

Organised Retailing and its Impact in Unorganised Retailing- A Case Study of Delhi and NCR

Sunil*

In the era of liberalization, globalization and privatization gradually the whole economy is opening up. The retail sector has also not been remained untouched. With the participation of the big corporate houses, this sector has posed great challenges to the unorganized retailing. Retail trade contributes around 10-11 percent of India's GDP and employs over 4 crore people, within this, unorganized retailing accounts for 97 percent of the total retail trade (People Democracy, 2007). Organized retailing has witnessed considerable growth in India in the last few years and is currently growing at a very fast pace. A recent KMPG survey report prepared by FICCI states that organized retail, estimated as \$6.4 billion industry in 2006, is projected to reach \$23 billion by 2010 (KMPG-FICCI, 2005). The share of organized retailing in overall retail sales is projected to jump from around 4 percent currently to 16 percent in 2010-11 (Business Standard May, 26, 2008).

Indian retail chains like Reliance retail, Croma, Aditya Birla Group, S Kumars, Shoppers Stop, Westside, Subhiksha and Trinetra have all been consolidated their realty, brands, market shares and locations. Retail giants, the largest being Wal-Mart-Bharti, Reliance, A V Birla group, and Future group (Pantaloony), plan to expand the share of organized retail from the current 3 percent to approximately 15-20 percent in four years by investing more than \$25 billion (excluding real estate investment). Of the proposed investment, 60-65 percent will go towards setting up supply chain for food and groceries (CII- A T Kearney 2006).

Indian retail is dominated by a large number of small retailers consisting of the local kirana shops, owner-manned general store, chemist, footwear shops, apparel shops, paan and beedi shops, hand cart hawkers, pavement vendors etc. In the last few years there has been lots of hue and cry on the participation of big Indian corporate houses and foreign large corporate houses through different modes in Indian retail sector. The fear was that these corporate houses

will oust the small traditional retailers and thus it could pose severe threat to employment as there are so many people who are in retail business and survival of their families also depends on the survival of their business. After considering this fact government has given the responsibility to ICRIER to study the impact of organized retailing on traditional retailing. The study concludes that unorganized retailers in the vicinity of organized retailers experienced decline in sales and profit initially, but it improved afterwards. The study reveals that the entry of organized retailers has not put any adverse effect on employment. However, report states that there is closure of traditional retailing outlets at the rate of 4.2 percent per annum and from which 1.7 percent per annum was due to competition (ICRIER, 2008). Report has highlighted several positive impacts on different stakeholders. It states that with the participation of organized retailers in this sector has boosted up this sector and the bad effects which were observed initially have slowly been come down. The study has mostly highlighted the positive points. Reason why there has been lots of criticism of this study by different section of society. Here in this study, an attempt has been made to know the actual impact of organized retailing on traditional retailing.

Research Methodology

The data for this study was collected from the primary sources. A sample size of 610 traditional retailers, 200 organized retailers and 400 consumers of organized retailers from Delhi and NCR has been taken for the study. Most of Malls and Organized retailing outlets have been mushroomed these areas in recent past. A well sequenced questionnaire was drafted for effective data required for the study. The questions were relating to their establishment, place of operation, nature of services, establishment of organized retailing in their vicinity and services provided by them, sales and profit status before and after establishment of organized retailing outlet, availability of employees and their remuneration,

credit facilities, administrative and government regulation related problems, consumer shift and reason for that, sources of acquiring manpower, nature of threat posed by organized retailers, change in living standards due to decline in profit, effect on cost of living, terms of procuring goods from suppliers and effect of economic slow down on their business has been asked to the traditional retailers. Just to cross verify the information, two separate questionnaire was also drafted to get the information from the organized retailers and their consumers. They were asked about the reasons for shift towards the organized retailers, their past purchase from, short comings of traditional retailers and plus points of organized retailers, purpose of visiting malls and shopping complexes and proportion of planned and unplanned shopping. Organized retailers were asked about the services provided by them, number of employees in their outlets and their remuneration, sources of acquiring manpower, availability of skilled employees, source of procuring goods, terms of payment, sales and profit status, reason for increase and decrease in profit margin, availability of loans, incentives from the government and impact of economic slow down on their business. The responses so collected has been properly tabulated and presented through figures. Mathematical tools have also been applied for drawing better inferences.

Findings

As Table 1 shows that out of total samples collected for the study 23.2 percent consists of groceries, 10.7 percent readymade garments, 12.6 percent medicine, 5.4 percent vegetable and fruits, 12.7 percent processed food, 5.2 percent shoes, 11 percent electronics, 4.7 percent electrical and 14.5 percent other than specified retail service providers. About 75 percent of the traditional retailers have been providing services for 10 to 20 years. Out of this 46.2 percent of the traditional retailers established between 1 to 10 years (Table 2). The 61.2 percent traditional retailers have been providing services from self owned shop. However, 31.4 percent and

Table 1. Nature of services provided by the traditional retailers

Particulars	Number of traditional retailers	Percentage of total
Groceries	164	23.2
Readymade garments	76	10.7
Medicine	89	12.6
Vegetable fruits	38	5.4
Processed foods	90	12.7
Shoes	37	5.2
Electronics	78	11
Electrical	33	4.7
others	103	14.5

16.7 percent have been running their shops from rented and homestead respectively (Table 3).

Table 2. Establishment of Traditional Retailing Outlets (TRO)

Years	No of TRO	Percentage of total
1-10	279	46.2
10-20	169	27.9
20-30	98	16.2
30-40	45	7.5
More than 40 Years	13	2.2

Table 3. Premises from where Retailing operation is carried out

Place	Numbers	Percentage of total
Self owned shop	373	61.2
Rented shop	191	31.4
Homestead	41	6.7
Others	4	0.7

Table 4. Distance of respective sample traditional retailing outlets from the organized retailing outlets

Distance in K.M.	Number of TR	Percentage of total
0-1	173	33
1-2	71	13.5
2-5	221	42.2
More than 5	59	11.3

Table 5. Establishment of Organized Retailing Outlets (ORO) in the respective areas of the sample

Year	Number of response	Percentage of total
1-3	340	57.6
3-6	194	32.9
6-10	53	8.9
More than 10 years	3	0.5

Table 6. Name of the Organized outlets rendering service in the respective areas

Name	Number of respondents	Percentage of total
6 Ten	147	18.6
Subhiksha	157	19.8
More	95	11.9
Pantaloon	61	7.7
Life style	42	5.3
Reliance fresh	139	17.6
others	151	19.1

Table 7 reveals that 39.3 percent, 31.1 percent, 18.8 percent, of the traditional retailers have employed 1 to 3 persons, 3 to 5 person, and 5 to 10 person

Table 7. Number of employees working in the traditional retail outlets

Numbers	Number of respondents	Percentage of total
1-3	239	39.3
3-5	189	31.1
5-10	114	18.8
More than 10	33	5.4
Self employed	33	5.4

respectively in their shops. The sources of acquiring manpower are mainly through reference from

Table 8. Source of acquiring manpower by TR

Sources	Number of respondents	Percentage of total
College/universities	49	8.1
Reference from friend	303	49.9
Employment exchange	88	14.5
Private employment agencies	42	6.9

friends. They have used other sources for acquiring the manpower but their utilization is less than 10 percent. However, 14.5 percent and 20.6 percent traditional retailers have recruited employees from employment exchange and direct recruitment through advertisement respectively. Due to employing people from friend's references, they are hiring unskilled person and are also paying average salary to them. Table 9 shows that 57.5 percent and 32.1 percent employees recruited so are getting Rs. 2500- Rs.5000 and Rs. 5000- Rs.7500 respectively. But with the participation of organized retailer they have

Table 9. Average salary paid to employees by the TR

Salary (in Rs.)	Number of TR	Percentage of total
2500-5000	331	57.5
5000-7500	185	32.1
7500-10000	52	9
10000-15000	7	1.2
More than	1	0.2

Table 10. Increase in salary after establishment of organized retailing outlets

Average increase (in percentage)	Number of TR	Percentage of total
0-10	290	55.2
20-Oct	185	35.2
20-40	41	7.8
40-80	7	1.3
More than 80	2	0.4

been changing their salary packages. 55.2 percent traditional retailers are of the view that participation of organized retailers have led to increase in the salary by 1 to 10 percent. However 35.2 percent are of

Table 11. Problems in recruitment of manpower

Problem areas	Number of TR	Percentage of total
Non-availability of skilled manpower	159	31.7
Financial constraints	207	41.2
Competition from organized retailers	124	24.7
Others	12	2.4

the view that salary of employees has been increased by 10 to 20 percent (Table 10).

Table 12. Problems in retaining manpower

Nature of problem	Number of TR	Percentage of total
In demand of higher salary	182	40.8
Lucrative packages offered by organized retailers	153	34.3
Retrenchment due to financial constraints	88	19.7
others	23	5.2

The traditional retailers have been facing lots of problems. Table 11 reveals that 31.7 percent, 41.2 percent and 24.7 percent traditional retailers have

Table 13. Sales per month before establishment of organized retailing outlets in the respective areas

Average sales (in Rs.)	Number of TR	Percentage of total
Up to 1 lac	190	31.8
2-Jan	180	30.1
5-Feb	127	21.2
10-May	72	12
30-Oct	22	3.7
More than 30	7	1.2

been facing the problems due to non-availability of skilled person, financial constraint and competition from organized retailers. Further, opening up of retail sector to corporate sector has put effecton the

Table 14. Status of sales after establishment of organized retailing outlets (ORO)

Status	Number of TR	Percentage of total
Remained the same	201	33.1
Increased	135	22.2
declined	272	44.7

sales volume of the traditional retailers, as 44.7

and medicine each are showing decline in sales (Table 15). There are several organized retail outlets in the sample areas like 6 Ten, Subhiksha, More, Pantaloon, Lifestyle, Reliance fresh and others. The decline in sales of groceries are just because of organized retailing outlets like 6 Ten, More, Subhiksha, big Bazaar, and reliance fresh providing similar type of retail services. The study reveals that before establishment of organized retail outlet the monthly sales shown by 190 traditional retailers, 180 retailers and 127 traditional retailers were up to 1 lac,

Table 15. Service wise sales status of traditional retailers

Services	Remained same responded by number of TR	Increased responded by number of TR	Declined responded by Number of TR
Groceries	55 (23.5)	33 (22.1)	75 (22.5)
Readymade garments	22 (9.6)	17 (11.4)	34 (10.2)
Medicine	36 (15.7)	18 (12.1)	34 (10.2)
Vegetable fruits	13 (5.7)	06 (4.0)	18 (5.4)
Processed food	22 (9.6)	27 (18.1)	43 (12.9)
Shoes	08 (3.5)	10 (6.7)	19 (5.6)
Electronics	15 (6.5)	19 (12.8)	38 (11.4)
Electrical	12 (5.2)	02 (1.3)	25 (7.5)
others	48 (20.9)	17 (11.4)	48 (14.4)

(Numbers in brackets showing percentage of total)

Table 16. Level of increase/decrease in sales

Variance in sales (in Percentage)	Number of TR's responses	Percentage of total
5-Jan	214	38.5
10-May	227	40.8
20-Oct	95	17.1
20-40	17	3.1
More than 40	3	0.5

percent have showing decline in sales volume (Table 14). Out of this 22.5 percent retailers dealing in groceries, 12.9 percent processed food, 12.8 percent shoes vendors, 10.2 percent ready made garments

Table 17. Nature of threat caused by organized retailers

Nature	Number of responses from TR	Percentage of total
Closure	63	11.8
Major decline	153	28.8
Minor decline	316	59.4

1 to 2 lac and 2 to 5 lac respectively (Table 13). But after establishment of organized retail outlets in their places the sales have declined by 1 to 20 percent (Table 16). With the fall in sales volume the profit margin has also gone down. The decline in profit

margin was mainly attributed to consumer shift towards organized retailers, providing extra discount, and decline in overall sales. However economic slump has also put adverse effect on sales (Table 18). The consumer shift towards organized retailers was mainly due to larger assortment, cheap rates, better location, benefit of large scale and better

Table 18. Reasons of change in profit margin after Organized Retailers

Reasons	Number of TR	Percentage of total
Providing extra discount	92	13.0
Consumer shift	202	28.7
Decline in sales	180	25.5
Economic slump	150	21.3
Increase in operational cost	31	4.4
In crease in price by suppliers	31	4.4
others	19	2.7

recreational services offered by the organized retailers. About 50 percent sample traditional retailers were of the view that better assortment and cheap rates have attracted the people toward their shops (Table 19).

Table 19. Reasons for customers shift towards organized retailers

Reasons	Number of responses from TR	Percentage of total
Better recreational facilities	98	13.8
Benefit of large scale	125	17.6
Larger assortment	191	26.9
Cheap rates	161	22.6
Better location	127	17.9
others	19	2.7

Decline in sales volume and profit margin traditional retailers have been facing the problems of retention of manpower. The 75 percent respondents reveal that

Table 20. Change in living standards due to decline in profit margin

Effects of changes	Number of respondents	Percentage of total
Social life	230	44.9
Difficulty in providing better education to wards	57	11.1
Family up bringing	116	22.7
Extra burden on personal life	104	20.3
others	05	0.9

Table 21. Cost of living affected owing to establishment of organized retailing

Affect on the following	Number of TR	Percentage of total
Rent of shop increases	141	26.7
Rent of residence increases	115	21.8
Cost of eatable increases	152	28.8
Extra burden on public utility services	101	19.1
others	19	3.6

Table 22. Factors that going against traditional retailers

Factors	Number of TR	Percentage of total
Cost price is higher	201	31.9
Lack of recreational activities	150	23.8
Selling price is higher	174	27.7
Influence of organized retailers in the government policy framing	67	10.7
others	37	5.9

the employees are leaving the shops in demand of higher salary and lucrative packages offered by the organized retailers. However, 19.7 percent said that the employees have to leave due to traditional retailer's financial crunch (Table 12). The decline in profit margin has also put significant change in living standards of the respondents. It has led to disturbance in social life, family upbringing, extra

Table 23. Regulatory problems from government and administration

Nature of problem	Number of TR responses	Percentage of total
Threat of shop sealing	182	31.7
Demand for bribe work done by officials	123	21.4
Excess taxes	179	31.1
Lack of basic public utility services	71	12.3
others	20	3.5

Table 24. Mode of procuring goods from suppliers

Mode	Number of TR	Percentage of total
Cash payment	116	20.6
On credit	67	11.9
Both	379	67.4

Table 25. Period of credit from suppliers

Period	Number of TR	Percentage of total
Less than one month	213	39.4
More than one month	269	49.8
More than a year	58	10.7

Table 26. Availability of discount on purchases by suppliers

Conditions	Number of TR	Percentage of total
If goods are bought on cash	285	48.6
If bought on credit	53	9.0
Both	248	42.3

Table 27. Factors affecting traditional retailers on getting loans from bank

factors	Number of TR	Percentage of total
Cumbersome procedures	178	36.5
High interest rates	222	45.5
Others	88	18.0

Table 28. Selling of goods on credit to regular consumers

	Number of TR	Percentage of total
Yes	380	63.5
No	218	36.5

Table 29. Effect of economic slow down on business of traditional retailers

Particulars	Number of TR	Percentage of total
No effect	172	28.3
Profitability declined	287	47.2
Profit increased	39	6.4
Cost of operation increased	94	15.5
others	16	2.6

burden on personal life, difficulty in providing better education to the wards (Table 20). Further, with the booming up of organized retail in the vicinity the lives of those retailers are put to jeopardy that have been running shops from the rented premises. The rental values of both shop and residence has increased significantly. Further, it has also been putting extra burden on limited public utility services. Traditional retailers have to depend upon the supplier for their goods. They get goods on credit and cash payment basis. Table 24 shows that 20.6 percent traditional retailers have been getting goods on cash payment and 11.9 percent respondents on credit. However, 67.4 percent retailers have been getting on both. It is generally trend in the market that if purchases are made on cash basis they avail discount. The discount so availed can be passed on to consumer and the retailer can get price competitive edge. The study shows that 42.3 percent traditional retailer are getting discount on both purchases (Table 26). The availability of the credit facilities by the suppliers are for the short period. 39.4 percent of the respondents have been getting credit for a period of less than one month. Generally, traditional retailers give goods on credit to its consumers. Table 28 shows that 63.5 percent of the retailers have been giving goods on credit to their stipulated period of time as a

result they face the liquidity problem. If we compare it with the organized retailer they generally sell goods on cash basis.

As a result they don't find any problem in payment of their purchases on cash and get discounts on their purchases which they pass on, it to their customers. As mentioned earlier the cheap rate is one of the main reasons of consumer shift towards the organized retailers. Table 22 shows that 31.9 percent of respondents feel that their cost and selling price is higher. Moreover study reveals that organized retailers are also getting advantage of having recreational activities services and influence in government policy making regarding retailers. Just because of providing recreational services, the organized retailers are succeeding people to go for non-planned shopping.

Traditional retailers are facing the financial problems due to decline in sales and profit margin. Moreover cumbersome procedure followed by banks and high interest rates have discouraged them to borrow for meeting their financial problem (Table 27). In consequence of that, traditional retailers are not availing the benefit of large scales. Further threat of shop sealing, demand of bribe by officials for work done by them, excess taxes and lack of basic public utility services have been aggravating the existing problems (Table 23).

Conclusion

Traditional retailing constitutes 96 percent of total retail industry. However, the share of organized retail is only 4 percent but the growth rate of this is very high. Traditional retailers provide employment to lots of people. The ownership of traditional retailing remains with the one person but the livelihood, education and bringing up of the family depends upon that individual. Such retailers also provide employment opportunities to a number of people. The survival of family, education of kids of that employee also depends upon the survival of that shop. Organized retailers have also been providing

employment to the people. They are providing better services to the society. They are helping government by paying taxes. But the importance of traditional retail can not be ignored at all. India is already facing the unemployment problem. Snatching the employment from those who are employed themselves and providing avenues of employment to others will certainly aggravate the existing problem. Therefore, it becomes imperative to protect these retailers. As mentioned earlier that traditional retailers are running their shops from the rented premises. With the opening up of organized retail outlets in the vicinity, the rental values of shop and residence has gone up, reason why, it is putting extra burden on these retailers. Due to financial strength, the organized retailers are paying more salary to the employees and they are hiring skilled person for running their business. In contrary to that traditional retailers are finding difficulty in hiring and retaining manpower. The sales of traditional retailers have declined up to a great extent. Most of the retailers have shown decline in sales and profit margin. The reasons of decline are mainly consumer shift towards corporate run retail outlets and providing extra discount. The better recreational facilities, larger assortment, cheap rates and better location of the organized retailing outlets resulted consumer shift. The decline in profit margin has put dire effects on social life, family up bringing and difficulty in providing better education to wards. Further, establishment of corporate retail outlets have increased rents of shops and residence, rise in cost of eatable items and has also put extra pressure on public utility services. Cumberseme procedures and higher interest rates have also widened the financial problems. Further, when the traditional retailers buy goods from the suppliers on credit, they have to pay to their suppliers on time bound basis. When they sell goods to their customers they don't sell on bound period basis. This results them liquidity problem and they find themselves unable to buy on cash basis. As a result, they don't get cash discount and consequently they cannot afford discounts to

their customers, as their counterpart organized retailer do. This results consumer shift. The threats of shop sealing demand of bribe by the officials and excess taxes have also been broadening their problems.

The proposal of FDI in retail sector is on the card and it has also been becoming threat to the traditional retailer's survival. If it is allowed, the big retail giants like Wal Mart, Tesco etc. can help in ousting the traditional retailers from the arena. So, it becomes imperative to take care of traditional retailers. Government should provide ample opportunities to these retailers so that they can compete with the organized retailers and should create such environment where both organized as well as traditional retailers can grow together.

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