

IMPACT OF ORGANIZED RETAIL ON CONSUMERS

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Abstract

The retail business, in India, is estimated to grow at 13 per cent per annum from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at about 10 per cent per annum from US\$ 309 billion 2006-07 to US\$ 496 billion in 2011-12. Organized retail which now constitutes a small four per cent of retail sector in 2006-07 is likely to grow at 45-50 per cent per annum and quadruple its share of total retail trade to 16 per cent by 2011-12. The study, based on survey of all segments of the economy that could be affected by the entry of large corporates in the retail business, has found that unorganized retailers in the vicinity of organized retailers experienced a decline in sales and profit in the initial years of the entry of organized retailers. The adverse impact, however, weakens over time. The study has indicated how consumers benefit from organized retailers. The results are indicative of the mega-and-mini- metro cities around a limited number of organized retail outlets. Based on the results of the surveys, the study has made a number of specific policy recommendations for regulating the interaction of large retailers with small suppliers and for strengthening the competitive response of the unorganized retailers.

The retail sector is expanding and modernizing rapidly in line with India's economic growth. It offers significant employment opportunities in all urban areas. This study, on the retail industry, attempts to rigorously analyse the impact of organized retailing on different segments of the economy. No distinction has been made between foreign and domestic players, in analyzing the impact of the increasing trend of large corporates entering the retail trade in the country. 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, an extensive review of international experience, particularly of emerging countries of relevance to India, has also been carried out as part of the study.

The study estimates that the total retail business in

India will grow at 13 per cent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at approximately 10 per cent per annum with sales rising from US\$ 309 billion in 2006-07 to US\$ 496 billion. Organized retail, which constituted a low four per cent of total retail in 2006-07, is estimated to grow at 45-50 per cent per annum and attain a 16 per cent share of total retail by 2011-12. In short, both unorganized and organized retail are bound not only to coexist but also achieve rapid and sustained growth in the coming years. This is clearly not a case of a zero sum game as both organized and unorganized retail will see a massive scaling up of their activities. In fact, the retail sector, left entirely in the unorganized and informal segment of the economy, could well emerge as a major bottleneck to rising productivity in both agriculture and industry. One of the rather surprising findings of the study is

that low-income consumers save more than others through shopping at organized retail outlets. This is a result of targeted discount shopping. It is also seen that farmers gain considerably from direct sales to organized retailers, with significant price and profit advantages as compared with selling either to intermediaries or to government regulated markets. Large manufacturers have also started feeling the competitive impact of organized retail through both price and payment pressures. Yet, they see the advantages from a more efficient supply chain and logistics that accompany the growth of organized retail.

Retail Summary

The real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12.

Overview

India has 12 million retail outlets. The retail sector is the second largest source of employment and the job market is hugely receptive to retailing expertise as more and more B-schools are now focusing on the sector and large retailers are setting up retail academies. It is estimated to create 50,000 jobs a year in the next five years. The retail market in India is estimated at Rs.5,88,000 crore. Out of this the unorganized market is worth Rs.5,83,000 crore and the organized market is Rs.5,000 crore.

The study shows:

- The unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from US\$ 309 billion in 2006-07 to US\$ 496 billion in 2011-12.
- Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this

sector alone will not be able to meet the growing demand for retail.

- Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.
- This represents a positive sum game in which both unorganized and organized retail not only coexist, but also grow substantially in size.
- The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

Transition from traditional to modern retailing

- With a share of over 95 per cent of total retail revenues, traditional retailing continues to be the backbone of the Indian retail industry.
- Over 12 million small and medium retail outlets exist in India, the highest in any country.
- Traditional retail is highly pronounced in small towns and cities, with a primary presence of neighbourhood 'kirana' stores, push-cart vendors, 'melas' and 'mandis'.
- Organised retailing is growing at an aggressive pace in urban India, fuelled by burgeoning economic activity.
- An increasing number of domestic and international players are setting up base in the country and expanding their business to tap this growing segment.

Growth across segments

- The food and beverages segment accounts for the largest share, at more than 70 per cent of the total retail pie.
- Traditional retail dominates food, grocery and the allied products sector, with grocery and staples largely sourced from 'kirana' stores and push cart vendors.
- The apparel and consumer durable verticals are the fastest-growing verticals.
- Mobile phones, supported by the growing telecom penetration in small towns and villages,

are a major retail item with the addition of 10 million to 12 million mobile phone users every month.

- The home décor sector is witnessing rapid growth with the reducing average age of Indians buying homes.
- Beauty care, home décor, books, music and gift segments are gaining traction, predominantly in the urban areas and emerging cities.

Future outlook

- Retail sector revenues are pegged to touch US\$ 460.6 billion by 2010–11.
- Organised retail is projected to grow to US\$ 41 billion by 2012–13.
- Modern retail is expected to adapt and imbibe from traditional formats.
- Unorganised retail formats are converging and combining in formats such as mushrooming village malls.
- Large Indian retail players have already begun formulating strategies for the rural retail space.
- The food and beverages (F and B) sector is expected to touch the US\$ 116 billion mark by the end of 2008–09.
- Two-thirds of India's population is under 35 years of age and more than 60 per cent of the population will be in the working age group (15 to 60 years) until the year 2050.
- The median age of 23 years, opposed to the world median age of 33, sets the emerging young India apart.
- India is home to about 20 per cent of the global population under 25 years of age.

The Empirical Basis

The study comprises the survey of consumer segments of the economy that could be affected by the entry of large corporates in the retail business. The findings are based on a survey of 255 consumers shopping at both organized and unorganized retail outlets. The purpose of the survey of consumers is to understand the behaviour of and benefits to consumers in shopping at organized vs. unorganized retail outlets. Exit interviews were

conducted with 255 consumers who shopped at 101 organized outlets in Jaipur city and an equal number of consumers who shopped at 101 unorganized outlets in the same city. After dropping the outliers, the sample has 235 customers at organized outlets and 232 at unorganized outlets.

Consumer Survey Results

a) Income Levels of Shoppers

As expected, consumers shopping at organized outlets have higher income levels than consumers shopping at unorganized outlets. However, the middle class including the aspirers (covering monthly household income between Rs.10,000 to Rs. 1,00,000) which is the mainstay for retail, shop at both organized and unorganized outlets (Table 1).

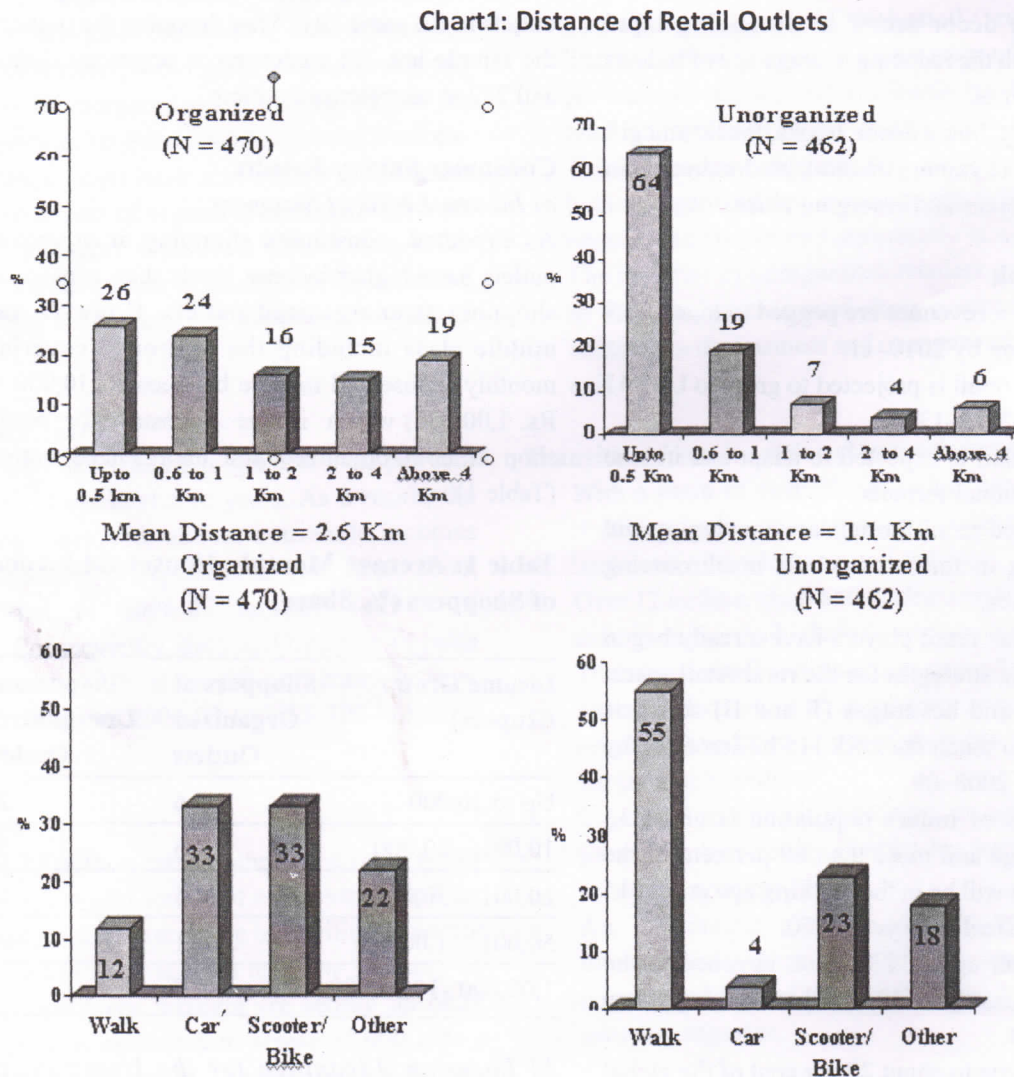
Table 1: Average Monthly Household Income of Shoppers (% Share)

Income Group (Rupees)	Shoppers at Organized Outlets	Shoppers at Unorganized Outlets
Up to 10,000	6	27
10,001 – 20,000	36	54
20,001 – 50,000	45	16
50,001 – 1,00,000	11	2
1,00,000 -10,00,000	2	1

b) Location Advantage for the Unorganized Retailers

Location is a comparative advantage for unorganized retailers as the mean distance to the residence for consumers at unorganized outlets is 1.1 km compared to 2.6 km for consumers at organized outlets (Chart 1). As expected, a majority of consumers walk to traditional retailers, while most of the consumers use own vehicle to reach organized outlets (Chart 2).

Chart1: Distance of Retail Outlets



c) Preference for Organized vs Unorganized Retailers

Those who shopped at organized outlets reported the main reasons as better product quality, lower price, one-stop shopping, choice of more brands and products, family shopping, fresh stocks, etc. Those who shopped at unorganized outlets attributed it to proximity to residence, goodwill, credit availability, possibility of bargaining, choice of loose items, convenient timings, home delivery, etc.

The survey also revealed the fact that shoppers do not shop exclusively at the organized or the unorganized outlets. They shop at both outlets and the share of spending varies from product to product. Even those who were interviewed at organized outlets, declared that 43-46 per cent of their spending on vegetables, fruit, non-staple food items, cooking oil and other packaged food items was from unorganized outlets (Table 2). On the whole, the sample shoppers at organized outlets

make a 30 per cent of their spending on food and grocery, and textiles and clothing at unorganized outlets.

Similarly, consumers interviewed at unorganized outlets also spend at organized outlets; on an average, 39 per cent of their monthly shopping is done at organized outlets. This is relatively higher for toiletries (59 per cent), household cleaning products (45 per cent), readymade garments (45 per cent), and cooking oil (41 per cent).

Table 2: Share of Average Monthly Spending by Product Category of Consumers at Organized/Unorganized Outlets (% Share)

	Consumers at Organized Outlet		Consumers at Unorganised outlet	
	Spending at organized outlets	Spending at unorganized outlets	Spending at organized outlets	Spending at unorganized outlets
Staples	66	34	31	69
Other food items	59	41	34	66
Cooking oil	54	46	41	59
Other packaged foods	55	45	38	62
Toiletries	63	37	59	41
Household cleaning products	54	46	45	55
Fruit	56	44	36	64
Vegetables	57	43	35	65
Readymade garments	62	38	45	55
Total	70	30	39	61

The consumers at organized outlets were asked whether their overall spending on food and grocery, and textiles and clothing has increased, decreased, or remained the same after they started shopping from organized outlets. While 32 per cent of sampled consumers declared an increase in spending, 21 per cent indicated a decrease and the balance no change. Thus the arrival of organized retail has enhanced spending in general. The reasons indicated for higher spending have been mainly the purchase of larger quantities due to wider range of products, availability of attractive offers like discounts and promotional schemes, and access to better quality products with higher prices.

d) Savings from Organized Outlets

Do the shoppers who buy at organized outlets save money? Yes, they save but the degree of saving depends upon the type of modern formats. The sampled consumers at organized outlets reported an overall saving of 4 per cent, and the saving is higher at 8 per cent at discount stores and supermarkets, and a low of 2 per cent at hypermarkets and hardly one per cent at departmental stores (textiles and clothing outlets). The study has shown that small spenders save more from shopping at organized outlets (Table 3).

Table 3 : Savings from Buying at Organized Outlets by Format (as % of Spending)

Spending at Sampled Visit	Discount	Super-market	Hyper-market	Depart-Mental Store	Overall
Up to 250	12	10	6	0	10
251 – 500	9	6	6	2	6
501 – 1000	7	9	6	4	7
1001 – 2000	7	10	3	2	6
2001 – 5000	5	4	0	1	1
Above 5000	0	0	2	0	0.4
Overall	8	8	2	1	4

Table 4 shows that it is really the low-income households who save more at organized outlets.

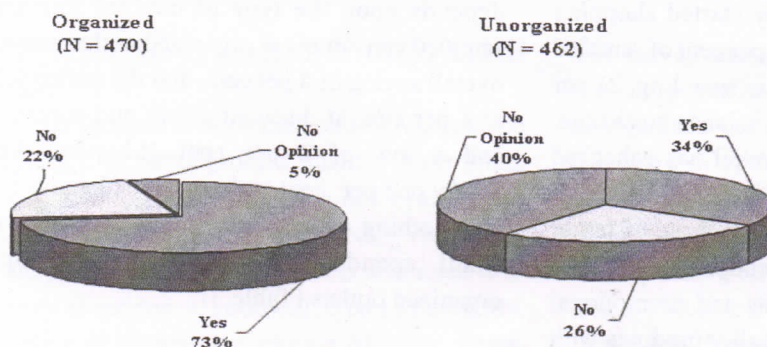
Table 4: Savings from Buying at Organized Outlets by Format (as % of Spending)

Monthly Household Income	Discount	Super-market	Hyper-market	Depart-Mental Store	Overall
Up to 10,000	17	10	6	0	10
10,001 – 20,000	7	10	4	4	7
20,001 – 50,000	7	6	2	1	3
50,001 – 1,00,000	7	3	1	1	2
1,00,000 -10,00,000	0	7	0	0	1
Overall	8	8	2	1	4

e) Consumers' View on Opening of More Organized Outlets

Finally, consumers were asked about their opinion about opening of more organized outlets. Among the shoppers at organized outlets, 73 per cent wanted more organized outlets whereas only 34 per cent of shoppers at unorganized outlets preferred to have more organized outlets. Among both shoppers, a quarter did not want any more organized outlets (Chart 2).

Chart 2 : Attitude towards Opening of More Organized Outlet



Consumer Survey at Unorganized Fruit and Vegetable Outlets

The above consumer survey did not include consumers who are shopping at pure fruit and vegetable shops located in fixed market areas or the push-cart hawkers selling fruit and vegetables. Separate exit interviews were conducted for a total of 308 consumers shopping at these outlets. The findings of this survey are given below.

a) Income Levels of Consumers

About 52 per cent of the sampled shoppers at fixed and push-cart fruit and vegetable vendors are the low-income households (monthly income up to Rs. 10,000). Within the sample, it is observed that about 37 per cent (114 numbers) of consumers shop also from organized retail outlets and the majority (63 per cent) shop exclusively from unorganized outlets. If we consider the part of shoppers who

exclusively shop from these outlets, 66 per cent of them belong to the low-income group (Table 5). Among those who also shop from organized outlets for fruit and vegetables, the majority (71 per cent) belongs to the middle-income category (monthly household income from Rs. 10,000 to Rs. 1,00,000).

b) Attractiveness of Shopping from Fruit and Vegetable Vendors

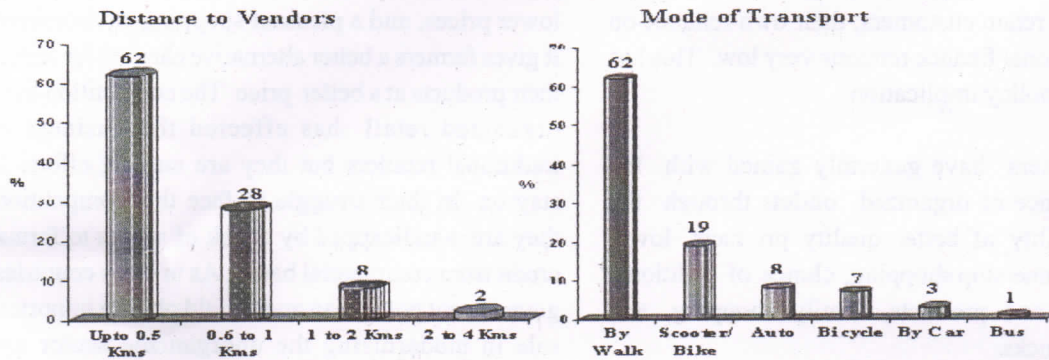
Proximity comes out clearly as the major advantage of the traditional fruit and vegetable shops and hawkers with their mean distance for consumers at just one km (Chart 3). A majority of consumers walk to these outlets (62 per cent), some travel by scooter or motor cycle (19 per cent). These results are similar to what was evident in the case of consumers shopping at neighbourhood kirana shops.

Table 5 : Average Monthly Household Income of Consumers at Unorganized Fruit & Vegetable Outlets (% Share)

Income Group	Total	Consumers Buying also from Organized Outlets (N = 114)	Consumers Buying only from Unorganized Outlets (N = 194)
Up to 10,000	52	28	66
10,001 – 20,000	32	43	25
20,001 – 50,000	14	24	8
50,001 – 1,00,000	1	4	1
1,00,000 -10,00,000	1	1	0

Chart 3 : Distance and Mode of Transport to Unorganized Retail Vendors

Chart 3 : Distance and Mode of Transport to Unorganized Retail Vendors



Besides closeness to residence, the survey has highlighted the other attractive features of shopping from these retail outlets as:- possibility of bargaining, freshness of products, better quality, lower price, choice of varieties, credit availability, convenient timings, etc.

Main Findings of the Study

- Retail trade is expected to grow at 13 per cent per annum during 2007-12. Its value will then be about US\$ 590 billion in 2011-12. With this expected increase it is inconceivable that the rising demand would be effectively met by the unorganized sector. As in other countries, this provides the basis for the expansion of organized retail.
- The international experience shows that in nearly all emerging economies, governments have taken policy measures to improve the operating conditions for unorganized retail.
- Unorganized retailers in the vicinity of organized retailers have been adversely affected in terms of their volume of business and profit. Unorganized retail has maintained employment levels perhaps as a result of competitive response.
- The major factors that attract unorganized retailers to consumers are proximity, goodwill, credit sales, bargaining, loose items, convenient timings, and home delivery.
- While kirana stores are trying to increase credit sales to retain customers, their own reliance on institutional finance remains very low. This has a clear policy implication.
- Consumers have generally gained with the emergence of organized outlets through the availability of better quality products, lower prices, one-stop shopping, choice of additional brands and products, family shopping, and fresh stocks.
- Lower income consumers have saved more from purchases at organized outlets.

These results are not indicative of the countrywide scenario, but only of mega-and mini-metro cities around a limited number of organized retail outlets. The results of the control-sample survey conducted for the study indicate that traditional retailers are not affected adversely even in these cities, away from organized outlets. For the country as a whole, unorganized retail is growing at a reasonable rate and will continue to do so for many years to come. Yet it is clear that the growth in demand for retail business is likely to exceed any possible supply response coming exclusively from the unorganized retailers.

A Balanced Approach to Retail

India is at the crossroads with regard to the retail sector. Several emerging market economies have gone ahead and reaped the benefits of modern retail. India is however a latecomer to organized retail expansion and the picture still remains unclear as to its future direction. The study advocates a balanced approach to retail and suggests that the government plays a major role in shaping its future course.

There is no doubt that traditional retail has been performing a 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 what is considered fair. In contrast, organized retail provides consumers with a wider choice of products, lower prices, and a pleasant shopping environment. It gives farmers a better alternative channel for selling their products at a better price. The competition from organized retail has effected the business of traditional retailers but they are making efforts to stay on. In their struggle to face this competition, they are handicapped by a lack of access to formal credit from commercial banks. As in other countries, government policy can and should play an important role in modernizing the unorganized sector and

improve its competitiveness. On the other hand, a policy of protection of traditional retailers by restricting organized retail will harm the growth

prospects of the country by foregoing the enormous benefits that are generated by organized retail.

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