

Operational Gap in Organized and Unorganized Retail Sector in India

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Introduction

Indian retail sector have its two major branches i.e. organized retail sector and Unorganized retail sector. Both have their own features and operational methodology. Organized retail sector has evolved recently in the form of big shopping malls, chain stores, large departmental stores, multi brand showrooms etc. They follow advanced marketing strategies and modern managerial techniques. Rapid urbanization, radical change in consumer buying behavior and aggressive advertisements have contributed the development of organized retail business.

On the other side unorganized retail sector have its own operational space. It is the oldest form of retailing having dominance in both urban as well as rural market of India. It includes thousand small retailers serving whole of India. Unorganized retail business units have become inseparable part of social ecology.

“Any business that directs its marketing efforts towards satisfying the final consumers based on the organization of selling goods as a means of distribution”

“Retailing includes all the activities involved in selling goods or services to the final consumer for personal, non-business use.” – Philip Kotler

History of Retail Sector in India

Due to large geographical expanse Indian retail market was widely spread all over the country and local traders were the prime suppliers of daily articles to the customers at village level itself. The variety of product which were being sold by unorganized retailers was range from grocery to cloth and general articles to footwear. Local retail sector have been ruling the traditional domestic market in India. The traditional unorganized retail outlets provide customized service to their small local buyers like purchasing in smaller quantity, credit sale, home delivery. Running unorganized retail unit has been the most convenient way to generate self employment. As such unorganized retail unit requires very limited capital resource, land as well as labour. Such type of unorganized retail units could be operated with the help of family members without any formal trainings of business operation. Hence the unorganized retail format has become so popular and widely acceptable. This type of retail business format won't require any specific educational qualification and could be easily operated even by uneducated person.

Share of Organized and Unorganized Retail in Various Economies

Sr. No.	Name of the Country	Share of Unorganized Retail (In Percentage)	Share of Organized Retail (In Percentage)
1	USA	15	85
2	Japan	34	66
3	China	80	20
4	United Kingdom	20	80
5	France	20	80
6	Germany	20	80
7	India	96	4
8	Brazil	64	36
9	Russia	67	33
10	South Korea	85	15

Indian Retail Business Environment

India is a nation of emerging economic aspirations. Adoption of liberalization in retail sector brought remarkable change in this sector which are still continue in present era too. Every New Year has witnessed notable transformation in overall performance of retail sector in India. Traditional unorganized retail sector coupled with the presence of organized retail has completely served the requirement of final consumers throughout the country. Presence of both organized as well as unorganized become a unique feature of Indian retail market. The proportion of unorganized retail is still dominating in the market as compare to organized retail format. Gradually Indian society is adopting urbanization which generated higher possibilities for organized format of retail but still it is not in a position to replace the unorganized retail completely. Therefore, we can state that both of these retail formats have commonly share the market with own specialization.

Operational gap between the organized and unorganized retail unit can be boldly studied with the help of following points

1. Ownership

Ownership of unorganized retail business units are generally rest with the proprietor of the business. As such bossiness are run and operated either by an individual or by family. Therefore, ownership rests with local entrepreneurs in case of unorganized sector.

On the other hand, the ownership of organized retail may rest with business owners or franchises owners or by corporate headquarters. For an example branded retail outlets like Pantaloon, Big Bazaar, and D-mart etc.

2. Scale of Operation-

In case of unorganized retail business unit quantum of invested capital is less as compare with that of organized retail units. In other words unorganized business unit is primarily a means of livelihood and run to obtain daily bread and butter. Low investment and limited managerial abilities has resulted into low scale of operation in unorganized retail unit.

Whereas in case of organized retail business unit there is rarely a problem of capital investment. Government policies and easy available bank credit provide required capital source to such units.

Scientific management strategies and skilled manpower could easily extend the operational scope of the organized retail business units.

3. Hurdles for entry in the market:-

Unorganized business units are so called for their operational ease, as they don't required any registration or license formalities before entering in the market. There is hardly any government restriction or involvement in the operation of such unorganized retail business units.

In case of organized business unit registration is compulsory which is granted only after completing certain legal formalities. So as compared to unorganized retail units, organized form of retail has to complete many formalities and found it difficult to enter into the market.

4. Legal compulsion:-

As we have discussed in our previous points the unorganized retail sector need not follow any legal compulsion and it is limited up to Shop Act License. There is no legal framework for its further operation. Owner of business can run their units as per their own wish and comfort. Such types of operational freedom help to take prompt business decisions and control business expenditure as well as liabilities.

On the other hand organized retail business unit has to operate their business within many legal binding. It has to run the business within the frame work laid down by various authorities ranging from trade associations to various government agencies.

5. Legal Status :-

In case of unorganized retail units there is no compulsion for registration and hence the said business units will not obtain any legal identity. The business and owner are considered one and the same. Moreover unskilled labor engaged in unorganized retail cannot make the unit noticeable either on financial grounds or as an enterprise.

Organized retail units on the other side can enjoy separate legal identity. Registered business unit obtain credit worthiness and enjoys protection of various laws. Organized retails units can exploit various financial schemes and benefits declared by the government time to time.

6. Pricing-Flexible and based on personal relation- Standard and based on marketing research:-

In an Unorganized retail business unit seller sales product or service to earn the livelihood and mainly work as link between producers and final consumers. Generally they don't have warehouse facility and try to sell their maximum possible products. In this case they generally give up future possible sale with maximum profit possibilities. They generally charge variable pricing for same products on the basis of personal relations with customers, repeat customer or need of immediate selling of products. In this way flexible pricing strategy is most commonly used by sellers of unorganized retailers.

In case of organized retail business units, pricing decisions of all products and services are taken considering all related factors like competition, seasons, living standard of potential customers etc. There is very less possibility of such price discrimination. But this type of rigidity and monotony in pricing pose many business challenges which have become part and parcel of organized retail sector.

7. Business Strategies like Presentation and Packaging –

Unorganized retail business is started with available resources and generally run even with an unskilled manner. Seller perform trade activity with minimum required formalities and somehow manages to earn own livelihood. Noticeable presentation, various selling schemes or attractive packaging are rarely seen in unorganized retail.

Whereas all the above mentioned business formalities has become inevitable in case of organized retail. Noticeable presentation of your merchandise, attractive pricing strategies and packaging are almost essential for organized retail traders in order to remain in the competition and sustain its existence in the market.

8. Nature of the products deal in :-

Generally it is observed that products and services offered in an unorganized retail unit are local or unbranded in nature. Low capital investment potential and immediate selling need of products make unorganized retailers to sell local articles as they require less credit worthiness and involve less trade formalities. The sale counter of unorganized retail units are generally seen with mixed merchandise i.e. branded and unbranded.

On the other hand organized retail units are always deals in branded products which are followed by specific trade formality like written contract or formal order form higher authorities.

9. Storage Facility:-

Business units run under unorganized form rarely possess storage facility therefore they don't carry large stock of goods with them. Unorganized retailers run their business with maintaining minimum required stock. They mainly depend upon local wholesaler and manage their business activities with current business trends. They never pile up merchandise in expectations with low purchasing cost rather maintain minimum storage cost.

10. Operational Modernization:-

Organized retail sector rarely faced monetary constraints and hence it can easily execute any type of modernization attempt in their operation. Organized retail sector with its ample capital investment potential, can easily invest in electronic billing unit, electronic inventory system, automatic packing units etc.

On the other hand such type of capital investment is not easily possible in case of unorganized retail business units. Adoption of modern operational techniques is purely depending on the capital and human resource available with those unorganized business units. Organized retail unit can be considered as capital intensive where maximum work is done with the help of technology and minimum human involvement whereas unorganized retail unit can be considered as labor intensive which operates mainly with maximum human contribution and minimum with advanced technology.

11. Obtain the benefit of Government facilities: -

As the retail sector is the largest employer government also try to provide some business facilities through various schemes and play its role to improve the condition of Organized as well as unorganized small retailers. But unfortunately unorganized retailers without any registration documents remain away from the government facilities. Even though they are in urgent need of financial assistance and many such protections from government.

On the other hand organized retailers who have ample capital can easily exploit search government schemes. Unorganized retailer cannot get benefits and remain on the margin for longer period.

12. Limited growth possibilities:

Unorganized retailers have very limited growth possibilities as compared to organized retailers. As we discussed in earlier point unorganized retailer always try to retain their business while compromising many acute problems. Unskilled labors, untrained businessman, Limited capital source, traditional business practice and Limited customer base are main reason which kept unorganized retail business underdeveloped. There are very few examples of unorganized retail business scoring high profit. It becomes highly impossible for them to follow scientific management policies and procedure into their day-to-day business activities.

Unorganized retailers run their business in order to earn their livelihood and not for earning huge profit. Therefore, it is generally observed that unorganized retail unit suffer from limited growth possibilities.

13. Rate of labor turnover:-

Skilled and trained labors are considered as important assets for business unit. Being its limited capital resource it become highly impossible for unorganized retailers to provide attractive salary packages. Even unorganized retail units can neither retain its own trained employee if they ask for higher payments.

Therefore rate of labour turnover is quiet high in unorganized retail unit. On the other hand organized retail unit can easily provide reasonable salary packages to its employees and can retain its efficient employees. Therefore rate of labor turnover is a major point of difference between organized and unorganized retail units.

14. Leaves and holidays:-

On account of limited financial resource unorganized retail sector cannot afford to avail paid leaves and holidays to its employees. Labor working in unorganized retail sector cannot get the benefit of paid leaves. Whereas organized retail unit has to work within the legal parameter constituted by competent authority. They have to provide all type of leaves and holiday to its employees as they have to abide government rules and regulations.

This is also a major point of difference between organized and unorganized retail sector. Worker employed in organized sector can take benefit of all type of leave and holidays laid down by government authorities.

15. Capacity to adopt big market activity: -

In order to attract more customers many business units arrange attractive marketing activities. Such types of marketing events help to improve goodwill as well as strengthening the market position. Arranging and organizing such big market activity not only require huge capital resource but also efficient organization of the entire event.

Unorganized retail business unit cannot spend big chunk of its capital just for an event which is quite possible for organized retail unit. Many times producer or distributor of that product used to born all such expenses in order to improve its own sale potential. Organized retailer can arrange such market activity with greater ease. Getting the benefit of such big marketing activity is rarely possible for unorganized retail unit.

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