



International Journal of Engineering, Business and Enterprise Applications (IJEBA)

www.iasir.net

Organisation of Unorganised Retail Sector: A need for Tomorrow

Anmol Ahuja
Student, Delhi University,
Delhi, India.

Abstract: India is ranked as the third most attractive country for retail investment among rising markets. Retail trade of India is split into two sectors viz. organised and unorganised retailing/sectors. Organised/Modern retailing/merchandising refers to commerce activities undertaken by authorised retailers and includes formats likes hypermarkets and supermarkets, and retail chains. And on the opposite hand, unorganised sector/ ancient retail consisting of the local kirana retailers, owner-manned general stores, chemists, footwear retailers, apparel shops, hand-cart hawkers, pavement vendors, etc. Unorganised retailers normally do not pay taxes and most of them are not even registered for sales tax, VAT, or income tax. In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% possession, however imposed the requirement that the single brand retailer source 30 percent of its goods from India. On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India, subject to approvals by individual states. More than 90% of the retail industry is covered by unorganised sector, so unorganised retailers felt serious threat from upcoming flow of investment from foreign countries in retail sector. This paper highlights the possible threats that can be faced by unorganised retail sector and the need of type of improvement required for a unorganised retailer to protect his position in the domestic market.

Keywords: Organised retailing, Unorganised Retailing, FDI, federal Government, VAT, Sales Tax, Income Tax,

I. INTRODUCTION

Retailing in India is one among the pillars of its economy and accounts for 14 to 15 percent of its GDP and employing 7% of the total workforce (only agriculture employs more) in the country. Retail industry of India is divided into two sectors viz. organised and unorganised sectors. After adoption of liberal policy, organised retail has grown exponentially and is a testament of the Indian middle class's burgeoning buying power. Organised retailing, in India, refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local corner shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.



A vegetable retail market India on a sunny day; During monsoons, vendors experience more produce spoilage.

Most Indian shopping takes place in open markets or millions of small, independent grocery and retail shops. The product typically has no price label in these small retail shops; although some products do have a manufactured suggested retail price (MSRP) pre-printed on the packaging. The shopkeeper prices the food staple and household products arbitrarily, and two consumers may pay different prices for the same product on the same day. Price is sometimes negotiated between the shopper and shopkeeper



Through the 1990s, India introduced widespread free market reforms, including some related to retail. Between 2000-2010, consumers in select Indian cities have gradually begun to experience the quality, choice, convenience and benefits of organised retail industry.

Due to serious entry by Multinational and giant Global retailers into the Indian Market has created and as well invited to the new storm. As Government wants to more investment in the retail sector for more employment and best service to the customers. As a consequence, the opening up of the wholesale and single brand retail sector to foreign direct investment ("FDI") was unavoidable. India is ranked as the third most attractive country for retail investment among emerging markets. But in the mind of retailers fear about the foreign investment, it will destroy the business of its. Customer is confused about what will be the profit he can get, supplier also confused. So what is actual position of it, what is the impact of that, what are the real conditions.

II. OBJECTIVE OF THE STUDY

The objectives of the present study are as follows:

- a) To gain knowledge about retail reforms approved and launched by Indian Government.
- b) To know impact of foreign direct investment in the retail sector (organised and unorganised).
- c) To suggest measures to unorganised retail sector to get rid of negative impacts of FDI in Organised retail sector.

III. RESEARCH METHODOLOGY

To evaluate the overall position of the entry of FDI in retail in India, Information has been sourced from various books, trade journals, government online publications, newspapers, etc. the research is descriptive in nature.

IV. REVIEW OF LITERATURE

There are many studies which have identified technology, labour skills and infrastructure as the major determinants of foreign investment. These factors are very important to explain the patterns and trends in the geographical structure of FDI at the world capita income, in relation to outbound as well as inbound FDI (**Hummels and Stern, 1994**). The incentives announced by the exchequer is also very important in formulating and analysing the corporate strategies of international location, also institutional, historical and cultural factors should be embedded in overall analysing and framing of policies, as these factors should not be ignored as they influence the investor's location related decisions (**Martin and Velazquez, 1997**). As far as shopping behaviour of Indian consumers across different retail outlets, traditional outlets are preferred mainly because we have a large chunk of middle class consumers who are very good bargainers while modern outlets are preferred because they link entertainment with shopping and now-a-days it's a customer delight to go out for shopping and entertainment together (**Sinha 2003**). There are number of studies which are done taking many parameters which affect the choice of retail store these are product quality, goodwill, lower prices, better shopping experience, availability of product, play area, parking facility, whereas on the other hand proximity to residence, easy availability of credit, convenient timings, possibility of bargain, etc are a few paybacks of traditional outlets as mentioned by a study done by **Joseph And Soundararajan 2009**. **Kaur and Singh (2007)** revealed an interesting fact that was revealed that children are becoming key decision-makers in household purchases. There is a gap in these studies as they haven't corroborated on the implication of the existing policy on consumers. A Report by **Navdanya/ Research Foundation for Science, Technology and Ecology**, New Delhi titled —CORPORATE HIJACK OF RETAIL - Retail Dictatorship vs. Retail Democracy sets the foot right saying —Giant corporations like Wal-Mart and Reliance have started to try and take over the Indian retail sector. The entry of the giant corporate retail in India's food market will have direct impact on India's 650 million farmers and 40 million people employed in tiny retail. More than 6600 mega Stores are planned with Rs. 40,000 crore by 2011.

V. POLICY FRAMEWORK OF RETAIL FDI IN INDIA

Single Brand product retail trading

- Foreign Investment in Single Brand product retail trading is aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices.
- FDI in Single Brand product retail trading would be subject to the following conditions:
 - Products to be sold should be of a 'Single Brand' only.
 - Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
 - 'Single Brand' product-retail trading would cover only products which are branded during manufacturing.
 - The foreign investor should be the owner of the brand.
 - In respect of proposals involving FDI beyond 51%, mandatory sourcing of at least 30% of the value of products sold would have to be done from Indian 'small industries/ village and cottage industries,

artisans and craftsmen'. 'Small industries' would be defined as Retail Trading, subject to specified conditions, as industries which have a total investment in plant & machinery not exceeding US \$ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a 'small industry' for this purpose. The compliance of this condition will be ensured through self-certification by the company, to be subsequently checked, by statutory auditors, from the duly certified accounts, which the company will be required to maintain.

- Application seeking permission of the Government for FDI in retail trade of 'Single Brand' products would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. The application would specifically indicate the product/ product categories which are proposed to be sold under a 'Single Brand'. Any addition to the product/ product categories to be sold under 'Single Brand' would require a fresh approval of the Government.
- Applications would be processed in the Department of Industrial Policy & Promotion, to determine whether the products proposed to be sold satisfy the notified guidelines, before being considered by the Foreign Investment Promotion Board (FIPB) for Government approval.
- **2011:** 100% FDI in single brand retail permitted.

Multi Brand product retail trading

The government of Dr. Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
- single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- all multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;
- the opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.
- On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India, subject to approvals by individual states.

VI. ARGUMENTS FOR FDI IN RETAILING

- Heavy FDI in the multi-brand retail sector will result in gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail management.
- Minimum 10 million jobs will be created in the next three years in the retail sector.
- FDI in retail will help farmers' to get prices over the MSP by omitting exploitative middlemen.
- MNC Retailers and Foreign Retail Giants will ensure supply chain efficiencies for continuous supply of the products.
- Efficient and customized services of bank's today, is a result of effective competition which increases only after the foreign players were welcomed in arena.
- Increased speed of development in modern formats.
- Improved productivity and efficiency of the retail sector.
- Enhanced sourcing.
- Encouraged investment in supply chain Led to integration of suppliers, logistic service and retailers – reduction in the number of intermediaries
- Linked local suppliers, farmers, manufactures to global markets
- Consumers are assured of product quality, better service & shopping experience.
- The intermediaries operating in the Indian system are not adhering to transparency in the system relating to their price strategies. According to some of the reports, an average Indian farmer realise only one-third of the price, which a final consumer pays, but there will be more rationality and transparency in the pricing policies of these MNCs.

VI. ARGUMENTS AGAINST FDI IN RETAILING

People those who oppose to the FDI in multi-brand retail, feel that FDI will pose some threats before the unorganised retail sector and will adversely impact the small retailers, farmers and consumers and will give boost to monopolies of large multinational retailers, which may adversely affect the pricing and supply of the goods.

Critics of the Indian retail reforms announcement are making one or more of the following points:

- Independent stores will close, leading to massive job losses. Walmart employs very few people in the United States. If allowed to expand in India as much as Walmart has expanded in the United States, few thousand jobs may be created but millions will be lost.
- Super market's efficiency at supply chain management leads to "direct" procurement of goods from the supplier. In addition to eliminating the "middle-man", due to its status as the leading retailer, suppliers of goods also bend over backwards to drop prices in order to assure consistent cash flow.
- The small retailer and the middle man present in the retail industry plays a large part in supporting the local economy, since they typically themselves procure goods and services from the area they have their retail shops in. This leads to increased economic activity, and wealth redistribution. With large, efficient retailers, the corporate profits are not spent in the areas where they're generated, hence killing the local economy.
- Foreign retailer will lower prices to dump goods, get competition out of the way, become a monopoly, then raise prices. We have seen this in the case of the soft drinks industry. Pepsi and Coke came in and wiped out all the domestic brands.
- India doesn't need foreign retailers, since homegrown companies and traditional markets may be able to do the job.
- Work will be done by Indians, profits will go to foreigners.
- Remember East India Company. It entered India as a trader and then took over politically. India doesn't need foreign retailers, since home grown companies and traditional markets may be able to do the job. Just like in BPO industry, work will be done by Indians, profits will go to foreigners hence is not viable solution for Indians.
- It would lead to very inequitable competition and eventually result in large-scale exit of domestic retailers, especially the small family managed outlets, leading to large scale displacement of persons employed in the retail sector. Further, as the manufacturing sector has not been growing fast enough, the persons displaced from the retail sector would not be absorbed there.

VII. SUGGESTIONS TO UNORGANISED RETAIL SECTOR

So, the flow of foreign investment might prove a big threat to Indian Unorganised Retail Sector. To compete with the upcoming scenario in retailing, the unorganised sector needs to take many steps to protect and to remain major part of Indian retail market. So, it became the need for tomorrow for which unorganised retailer has to act or plan to act now. Via this study, I would like to suggest following measures that an unorganised retailer can follow:

Establishment of Retailer Co-operatives

It is the highly recommendable measure for unorganised retailers for the sustenance to establish retailer co-operatives among retailers. This co-operation will help to collective solution of upcoming threats.

Remedies for weak retailers

The weak retailers are suggested to join hand with the strong one by the way of merger and buy-outs. This action would give them new horizon to move in better direction.

Franchisee Setup

Setting up of franchisee organization may also help unorganised retailers in strengthening the position. The franchiser can exert a tremendous control over the way retailing is done.

Establish Good Network with Suppliers

The retailer must establish good network connection with the suppliers and other channel members to use compatible technology. This would definitely help them to build strong distribution set-up to satisfy customers.

Establishing Good Network Connection with Customers

As karyana stores and other local retailers are popular for maintain personal connection with customers, they need to put more efforts in this direction by providing more and quick services. The following are few services on which he needs to give high attention:

Free home delivery: the local retailers are popular in providing this service in nearby areas. More stress must be given in this regard to provide convenience to customers.

Telephonic Order Booking: It can be club with the service of home delivery for customers' convenience. For customers shopping become as simple as just by making a call and narrating the shopping list to the store owner. Within very short period of time, the entire list is itemized, hand written bill reaches customer's doorstep. With this retailer can attract more and more local customers.

Provide Quality Products: The retailer needs to put more attention to non-branded products. He should provide the standard quality products at reasonable cost. It would definitely result in repeat purchase.

Credit Policy: The personal nature of transaction coupled with small transaction sizes allows unorganised retailers to sell goods on credit. In this procedure bills are often set at the end of the month. The liberal credit policy even helps seasonal labourers as they buy necessities from local retailers even they are seasonally unemployed and paid for that latter on.

Easy Billing System: The billing system must be quick when a customer is at retailers promises for purchase. The customer gets irritate when he has to wait long time just for billing. So, it is suggestible to local retailers either to install electronic bill system or this task is assigned to one person who only does this work.

Reduce Labour Cost

The labour cost can be reduced by making the business as family business. It means retailer should take help of his family member in the work of store. Many retailers imply this policy and getting cost advantage. So, *kirana* shops become *mom and pop* stores (traditionally called). It'll even help retailers to settle down their children in its traditional business.

Own Efficient Management System

Though, *kirana* shops having their own efficient management system, I would like to suggest them to improve on that also. By opting KYC strategy they can perfume much better. It means the retailer must know who are his customers, what are their tastes and preferences, what customers actually want, etc.? Neat, clean and hygiene environment always leave a positive impact in the mind of the customers. So, retailers are suggested to follow kaizens 5-S system to compete with organised retailers. The 5-S model says:

- | | | |
|---|---|---|
| 1 st S stands for SORT | - | means eliminate the unwanted items. |
| 2 nd S stands for SET | - | means setting the things at right place. |
| 3 rd S stands for SHINE | - | means keep the workplace shiny and dust free. |
| 5 th S stands for | | |
| STANDARDISE- | | means application and identification method. |
| 6 th S stands for SUSTAIN | - | means maintenance and continuous improvement. |

VIII. CONCLUSION

FDI is useful for the generating for the economy, it's improving employment. It is also useful for the more infrastructure facility for the farmers use like more warehouses, cold storages, improvement in the supply chain etc. After all this for the accepting change and improving better service to the customer need of the FDI is useful but with that it is harmful for the Indian retailers. Unorganised retail has dominated the Indian market for decades. This sector competes on the basis of a number of factors that give it a leg up on organised retail. Much of the reason why unorganised retail has dominated the retail market is the unique ways in which it operates when it comes to serving the customers. So, government must think about unorganised retailers before finalizing any policy. Relying on the decision of government and considering it good, the unorganised retailer must think upon future and move according to certain suggestions given above. India needs to take a lesson from China where organised and unorganised retail seem to co-exist and grow together.

REFERENCES

- [1]. Berman Barry and Joel R. Evans, 'Retail Management: A strategic Approach', Tenth edition, Dorling Kindersley (India Pvt. Ltd.)
- [2]. Gibson. G. Vedamani, "Retail Management Functional Principles & Practices", 3rd Edition, Jaico Publishing House, Fort, Mumbai, 2009, Pp 3-39.
- [3]. ICRIER study, "Impact of Organised Retailing on the Unorganised Sector" May 2008 from http://siadipp.nic.in/policy/icrier_report_27052008.pdf
- [4]. Joseph, Mathew and Soundararajan, Nirupama (2009), "Retail in India: A Critical Assessment", Academic Foundation, NewDelhi.
- [5]. Retail Management, ICFAI Center for Management Research.
- [6]. www.ciionline.org, —Retail Scenario in India: Unlimited Opportunity
- [7]. www.ipublishing.co.in/ajmrvol3no1.html
- [8]. www.ror.isrj.net/receivedArticle.aspx
- [9]. http://cprenet.com/uploads/archive/UJMSS_12-1061.pdf