities and challenges faced by organized retail players in India. It was found that organized retailers see competition from the unorganized sector as their biggest challenge, followed by competition between organized retailers and the inefficiency of distribution channels, internal logistical problem and retail shrinkage.

H. Gupta, N. Dubey and P. Pawan (2012) the broad objective of the study was to understand consumer behavior towards organized and unorganized retail stores and to find out the consumers satisfaction level from organized retail stores as well as unorganized retail stores. The perception of the traditional retailers about the modern retailing. The study uses primary data collected through in depth qualitative analysis to represent organized and unorganized retail sectors respectively.

Prof. Prem Vrat study attempted to present an in-depth study of retail sector of India, organized and unorganized, and identifies parameters for defining competitiveness in the context of Indian Retail. Integrating Quality Function

Deployment (QFD) analysis with the Kano model the paper highlighted major technical issues related to Kirana and Apparel Shops. A model for optimizing product assortment in a small unorganized store has been presented, with the introduction of the concept of linear cross elasticity. It highlights the managerial insights gained through the study

Most of the earlier studies were related to the analysis of impact of unorganized retail sector and comparison between organized retail sector and unorganized retail sector in India. Hence based on the research gap, the present study attempts to understand importance of unorganized retail sector and their reasons of existence also with opportunities and challenges in India.

## III. OBJECTIVES OF THE STUDY

The primary objective of the study is familiarizing the concept of Unorganised Retail sector in India. The other objectives for the study are:

- 1) To know the reasons why Unorganized Retail sector in India dominating.
- 2) To know the importance and opportunities and challenges in Unorganized Retail sector in India.
- 3) To know how rural unorganized retailers serve as an economic engine driving the Indian rural society.
- 4) To understand how unorganized retailers are socially and economically important for Indian societies.
- 5) To formulate relevant steps to be taken towards sustenance and growth of this important entity.

## IV. IMPORTANCE OF UNORGANIZED RETAIL SECTOR IN INDIA

Retailing in India as also elsewhere in the world is divided into organized and unorganized retailing. Organized retailing refers to trade activities undertaken by the licensed retailers those who are registered for sales tax, income tax etc. These include the corporate backed hypermarket, retail chains and also the privately owned large retail business. Unorganized retailing, on the other hand, refers to traditional format of low cost retailing, for example the corner store (kirana i.e. grocery shops), owner manned general stores, Cigarette shops, convenience store, hand cart, pavement vendor etc. Unorganized retailing is the most prolific and visible form of retailing in India while the organized retailing constitutes only a very small percentage (3- 4%). The reasons as to why Indian retailing is so fragmented or unorganized in nature lies in her entrenched poverty and the fact that a large number of educated unemployed and superfluous labor takes refuge in retailing in the face of joblessness and glaring poverty. India is one of the largest emerging markets, with a population of over one billion. It is one of the largest economies in the world in terms of purchasing power. Retailing in India is at a nascent stage of its evolution In India, the most of the retail sector is unorganized. In India, the retail business contributes around 11 percent of GDP. Of this, the organized retail sector accounts only for about 3 percent share, and the remaining

share is contributed by the unorganized sector which is mostly a family owned business in India. The main challenge facing the organized sector is the competition from unorganized sector. Unorganized retailing has been there in India for centuries, these are named as mom-pop stores. The main advantage in unorganized retailing is consumer familiarity that runs from generation to generation. It is a low cost structure; they are mostly operated by owners, has very low real estate and labour costs and has low taxes to pay.

#### **V. WHY UNORGANIZED RETAIL SECTOR IS DOMINATING IN INDIA**

Small-store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour. It is generally family run business, lack of standardization and the retailers who are running this store they are lacking of education, experience and exposure. This is one of the reasons why productivity of this sector is approximately 4% that of the U.S. retail industry. Unorganized retail sector is still predominating over organized sector in India, unorganized retail sector constituting 97% (twelve million) of total trade, while organized trade accounts only for 3%.

#### **VI. THE REASONS FOR UNORGANIZED RETAIL SECTOR DOMINATION IN INDIA:**

1. In smaller towns and urban areas, there are many families who are traditionally using these kirana shops/ mom and pop stores offering a wide range of merchandise mix. Generally these kirana shops are the family business of these small retailers which they are running for more than one generation.
2. These kirana shops are having their own efficient management system and with this they are efficiently fulfilling the needs of the customer. This is one of the good reasons why the customer doesn't want to change their old loyal kirana shop.
3. A large number of working class in India is working as daily wage basis, at the end of the day when they get their wage, they come to this small retail shop to purchase wheat flour, rice etc for their supper. For them this the only place to have those food items because purchase quantity is so small that no big retail store would entertain this.
4. Similarly there is another consumer class who are the seasonal worker. During their unemployment period they use to purchase from this kirana store in credit and when they get their salary they clear their dues. Now this type of credit facility is not available in corporate retail store, so this kirana stores are the only place for them to fulfill their needs.
5. Another reason might be the proximity of the store. It is the convenience store for the customer. In every corner the street an unorganized retail shop can be found that is hardly a walking distance from the customer's house.

Many times customers prefer to shop from the nearby kirana shop rather than to drive a long distance organized retail stores.

6. This unorganized stores are having n number of options to cut their costs. They incur little to no real estate costs because they generally operate from their residences. Their labour cost is also low because the family members work in the store. Also they use cheap child labour at very low rates.

As they are operating from their home so they can pay for their utilities at residential rates. Even they cannot pay their tax properly.

#### **VII. OPPORTUNITIES AND CHALLENGES OF UNORGANIZED RETAIL SECTOR IN INDIA:**

##### **Opportunities:**

- India's booming economy is a major source of opportunity. It is the third largest in the world in terms of purchasing power. India is the second fastest growing major economy in the world.
- India's huge population has a per capita income of Rs 44,345.
- The proportionate increase in spending with earnings is another source of opportunity.
- With the Indian economy now expected to grow at over 8% and with average salary hikes of about 15%, manufacturers and retailers of consumer goods and services can expect a major boost in consumption.
- The Demography Dynamics are also favorable as approximately 60 per cent of Indian population is below the age of 30.
- Increasing instances of Double Incomes in most families coupled with the rise in spending power.
- Increased urbanization has led to higher customer density areas thus enabling retailers to use lesser number of stores to target the same number of customers. Aggregation of demand that occurs due to urbanization helps a retailer in reaping the economies of scale.
- With increased automobile penetration and an overall improvement in the transportation infrastructure, covering distances has become easier than before. Now a customer can travel miles to reach a particular shop, if he or she sees value in shopping from a particular location.

##### **Challenges which are faced by the Indian unorganized retail sector:**

- Lack of best practice in inventory management and supply chain management.
- Lack of standardization.

- Stiff competition from organized retail sector.
- Lack of knowledge, skills and training.
- Consumers shifting towards organized retail markets.
- Lack of government policies discouraging the unorganized retailers.
- Lack of capital.

### **VIII. CONCLUSION**

The purpose of the study was to have in depth understanding of unorganized retail sector in India. In that way, now a day's Indian consumers are showing rapid changes by shifting their buying attitude from unorganized outlets to organized outlets. In the emerging Indian retail environment, this study has brought insights into importance of unorganized retail sector in India and this study will thus help unorganized retailers to frame strategies to face the opportunities and challenges in this sector.

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